

immediately after the transaction. Accordingly, Asset 2 is also loss duplication property. But for section 362(e)(2) and this section, DC's basis in Asset 3 would be \$32, which would not exceed Asset 3's \$40 value immediately after the transaction. Accordingly, Asset 3 is not loss duplication property.

(iii) *Basis in loss duplication property.* DC's basis in Asset 1 is \$56, computed as its \$80 basis under section 362(a) reduced by \$24, its allocable portion of FC1's \$32 net built-in loss (\$30/40 × \$32). DC's basis in Asset 2 is \$112, computed as its \$120 basis under section 362(a) reduced by \$8, its allocable portion of FC1's \$40 net built-in loss (\$10/40 × \$32).

(iv) *Basis in other property.* Under section 358(a), FC1 has an exchanged basis of \$232 in the DC stock it receives in the transaction.

(2) *Application of section to FC2.* FC2's transfer of Asset 3 is not a loss duplication transaction because Asset 3's value exceeds its basis immediately after the transaction. Accordingly, under section 362(a), DC's basis in Asset 3 is \$100.

\* \* \* \* \*

(j) *Effective/applicability date.* \* \* \* The introductory text and *Example 11* of paragraph (h) of this section apply with respect to transactions occurring on or after *March 28, 2016*, and also with respect to transactions occurring before such date as a result of an entity classification election under § 301.7701-3 of this chapter filed on or after *March 28, 2016*, unless such transaction is pursuant to a binding agreement that was in effect prior to *March 28, 2016* and at all times thereafter. In addition, taxpayers may apply such provisions to any transaction occurring after October 22, 2004.

■ **Par. 12.** Section 1.368-3 is amended by revising paragraphs (a)(3) and (b)(3) and adding a sentence to the end of paragraph (e) to read as follows:

**§ 1.368-3 Records to be kept and information to be filed with returns.**

(a) \* \* \*  
(3) The value and basis of the assets, stock or securities of the target corporation transferred in the transaction, determined immediately before the transfer and aggregated as follows—

(i) Importation property transferred in a loss importation transaction, as defined in § 1.362-3(c)(2) and (3), respectively;

(ii) Loss duplication property as defined in § 1.362-4(g)(1);

(iii) Property with respect to which any gain or loss was recognized on the transfer (without regard to whether such property is also identified in paragraph (a)(3)(i) or (ii) of this section);

(iv) Property not described in paragraph (a)(3)(i), (ii), or (iii) of this section; and

\* \* \* \* \*

(b) \* \* \*

(3) The value and basis of all the stock or securities of the target corporation held by the significant holder that is transferred in the transaction and such holder's basis in that stock or securities, determined immediately before the transfer and aggregated as follows—

(i) Stock and securities with respect to which an election is made under section 362(e)(2)(C); and

(ii) Stock and securities not described in paragraph (b)(3)(i) of this section.

\* \* \* \* \*

(e) *Effective/applicability date.* \* \* \* Paragraphs (a)(3) and (b)(3) of this section apply with respect to reorganizations occurring on or after March 28, 2016, and also with respect to reorganizations occurring before such date as a result of an entity classification election under § 301.7701-3 of this chapter filed on or after March 28, 2016, unless such reorganization is pursuant to a binding agreement that was in effect prior to March 28, 2016 and at all times thereafter.

■ **Par. 13.** Section 1.705-1 is amended by revising paragraph (a)(9) to read as follows:

**§ 1.705-1 Determination of basis of partner's interest.**

(a) \* \* \*

(9) For basis adjustments necessary to coordinate sections 705 and 362(e)(2), see § 1.362-4(e)(1).

\* \* \* \* \*

■ **Par. 14.** Section 1.755-1 is amended by adding a sentence after the second sentence of paragraph (b)(1)(i) to read as follows:

**§ 1.755-1 Rules for allocation of basis.**

\* \* \* \* \*

(b) \* \* \*

(1) \* \* \*

(i) *Application.* \* \* \* For transfers subject to section 334(b)(1)(B), see § 1.334-1(b)(3)(iii)(C)(1) (treating a determination of basis under § 1.334-1(b)(3) as a determination not by reference to the transferor's basis solely for purposes of applying section 755); for transfers subject to section 362(e)(1), see § 1.362-3(b)(4)(i) (treating a determination of basis under § 1.362-3 as a determination not by reference to the transferor's basis solely for purposes of applying section 755); for transfers subject to section 362(e)(2), see § 1.362-4(c)(3)(i) (treating a determination of basis under § 1.362-4 as a determination by reference to the transferor's basis for all purposes). \* \* \*

\* \* \* \* \*

■ **Par. 15.** Section 1.1367-1 is amended by revising the last sentence of paragraph (c)(2) to read as follows:

**§ 1.1367-1 Adjustments to basis of shareholder's stock in an S corporation.**

\* \* \* \* \*

(c) \* \* \*

(2) *Noncapital, nondeductible expenses.* \* \* \* For basis adjustments necessary to coordinate sections 1367 and 362(e)(2), see § 1.362-4(e)(2).

\* \* \* \* \*

**John M Dalrymple,**  
*Deputy Commissioner for Services and Enforcement.*

Approved: February 16, 2016.

**Mark J. Mazur,**  
*Assistant Secretary of the Treasury (Tax Policy).*

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**DEPARTMENT OF THE TREASURY**

**Internal Revenue Service**

**26 CFR Part 1**

**Tax Treatment of Cafeteria Plans**

*CFR Correction*

In Title 26 of the Code of Federal Regulations, Part 1 (§§ 1.61 to 1.139), revised as of April 1, 2015, on page 545, § 1.125-4T is removed.

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**DEPARTMENT OF HOMELAND SECURITY**

**Coast Guard**

**33 CFR Part 165**

[Docket No. USCG-2015-0530]

**Safety Zones; Annual Events Requiring Safety Zones in the Captain of the Port Lake Michigan Zone—Michigan City Summerfest Fireworks, Lake Michigan**

**AGENCY:** Coast Guard, DHS.

**ACTION:** Notice of enforcement of regulation.

**SUMMARY:** The Coast Guard will enforce the Michigan City Summerfest Fireworks Safety Zone on a portion of Lake Michigan on July 4, 2016. This action is necessary and intended to ensure safety of life and property on navigable waters prior to, during, and immediately after the fireworks display. During the enforcement period listed below, the Coast Guard will enforce restrictions upon, and control movement of, vessels in the safety zone. No person or vessel may enter, transit,