DEPARTMENT OF THE TREASURY
Internal Revenue Service

26 CFR Part 1
[TD 9811]

RIN 1545–BK09

Application of Modified Carryover Basis to General Basis Rules

AGENCY: Internal Revenue Service (IRS), Treasury.

ACTION: Final regulations.

SUMMARY: This document contains final regulations regarding the application of the modified carryover basis rules of section 1022 of the Internal Revenue Code (Code). Specifically, the final regulations modify provisions of the Treasury Regulations involving basis rules by including a reference to section 1022 where appropriate. The regulations will affect property transferred from certain decedents who died in 2010. The regulations reflect changes to the law made by the Economic Growth and Tax Relief Reconciliation Act of 2001 and the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010.

DATES: Effective Date: The regulations are effective on January 19, 2017.

Applicability Date: The regulations are applicable on January 19, 2017.

FOR FURTHER INFORMATION CONTACT: Mayer R. Samuels at (202) 317–6859 (not a toll-free number).

SUPPLEMENTARY INFORMATION:

Background


Section 501(a) of EGTRRA enacted section 2210 of the Code, which made chapter 11 (the estate tax) inapplicable to the estate of any decedent who died after 2009. Section 542 of EGTRRA also enacted section 1022. While section 1014 generally provides that the recipient’s basis in property passing from a decedent is the fair market value of the property on the decedent’s date of death, section 1022 sets forth a modified carryover basis system applicable after 2009 generally providing that the recipient’s basis in property acquired from a decedent is the lesser of the decedent’s adjusted basis in the property or the fair market value of the property on the decedent’s date of death. Section 901(a) of EGTRRA, known as the “sunset clause”, provided that all provisions of and amendments made by EGTRRA do not apply to estates of decedents dying, gifts made, or generation-skipping transfers after December 31, 2010. The sunset clause effectively limited the application of sections 501(a) and 542 of EGTRRA to 2010.

Section 301(a) of TRUIRJCA, which became law on December 17, 2010, retroactively reinstated the estate tax and repealed section 1022 with respect to the estates of decedents who died in 2010. However, section 301(c) of TRUIRJCA allowed the executor of the estate of a decedent who died in 2010 to elect to apply the Code and regulations thereunder as though section 1022 was applicable only to decedents dying in year 2010. The Treasury Department and the IRS have determined that no change is necessary. The comments received on the proposed regulations are discussed in the remainder of this preamble.

Summary of Comments

One commenter noted that the proposed regulations proposed to amend § 1.742–1 to provide that the basis of a partnership interest acquired from a decedent is determined under section 1022 if the decedent died in 2010 and the decedent’s executor made a Section 1022 Election with respect to the decedent’s estate. The commenter noted that there was no similar amendment proposed to be made to § 1.1367–1(i), relating to the basis of stock of an S corporation where a portion of the value of the stock is attributable to items constituting income in respect of a decedent (IRD). The commenter recommended that the final regulations amend § 1.1367–1(j) with language referencing section 1022.

After considering this comment, the Treasury Department and the IRS have determined that no change is necessary. Section 1.1367–1(j) states, “[t]he basis determined under section 1014 of any stock in an S corporation is reduced by the portion of the value of the stock that is attributable to items constituting income in respect of a decedent.” This regulation section, with its required basis adjustment for IRD, is limited to situations in which section 1014 applies. Section 1.1367–1(j) does not apply when a Section 1022 Election is made because there is no basis adjustment under section 1022 to the date of death value of S corporation stock. Without an adjustment to date of death value, no further adjustment to the basis of S corporation stock is required to account for IRD. Therefore, the final regulations do not adopt this comment.

A commenter noted that the proposed regulations only propose amendments to finalized regulations, and not to proposed regulations or temporary regulations. That commenter specifically requested guidance with respect to proposed regulation § 1.465–69(a) (which provides that a successor to a decedent’s amount at risk in an activity is increased by the amount by which the successor’s basis in the activity is increased under section 1014) and temporary regulation § 16A.1255–2(b)(2) (which provides that if, as of the date a person acquires section 126 property from a decedent, the basis of the property is determined under section 1014, then on that date the aggregate of excludable portions under...
section 126 in the hands of such transferee is zero). This Treasury decision cannot modify provisions of the proposed or temporary regulations referenced by the commenter without adopting those provisions as final or temporary regulations. The Treasury Department and the IRS continue to study these areas, and therefore are not prepared to adopt modifications to the proposed or temporary regulations referenced by the commenter at this time. Accordingly, the final regulations do not adopt this comment. However, the Treasury Department and the IRS expect that, if those proposed or temporary regulations are adopted as final or temporary regulations in the future, such regulations will be updated as appropriate to account for the existence of section 1022.

Another commenter asked why the preamble to the proposed regulations omitted any discussion of the revisions made to regulations under six particular sections of the Code, and requested an explanation as to why changes to those regulatory provisions were considered less significant than the changes for which an explanation was given. Generally, the Treasury Department and the IRS included descriptions of the proposed changes in that preamble that involved more than a mere insertion of a reference to section 1022 in addition to an existing reference to section 1014. In such cases, it was determined that an explanation or clarification of the substance or effect of the proposed revision would be helpful. In the case of the proposed amendments to regulations under the six Code sections mentioned by the commenter, the only change proposed was the mere insertion of references to section 1022 in addition to existing references to section 1014. Accordingly, the Treasury Department and the IRS determined that no further explanation of those changes was necessary.

A commenter also asked why the proposed regulations did not incorporate the revenue procedure into the substance or effect of the proposed revision would be helpful. In the case of the proposed amendments to regulations under the six Code sections mentioned by the commenter, the only change proposed was the mere insertion of references to section 1022 in addition to existing references to section 1014. Accordingly, the Treasury Department and the IRS determined that no further explanation of those changes was necessary.

Consequently, it is unnecessary to incorporate the revenue procedure into these regulations.

Special Analyses

Certain IRS regulations, including this one, are exempt from the requirements of Executive Order 12866, as supplemented and reaffirmed by Executive Order 13563. Therefore, a regulatory impact assessment is not required. The Regulatory Flexibility Act (5 U.S.C. chapter 6) does not apply to these final regulations because the final regulations do not impose a collection of information requirement on small entities. Therefore, a Regulatory Flexibility Analysis is not required. Pursuant to section 7805(f) of the Code, the notice of proposed rulemaking preceding this regulation has been submitted to the Chief Counsel for Advocacy of the Small Business Administration for comment on its impact on small business, and no comments were received.

Drafting Information

The principal author of these final regulations is Mayer R. Samuels, Office of the Associate Chief Counsel (Passthroughs and Special Industries). Other personnel from the Treasury Department and the IRS participated in their development.

List of Subjects in 26 CFR Part 1

Income taxes, Reporting and recordkeeping requirements.

Adoption of Amendments to the Regulations

Accordingly, 26 CFR part 1 is amended as follows:

PART 1—INCOME TAXES

Paragraph 1. The authority citation for part 1 continues to read in part as follows:

Authority: 26 U.S.C. 7805 * * *

■ Par. 2. Section 1.48–12 is amended by revising the last sentence of paragraph (b)(2)(vii)(B) and adding paragraph (g) to read as follows:

§ 1.48–12 Qualified rehabilitated building; expenditures incurred after December 31, 1981.

* * * * *

(b) * * *

(2) * * *

(vii) * * *

(B) * * * If a transferee’s basis is determined under section 1014 or section 1022, any expenditures incurred by the decedent within the measuring period that are treated as having been incurred by the transferee under paragraph (c)(3)(ii) of this section shall decrease the transferee’s basis for purposes of the substantial rehabilitation test.

* * * * *

(g) Effective/applicability date. This section applies on and after January 19, 2017. For rules before January 19, 2017, see § 1.48–12 as contained in 26 CFR part 1 revised as of April 1, 2016.

■ Par. 3. Section 1.83–4 is amended by revising the last sentence of paragraph (b)(1) and adding paragraph (d) to read as follows:

§ 1.83–4 Special rules.

* * * * *

(b) * * *

(1) * * * Such basis shall also reflect any adjustments to basis provided under sections 1015, 1016, and 1022.

* * * * *

(d) Effective/applicability date. The provisions in this section are applicable for taxable years beginning on or after July 21, 1978. The provisions of paragraph (b)(1) of this section relating to section 1022 are effective on and after January 19, 2017.

■ Par. 4. Section 1.179–4 is amended by revising the first sentence of paragraph (c)(1)(iv) to read as follows:

§ 1.179–4 Definitions.

* * * * *

(c) * * *

(1) * * *

(iv) The property is not acquired by purchase if the basis of the property in the hands of the person acquiring it is determined in whole or in part by reference to the adjusted basis of such property in the hands of the person from whom acquired, is determined under section 1014(a), relating to property acquired from a decedent, or is determined under section 1022, relating to property acquired from certain decedents who died in 2010, * * *

* * * * *

■ Par. 5. Section 1.179–6 is amended by:

1. Revising the section heading and the first sentence of paragraph (a).

2. Adding paragraph (d).

The revision and addition read as follows:

§ 1.179–6 Effective/applicability dates.

(a) * * * Except as provided in paragraphs (b), (c), and (d) of this section, the provisions of §§ 1.179–1 through 1.179–5 apply for property placed in service by the taxpayer in taxable years ending after January 25, 1993.

* * * * *

(d) Application of § 1.179–4(c)(1)(iv). The provisions of § 1.179–4(c)(1)(iv)
relating to section 1022 are effective on and after January 19, 2017.

Par. 6. Section 1.197–2 is amended by revising paragraphs (b)(5)(i) and (h)(12)(viii) and adding paragraph (l)(5) to read as follows:

§ 1.197–2 Amortization of goodwill and certain other intangibles.

* * * * *

(5) Application of section 1022. The provisions of § 1.197–2(b)(5)(i) and (h)(12)(viii) relating to section 1022 are effective on and after January 19, 2017.

Par. 7. Section 1.267(d)–1 is amended by revising paragraph (a)(3) to read as follows:

§ 1.267(d)–1 Amount of gain where loss previously disallowed.

(a) * * *

(3) The benefit of the general rule is available only to the original transferee but does not apply to any original transferee (for example, a donee or a person acquiring property from a decedent where the basis of property is determined under section 1014(a) or 1022) who acquired the property in any manner other than by purchase or exchange.

* * * * *

Par. 8. Section 1.267(d)–2 is amended by revising the section heading and adding a sentence to the end of the paragraph to read as follows:

§ 1.267(d)–2 Effective/applicability dates.

* * * The provisions of § 1.267(d)–1(a)(3) relating to section 1022 are effective on and after January 19, 2017.

Par. 9. Section 1.273–1 is revised to read as follows:

§ 1.273–1 Life or terminable interests.

(a) In general. Amounts paid as income to the holder of a life or a terminable interest acquired by gift, bequest, or inheritance shall not be subject to any deduction for shrinkage (whether called by depreciation or any other name) in the value of such interest due to the lapse of time. In other words, the holder of such an interest so acquired may not set up the value of the expected future payments as corpus or principal and claim deduction for shrinkage or exhaustion thereof due to the passage of time. For the treatment generally of distributions to beneficiaries of an estate or trust, see Subparts A, B, C, and D (section 641 and following), Subchapter J, Chapter 1 of the Code, and the regulations thereunder. For basis of property acquired from a decedent and by gifts and transfers in trust, see sections 1014, 1015, and 1022, and the regulations thereunder.

(b) Effective/applicability date. The provisions in this section are applicable for taxable years beginning on or after September 16, 1958. The provisions of this section relating to section 1022 are effective on and after January 19, 2017.

Par. 10. Section 1.306–3 is amended by removing the last sentence of paragraph (e) and adding two sentences in its place to read as follows:

§ 1.306–3 Section 306 stock defined.

* * * * *

(e) * * * Section 306 stock ceases to be so classified if the basis of such stock is determined by reference to its fair market value on the date of the decedent-stockholder’s death under section 1014 or the optional valuation date under section 3032. Section 306 stock continues to be so classified if the basis of such stock is determined under section 1014.

* * * * *

Par. 11. Section 1.306–4 is added to read as follows:

§ 1.306–4 Effective/applicability date.

The provisions of §§ 1.306–1 through 1.306–3 are applicable on or after June 22, 1954. The provisions of § 1.306–3 relating to section 1022 are effective on and after January 19, 2017.

Par. 12. Section 1.336–1 is amended by revising paragraph (b)(5)(i)(A) to read as follows:

§ 1.336–1 General principles, nomenclature, and definitions for a section 336(e) election.

* * * * *

(b) * * *

(5) * * *

(i) * * *

(A) The basis of the stock in the hands of the purchaser is not determined in whole or in part by reference to the adjusted basis of such stock in the hands of the person from whom the stock is acquired, is not determined under section 1014(a) (relating to property acquired from a decedent), or is not determined under section 1022 (relating to the basis of property acquired from certain decedents who died in 2010);

* * * * *

Par. 13. Section 1.336–5 is amended by revising the section heading and adding a sentence to the end of the paragraph to read as follows:

§ 1.336–5 Effective/applicability dates.

* * * * *

(d) * * *

(1) * * *

(i) * * *

(A) * * *

(2) Under section 1014(a) or 1022; and

* * * * *

(g) Effective/applicability dates. This section applies to distributions occurring after December 20, 2000, except that they do not apply to any distributions occurring pursuant to a written agreement that is (subject to customary conditions) binding on December 20, 2000, and at all later times. The provisions of paragraph (d)(1)(ii)(A)(2) of this section relating to section 1022 are effective on and after January 19, 2017.

Par. 14. Section 1.382–1 is amended by revising paragraphs (d)(1)(ii)(A)(2) and (g) to read as follows:

§ 1.382–1 Special rules under section 382 for corporations under the jurisdiction of a court in a title 11 or similar case.

* * * * *

(d) * * *

(6) Effective/applicability date.

* * * * *

Par. 15. Section 1.382–1 is amended by revising the entry for § 1.382–9(d)(6) to read as follows:

§ 1.382–9 Special rules under section 382 for corporations under the jurisdiction of a court in a title 11 or similar case.

* * * * *

(d) * * *

(6) Effective/applicability date.

* * * * *

Par. 16. Section 1.382–9 is amended by revising paragraphs (d)(5)(ii)(D) and (d)(6)(ii) to read as follows:

§ 1.382–9 Special rules under section 382 for corporations under the jurisdiction of a court in a title 11 or similar case.

* * * * *

(d) * * *

(5) * * *

(ii) * * *

(D) The transferee’s basis in the indebtedness is determined under
section 1014, 1015, or 1022 or with reference to the transferor’s basis in the indebtedness;

(6) Effective/applicability date—(i) In general. This paragraph (d) applies to ownership changes occurring on or after March 17, 1994. The provisions of paragraph (d)(5)(ii)(D) of this section relating to section 1022 are effective on and after January 19, 2017.

Par. 17. Section 1.421–2 is amended by:

1. Revising paragraphs (c)(4)(ii)(a) and (c)(4)(ii).

2. Revising the heading of paragraph (f) and adding paragraph (f)(3).

The revisions and addition read as follows:

§ 1.421–2 General rules.

(c) * * *

(4)(i)(a) In the case of the death of an optionee, the basis of any share of stock acquired by the exercise of an option under this paragraph (c), determined under section 1011, shall be increased by an amount equal to the portion of the basis of the option attributable to such share. For example, if a statutory option to acquire 10 shares of stock has a basis of $100, the basis of one share acquired by a partial exercise of the option, determined under section 1011, would be increased by 1/10th of $100, or $10. The option acquires a basis, determined under section 1014(a) or under section 1022, if applicable, only if the transfer of the share pursuant to the exercise of such option qualifies for the special tax treatment provided by section 421(a). To the extent the option is so exercised, in whole or in part, it will acquire a basis equal to its fair market value (or the basis as determined under section 1022, if applicable) at the date of the employee’s death or, if an election is made under section 2032, its value at its applicable valuation date. In certain cases, the basis of the share is subject to the adjustments provided by paragraphs (c)(4)(ii)(b) and (c) of this section, but such adjustments are only applicable in the case of an option that is subject to section 423(c).

(ii) If a statutory option is not exercised by the estate of the individual to whom the option was granted, or by the person who acquired such option by bequest or inheritance or by reason of the death of such individual, the option shall be considered to be property that constitutes a right to receive an item of income in respect of a decedent to which the rules of sections 691 and 1014(c) (or section 1022(f), if applicable) apply.

(f) Effective/applicability date. * * *

(3) Application of section 1022. The provisions of paragraph (c) of this section relating to section 1022 are effective on and after January 19, 2017.

Par. 18. Section 1.423–2 is amended by:

1. Revising the third sentence of paragraph (k)(2).

2. Adding a sentence to the end of paragraph (l).

The revision and addition read as follows:

§ 1.423–2 Employee stock purchase plan defined.

(k) * * *

(2) * * * If the special rules provided in this paragraph (k) are applicable to a share of stock upon the death of an employee, then the basis of the share in the hands of the estate or the person receiving the stock by bequest or inheritance shall be determined under section 1014 or under section 1022, if applicable, and shall not be increased by reason of the inclusion upon the decedent’s death of any amount in the decedent’s gross income under this paragraph (k).

(l) * * * The provisions of this section relating to section 1022 are effective on and after January 19, 2017.

Par. 19. Section 1.424–1 is amended by revising the last sentence of paragraph (c)(2) and adding paragraph (g)(3) to read as follows:

§ 1.424–1 Definitions and special rules applicable to statutory options.

(c) * * *

(2) * * * For determination of basis in the hands of the survivor where joint ownership is terminated by the death of one of the owners, see section 1014 or section 1022, if applicable.

(g) * * *

(3) Application of section 1022. The provisions of paragraph (c)(2) of this section relating to section 1022 are effective on and after January 19, 2017.

Par. 20. Section 1.467–7 is amended by revising paragraph (c)(2) and revising the first sentence of paragraph (c)(4) to read as follows:

§ 1.467–7 Section 467 recapture and other rules relating to dispositions and modifications.

(c) * * *

(2) Dispositions at death. Paragraph (a) of this section does not apply to a disposition if the basis of the property in the hands of the transferee is determined under section 1014(a) or section 1022. However, see paragraph (c)(4) of this section for dispositions of property subject to section 1022 by transferees. This paragraph (c)(2) does not apply to property that constitutes a right to receive an item of income in respect of a decedent. See sections 691, 1014(c), and 1022(f).

Par. 21. Section 1.467–9 is amended by revising the section heading and adding paragraph (f) to read as follows:

§ 1.467–9 Effective/applicability dates and automatic method changes for certain agreements.

(f) Application of section 1022. The provisions of § 1.467–9(c)(2) and (4) relating to section 1022 are effective on and after January 19, 2017.

Par. 22. Section 1.617–3 is amended by revising paragraph (d)(5)(ii)(b) to read as follows:

§ 1.617–3 Recapture of exploration expenditures.

(d) * * *

(5) * * *

(ii) * * *

(b) The transactions referred to in paragraph (d)(5)(ii)(a) of this section are:

1. A disposition that is in part a sale or exchange and in part a gift;

2. A disposition that is described in section 617(d) through the incorporation by reference of the provisions of section 1245(b)(3) (relating to certain tax free transactions); or

3. A transfer at death where basis of property in the hands of the transferee is determined under section 1022.

* * *
§ 1.617–4 Treatment of gain from disposition of certain mining property.

(a) Sections 1.617–3 and 1.617–4 apply to transfers of property to foreign trusts and foreign estates after August 7, 2000, except as provided in paragraph (b) of this section.

(b) In the case a U.S. transferor decedent dying in 2010, § 1.648–3(c) applies to transfers of property to foreign trusts, foreign estates, and nonresident aliens after December 31, 2009, and before January 1, 2011.

§ 1.617–5 Effective/applicability date.


§ 1.684–3 Exceptions to general rule of gain recognition.

(a) Certain transfers at death—(1) Section 1014 basis. The general rule of gain recognition under § 1.684–1 shall not apply to any transfer of property to a foreign trust or foreign estate or, in the case of a transfer of property by a U.S. transferor decedent dying in 2010, to a foreign trust, foreign estate, or a nonresident alien, by reason of death of the U.S. transferor, if the basis of the property in the hands of the transferee, has a basis determined under the provisions of section 1015(a) or 1015(d) (relating to the basis of property acquired by gift) or section 1022 (relating to the basis of property acquired from certain decedents who died in 2010).

(b) Section 1022 basis election. For U.S. transferor decedents dying in 2010, the general rule of gain recognition under § 1.684–1 shall apply to any transfer of property by reason of death of the U.S. transferor if the basis of the property in the hands of the foreign trust, foreign estate, or the nonresident alien individual is determined under section 1022. The gain on the transfer shall be calculated as set out under § 1.684–1(a), except that adjusted basis will reflect any increases allocated to such property under section 1022.

§ 1.684–5 Effective/applicability dates.

(a) Sections 1.684–1 through 1.684–4 apply to transfers of property to foreign trusts and foreign estates after August 7, 2000, except as provided in paragraph (b) of this section.

(b) In the case a U.S. transferor decedent dying in 2010, § 1.648–3(c) applies to transfers of property to foreign trusts, foreign estates, and nonresident aliens after December 31, 2009, and before January 1, 2011.

§ 1.691(a)–3 Character of gross income.

(a) * * * The provisions of section 1014(a), relating to the basis of property acquired from a decedent, and section 1022, relating to the basis of property acquired from certain decedents who died in 2010, do not apply to these amounts in the hands of the estate and such persons. See sections 1014(c) and 1022(f).

(b) In the case a U.S. transferor decedent dying in 2010, § 1.648–3(c) applies to transfers of property to foreign trusts, foreign estates, and nonresident aliens after December 31, 2009, and before January 1, 2011.

§ 1.742–1 Basis of transferee partner’s interest.

(a) In general. The basis of a transferee partner of an interest in a partnership shall be determined under the general basis rules for property provided by part II (section 1011 and following), Subchapter O, Chapter 1 of the Internal Revenue Code. Thus, the basis of a purchased interest will be its cost. Generally, the basis of a partnership interest acquired from a decedent is the fair market value of the interest at the date of his death or at the alternate valuation date, increased by his estate’s or other successor’s share of partnership liabilities, if any, on that date, and reduced to the extent that such value is attributable to items constituting income in respect of a decedent (see section 753 and §§ 1.706–1(c)(3)(v) and 1.753–1(b)) and determined under section 691. See section 1014(c).

(b) Special rule. A transferee that acquires, on the death of a partner, an interest in a partnership with an election under section 754 in effect for the taxable year of the transfer, must notify the partnership, in writing, within one year of the death of the deceased partner. The written notice to the partnership must be signed under penalties of perjury and must include the names and addresses of the deceased partner and the transferee, the partnership identification numbers of the deceased partner and the transferee, the relationship (if any) between the transferee and the transferor, the deceased partner’s date of death, the date on which the transferee became the owner of the partnership interest, the fair market value of the partnership interest on the applicable date of valuation set forth in section 1014 or section 1022, the manner in which the fair market value of the partnership interest was determined, and the carryover basis as adjusted under section 1022 (if applicable).

§ 1.755–1 Rules for allocation of basis.

(a) * * * The provisions in this section apply to transfers of partnership interests that occur on or after December 15, 1999. The provisions of this section relating to section 1022 are effective on and after January 19, 2017.

(b) Effective/applicability date. This section applies on and after January 19, 2017. For rules before January 19, 2017, see § 1.742–1 as contained in 26 CFR part 1 revised as of April 1, 2016.
in its partnership interest is determined without regard to section 1014(c) or section 1022(f), and is deemed to be adjusted for that portion of the interest, if any, that is attributable to items representing income in respect of a decedent under section 691. * * * * *(b) * * * *(4) * * * *(i) * * * Where a partnership interest is transferred as a result of the death of a partner, under section 1014(c) or section 1022(f), the transferor’s basis in its partnership interest is not adjusted for that portion of the interest, if any, that is attributable to items representing income in respect of a decedent under section 691. * * * * *(f) * * * *(1) General rule. Except as otherwise provided in paragraph (f)(3) of this section, for purposes of determining gain or loss from the sale or other disposition after October 9, 1969, of a term interest in property (as defined in paragraph (f)(2) of this section), a taxpayer shall not take into account that portion of the adjusted basis of such interest that is determined pursuant, or by reference, to section 1014 (relating to the basis of property acquired from a decedent), section 1015 (relating to the basis of property acquired by gift or by a transfer in trust), or section 1022 (relating to the basis of property acquired from certain decedents who died in 2010). * * * * *(i) Effective/applicability dates. * * * *(2) Special rules. Paragraphs (a) and (b)(3)(iii) of this section apply to transfers of partnership interests and distributions of property from a partnership that occur on or after June 9, 2003. The provisions of paragraphs (a)(4)(i)(C) and (b)(4)(i) of this section relating to section 1022 are effective on and after the date January 19, 2017. 

**Par. 31.** Section 1.995–4 is amended by revising the first sentence of paragraph (d)(2) and adding paragraph (f) to read as follows:

§ 1.995–4 Gain on disposition of stock in a DISC. * * * * *(d) * * * *(2) * * * For purposes of this section, the period during which a shareholder has held stock includes the period he is considered to have held it by reason of the application of section 1223 and, if his basis is determined in whole or in part under the provisions of section 1014(d) (relating to special rule for DISC stock acquired from decedent) or section 1022 (relating to property acquired from certain decedents who died in 2010), the holding period of the decedent. * * * * *(f) Effective/applicability date. This section applies on and after January 19, 2017. For rules before January 19, 2017, see § 1.995–4 as contained in 26 CFR part 1 revised as of April 1, 2016.

**Par. 32.** Section 1.1001–1 is amended by revising the last sentence of paragraph (a), revising paragraph (f)(1), and adding paragraph (i) to read as follows:

§ 1.1001–1 Computation of gain or loss. * * * * *(a) * * * Section 1001(e) and paragraph (f) of this section prescribe the method of computing gain or loss upon the sale or other disposition of a term interest in property the adjusted basis (or a portion) of which is determined pursuant, or by reference, to section 1014 (relating to the basis of property acquired from a decedent), section 1015 (relating to the basis of property acquired by gift or by a transfer in trust), or section 1022 (relating to the basis of property acquired from certain decedents who died in 2010). * * * * *(i) Effective/applicability date. Except as provided in paragraphs (g) and (h) of this section, this section applies on and after January 19, 2017. For rules before January 19, 2017, see § 1.1001–1 as contained in 26 CFR part 1 revised as of April 1, 2016. 

**Par. 33.** Section 1.1014–1 is amended by revising paragraph (a) and adding paragraph (d) to read as follows:

§ 1.1014–1 Basis of property acquired from a decedent.

(a) General rule. The purpose of section 1014 is, in general, to provide a basis for property acquired from a decedent that is equal to the value placed upon such property for purposes of the federal estate tax. Accordingly, the general rule is that the basis of property acquired from a decedent is the fair market value of such property at the date of the decedent’s death, or, if the decedent’s executor so elects, at the alternate valuation date prescribed in section 2032, or in section 811(f) of the Internal Revenue Code (Code) of 1939. However, the basis of property acquired from certain decedents who died in 2010 is determined under section 1022, if the decedent’s executor made an election under section 301(c) of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, Public Law 111–312 (124 Stat. 3296, 3300 (2010)). See section 1022. Property acquired from a decedent includes, principally, property acquired by bequest, devise, or inheritance, and, in the case of decedents dying after December 31, 1953, property required to be included in determining the value of the decedent’s gross estate under any provision of the Code of 1954 or the Code of 1939. The general rule governing basis of property acquired from a decedent, as well as other rules prescribed elsewhere in this section, shall have no application if the property is sold, exchanged, or otherwise disposed of before the decedent’s death by the person who acquired the property from the decedent. For general rules on the applicable valuation date where the executor of a decedent’s estate elects under section 2032, or under section 811(f) of the Code of 1939, to value the decedent’s gross estate at the alternate valuation date prescribed in such sections, see § 1.1014–3(e). * * * * *(d) Effective/applicability date. This section applies on and after January 19, 2017. For rules before January 19, 2017,
see § 1.1014–1 as contained in 26 CFR part 1 revised as of April 1, 2016.

§ 1.1014–4 Uniformity of basis; adjustment to basis.

(a) * * * *(1) The basis of property acquired from a decedent, as determined under section 1014(a) or section 1022, is uniform on the hands of every person having possession or enjoyment of the property at any time under the will or other instrument or under the laws of descent and distribution. * * *

(2) * * * * Accordingly, there is a common acquisition date for all titles to property acquired from a decedent within the meaning of section 1014 or section 1022, and, for this reason, a common or uniform basis for all such interests. * * *

(b) * * * *(d) Effective/applicability date. This section applies on and after January 19, 2017. For rules before January 19, 2017, see § 1.1014–4 as contained in 26 CFR part 1 revised as of April 1, 2016.

§ 1.1014–5 Gain or loss.

(a) * * * *(b) Sale or other disposition of certain term interests—(1) In general. In determining gain or loss from the sale or other disposition after October 9, 1969, of a term interest in property (as defined in § 1.1001–1(f)(2)) the adjusted basis of which is determined pursuant, or by reference, to section 1014 (relating to the basis of property acquired from a decedent), section 1015 (relating to the basis of property acquired by gift or by a transfer in trust), or section 1022 (relating to the basis of property acquired from certain decedents who died in 2010), that part of the adjusted uniform basis assignable under the rules of paragraph (a) of this section to the interest sold or otherwise disposed of shall be disregarded to the extent and in the manner provided by section 1001(e) and § 1.1001–1(f).

(2) Effective/applicability date. The provisions of paragraph (b)(1) of this section relating to section 1022 are effective on and after January 19, 2017. For rules before January 19, 2017, see § 1.1014–5 as contained in 26 CFR part 1 revised as of April 1, 2016.

§ 1.1022–1 Determination of period for which capital assets are held.

(a) * * * *(b) * * * * Similarly, the period for which property acquired from a decedent who died in 2010 was held by the decedent must be included in determining the period during which the property was held by the recipient, if the recipient's basis in the property is determined under section 1022.

(i) Effective/applicability date. This section applies January 19, 2017. For rules before January 19, 2017, see § 1.1223–1 as contained in 26 CFR part 1 revised as of April 1, 2016.

§ 1.1022–5 Definition of recomputed basis.

(a) * * * *(c) * * * *(d) Effective/applicability date. This section applies on and after January 19, 2017. For rules before January 19, 2017, see § 1.1245–3 as contained in 26 CFR part 1 revised as of April 1, 2016.

§ 1.1022–4 (c) * * * *(i) The transactions referred to in paragraph (c)(2)(i) of this section are:

(A) A disposition that is in part a sale or exchange and in part a gift (see § 1.1245–4(a)(3));

(B) A disposition (other than a disposition to which section 1245(b)(6)(A) applies) that is described in section 1245(b)(3) (relating to certain tax-free transactions);

(C) An exchange described in § 1.1245–4(e)(2) (relating to transfers described in section 1081(d)(1)(A)); or

(D) A transfer at death where the basis of property in the hands of the transferee is determined under section 1022.

(i) Effective/applicability date. This section applies on and after January 19, 2017. For rules before January 19, 2017, see § 1.1225–4 as contained in 26 CFR part 1 revised as of April 1, 2016.

§ 1.1223–1 Determination of period for which capital assets are held.

(a) * * * *(3) Even though property may not be of a character subject to the allowance for depreciation in the hands of the taxpayer, such property may nevertheless be section 1245 property if the taxpayer's basis for the property is determined by reference to its basis in the hands of a prior owner of the property and such property was of a character subject to the allowance for depreciation in the hands of such prior owner, or if the taxpayer's basis for the property is determined by reference to the basis of other property that in the hands of the taxpayer was property of a character subject to the allowance for depreciation, or if the taxpayer's basis for the property is determined under section 1022 and such property was of a character subject to the allowance for depreciation in the hands of the decedent. Thus, for example, if a father uses an automobile in his trade or business during a period after December 31, 1961, and then gives the automobile to his son as a gift for the son's personal use, the automobile is section 1245 property in the hands of the son.

(d) Effective/applicability date. This section applies on and after January 19, 2017. For rules before January 19, 2017, see § 1.1245–3 as contained in 26 CFR part 1 revised as of April 1, 2016.

§ 1.1245–4 (c) * * * *(i) The transactions referred to in paragraph (c)(2)(i) of this section are:

(A) A disposition that is in part a sale or exchange and in part a gift (see § 1.1245–4(a)(3));

(B) A disposition (other than a disposition to which section 1245(b)(6)(A) applies) that is described in section 1245(b)(3) (relating to certain tax-free transactions);

(C) An exchange described in § 1.1245–4(e)(2) (relating to transfers described in section 1081(d)(1)(A)); or

(D) A transfer at death where the basis of property in the hands of the transferee is determined under section 1022.

(i) Effective/applicability date. This section applies on and after January 19, 2017. For rules before January 19, 2017, see § 1.1225–4 as contained in 26 CFR part 1 revised as of April 1, 2016.

§ 1.1225–4 Holding period.

(a) * * * *(c) * * * *(5) A transfer at death where the basis of the property in the hands of the transferee is determined under section 1022.

(h) Effective/applicability date. This section applies on and after January 19, 2017. For rules before January 19, 2017, see § 1.1250–4 as contained in 26 CFR part 1 revised as of April 1, 2016.

§ 1.1250–4 Effective/applicability date. This section applies on and after January 19, 2017. For rules before January 19, 2017, see § 1.1250–4 as contained in 26 CFR part 1 revised as of April 1, 2016.
§ 1.1254–2 Exceptions and limitations.

(a) * * *

(1) * * * For purposes of this paragraph (a), the term gift means, except to the extent that paragraph (a)(2) of this section applies, a transfer of natural resource recapture property that, in the hands of the transferee, has a basis determined under the provisions of section 1015(a) or 1015(d) (relating to basis of property acquired by gift) or section 1022 (relating to the basis of property acquired from certain decedents who died in 2010). * * *

■ Par. 42. Section 1.1254–3 is amended by revising paragraphs (b)(2)(ii) and (iii) and adding paragraph (b)(2)(iv) to read as follows:

§ 1.1254–3 Section 1254 costs immediately after certain acquisitions.

* * * * *

(b) * * *

(2) * * *

(ii) A transaction described in section 1041(a);

(iii) A disposition described in § 1.1254–2(c)(3) (relating to certain tax-free transactions); or

(iv) A transfer at death where basis of property in the hands of the transferee is determined under section 1022.

* * * * *

■ Par. 43. Section 1.1254–4 is amended by revising paragraph (e)(4) introductory text to read as follows:

§ 1.1254–4 Special rules for S corporations and their shareholders.

* * * * *

(e) * * *

(4) * * * If stock is acquired in a transfer that is a gift, in a transfer that is a part sale or exchange and part gift, in a transfer that is described in section 1041(a), or in a transfer at death where the basis of property in the hands of the transferee is determined under section 1022, the amount of section 1254 costs with respect to the property held by the corporation in the acquiring shareholder’s hands immediately after the transfer is an amount equal to—

* * * * *

■ Par. 44. Section 1.1254–5 is amended by revising paragraph (c)(2)(iv) introductory text to read as follows:

§ 1.1254–5 Special rules for partnerships and their partners.

* * * * *

(c) * * *

(2) * * *

(iv) * * * If an interest in a partnership is transferred in a transfer that is a gift, in a transfer that is a part sale or exchange and part gift, in a transfer that is described in section 1041(a), or in a transfer at death where the basis of property in the hands of the transferee is determined under section 1022, the amount of the transferee partner’s section 1254 costs with respect to property held by the partnership immediately after the transfer is an amount equal to—

* * * * *

■ Par. 45. Section 1.1254–6 is revised to read as follows:

§ 1.1254–6 Effective/applicability date.

(a) Sections 1.1254–1 through 1.1254–3 and 1.1254–5 are effective with respect to any disposition of natural resource recapture property occurring after March 13, 1995. The rule in § 1.1254–1(b)(2)(iv)(A)(2), relating to a nonoperating mineral interest carved out of an operating mineral interest with respect to which an expenditure has been deducted, is effective with respect to any disposition occurring after March 13, 1995, of property (within the meaning of section 614) that is placed in service by the taxpayer after December 31, 1986. Section 1.1254–4 applies to dispositions of natural resource recapture property by an S corporation (and a corporation that was formerly an S corporation) and dispositions of S corporation stock occurring on or after October 10, 1996. Sections 1.1254–2(d)(1)(ii) and 1.1254–3(b)(1)(i), (b)(1)(ii), (d)(1)(i), and (d)(1)(ii) are effective for dispositions of property occurring on or after October 10, 1996.


■ Par. 46. Section 1.1296–1 is amended by revising paragraphs (d)(4) and (j) to read as follows:

§ 1.1296–1 Mark to market election for marketable stock.

* * * * *

(d) * * *

(4) Stock acquired from a decedent. In the case of stock of a PFIC that is acquired by bequest, devise, or inheritance (or by the decedent’s estate) and with respect to which a section 1296 election was in effect as of the date of the decedent’s death, notwithstanding section 1014 or section 1022, the basis of such stock in the hands of the person so acquiring it shall be the adjusted basis of such stock in the hands of the decedent immediately before his death (or, if lesser, the basis that would have been determined under section 1014 or section 1022 without regard to this paragraph (d)).

* * * * *

(j) Effective/applicability date. The provisions in this section are applicable for taxable years beginning on or after May 3, 2004. The provisions of paragraph (d)(4) of this section relating to section 1022 are effective on and after January 19, 2017.

■ Par. 47. Section 1.1312–7 is amended by revising paragraph (b) and adding paragraph (d) to read as follows:

§ 1.1312–7 Basis of property after erroneous treatment of a prior transaction.

* * * * *

(b)(1) For this section to apply, the taxpayer with respect to whom the erroneous treatment occurred must be:

(i) The taxpayer with respect to whom the determination is made; or

(ii) A taxpayer who acquired title to the property in the erroneously treated transaction and from whom, mediately or immediately, the taxpayer with respect to whom the determination is made derived title in such a manner that he will have a basis ascertained by reference to the basis in the hands of the taxpayer who acquired title to the property in the erroneously treated transaction; or

(iii) A taxpayer who had title to the property at the time of the erroneously treated transaction and from whom, mediately or immediately, the taxpayer with respect to whom the determination is made derived title if the basis of the property in the hands of the taxpayer with respect to whom the determination is made is determined under section 1015(a) (relating to the basis of property acquired by gift) or section 1022 (relating to the basis of property acquired from certain decedents who died in 2010).

(2) No adjustment is authorized with respect to the transferor of the property in a transaction upon which the basis of the property depends, when the determination is with respect to the original transferee or a subsequent transferee of the original transferee.

* * * * *

(d) Effective/applicability date. This section applies on and after January 19, 2017. For rules before January 19, 2017,
see § 1.1312–7 as contained in 26 CFR part 1 revised as of April 1, 2016.

John Dalrymple,
Deputy Commissioner for Services and Enforcement.
Approved: November 11, 2016.

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

PENSION BENEFIT GUARANTY CORPORATION

29 CFR Part 4022

Benefits Payable in Terminated Single-Employer Plans; Interest Assumptions for Paying Benefits

AGENCY: Pension Benefit Guaranty Corporation.

ACTION: Final rule.

SUMMARY: This final rule amends the Pension Benefit Guaranty Corporation’s regulation on Benefits Payable in Terminated Single-Employer Plans to prescribe interest assumptions under the regulation for valuation dates in February 2017. The interest assumptions are used for paying benefits under terminating single-employer plans covered by the pension insurance system administered by PBGC.

DATES: Effective February 1, 2017.

FOR FURTHER INFORMATION CONTACT:
Deborah C. Murphy (Murphy.Deborah@pbgc.gov), Assistant General Counsel for Regulatory Affairs, Pension Benefit Guaranty Corporation, 1200 K Street NW., Washington, DC 20005, 202–326–4400 ext. 3451. (TTY/TDD users may call the Federal relay service toll-free at 1–800–877–8339 and ask to be connected to 202–326–4400 ext. 3451.)


PBGC uses the interest assumptions in Appendix B to Part 4022 to determine whether a benefit is payable as a lump sum and to determine the amount to pay. Appendix C to Part 4022 contains interest assumptions for private-sector pension practitioners to refer to if they wish to use lump-sum interest rates determined using PBGC’s historical methodology. Currently, the rates in Appendices B and C of the benefit payment regulation are the same.

The interest assumptions are intended to reflect current conditions in the financial and annuity markets. Assumptions under the benefit payments regulation are updated monthly. This final rule updates the benefit payments interest assumptions for February 2017.1

The February 2017 interest assumptions under the benefit payments regulation will be 1.25 percent for the period during which a benefit is in pay status and 4.00 percent during any years preceding the benefit’s placement in pay status. In comparison with the interest assumptions in effect for January 2017, these interest assumptions are unchanged.

PBGC has determined that notice and public comment on this amendment are impracticable and contrary to the public interest. This finding is based on the need to determine and issue new interest assumptions promptly so that the assumptions can reflect current market conditions as accurately as possible.

Because of the need to provide immediate guidance for the payment of benefits under plans with valuation dates during February 2017, PBGC finds that good cause exists for making the assumptions set forth in this amendment effective less than 30 days after publication.

PBGC has determined that this action is not a “significant regulatory action” under the criteria set forth in Executive Order 12866.

Because no general notice of proposed rulemaking is required for this amendment, the Regulatory Flexibility Act of 1980 does not apply. See 5 U.S.C. 601(2).

List of Subjects in 29 CFR Part 4022

Employee benefit plans, Pension insurance, Pensions, Reporting and recordkeeping requirements.

In consideration of the foregoing, 29 CFR part 4022 is amended as follows:

PART 4022—BENEFITS PAYABLE IN TERMINATED SINGLE-EMPLOYER PLANS

1. The authority citation for part 4022 continues to read as follows:

Authority: 29 U.S.C. 1302, 1322, 1322b, 1341(c)(3)(D), and 1344.

2. In appendix B to part 4022, Rate Set 280, as set forth below, is added to the table.

Appendix B to Part 4022—Lump Sum Interest Rates For PBGC Payments

<table>
<thead>
<tr>
<th>Rate set</th>
<th>For plans with a valuation date</th>
<th>Immediate annuity rate (percent)</th>
<th>Deferred annuities (percent)</th>
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</thead>
<tbody>
<tr>
<td>280</td>
<td>2–1–17, 3–1–17</td>
<td>1.25</td>
<td>4.00</td>
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<td></td>
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<td>7</td>
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</tbody>
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3. In appendix C to part 4022, Rate Set 280, as set forth below, is added to the table.

Appendix C to Part 4022—Lump Sum Interest Rates for Private-Sector Payments

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1 Appendix B to PBGC’s regulation on Allocation of Assets in Single-Employer Plans (29 CFR part 4044) prescribes interest assumptions for valuing benefits under terminating covered single-employer plans for purposes of allocation of assets under ERISA section 4044. Those assumptions are updated quarterly.