identified in paragraph (k) of this AD and email to: *AMOC@faa.gov.*

(2) Before using any approved AMOC, notify your appropriate principal inspector, or lacking a principal inspector, the manager of the local flight standards district office/certificate holding district office.

(k) Additional Information

For more information about this AD, contact Anthony Kenward, Aviation Safety Engineer, FAA, 1600 Stewart Avenue, Suite 410, Westbury, NY 11590; phone: (817) 222–5152; email: *anthony.b.kenward@faa.gov.*

(l) Material Incorporated by Reference

(1) The Director of the Federal Register approved the incorporation by reference of the material listed in this paragraph under 5 U.S.C. 552(a) and 1 CFR part 51.

(2) You must use this material as applicable to do the actions required by this AD, unless the AD specifies otherwise.

(i) European Union Aviation Safety Agency (EASA) AD 2026–0066, dated March 27, 2026.

(ii) [Reserved]

(3) For EASA material identified in this AD, contact EASA, Konrad-Adenauer-Ufer 3, 50668 Cologne, Germany; phone: +49 221 8999 000; email: *ADs@easa.europa.eu;* website: *easa.europa.eu.* You may find this EASA material on the EASA website at *ad.easa.europa.eu.*

(4) You may view this material at the FAA, Airworthiness Products Section, Operational Safety Branch, 10101 Hillwood Parkway, Fort Worth, TX 76177. For information on the availability of this material at the FAA, call (817) 222–5110.

(5) You may view this material at the National Archives and Records Administration (NARA). For information on the availability of this material at NARA, visit *www.archives.gov/federal-register/cfr/ibr-locations* or email *fr.inspection@nara.gov.*

Issued on September 24, 2026.

Steven W. Thompson,

Acting Deputy Director, Compliance & Airworthiness Division, Aircraft Certification Service.

[FR Doc. 2026–19892 Filed 9–28–26; 8:45 am]

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DEPARTMENT OF THE TREASURY

Internal Revenue Service

26 CFR Part 1

[REG–117095–25]

RIN 1545–BR83

Election To Pay in Installments Tax on Gain From Certain Farmland Property

AGENCY: Internal Revenue Service (IRS), Treasury.

ACTION: Notice of proposed rulemaking.

SUMMARY: This document contains proposed regulations regarding the statutory election to pay in four equal annual installments the tax on the gain from the sale or exchange of qualified farmland property to a qualified farmer. The proposed regulations would affect taxpayers who sell or exchange qualified farmland to a qualified farmer and elect to pay the tax on the gain from that sale or exchange in equal annual installments over four years.

DATES: Written or electronic comments and requests for a public hearing must be received by November 30, 2026.

ADDRESSES: Commenters are strongly encouraged to submit public comments electronically via the Federal eRulemaking Portal at *https://www.regulations.gov* (indicate IRS and REG–117095–25) by following the online instructions for submitting comments. Requests for a public hearing must be submitted as prescribed in the ''Comments and Requests for a Public Hearing'' section. Once submitted to the Federal eRulemaking Portal, comments cannot be edited or withdrawn. The Department of the Treasury (Treasury Department) and the IRS will publish for public availability any comments submitted to the IRS's public docket. Send paper submissions to: CC:PA:01:PR (REG–117095–25), Room 5503, Internal Revenue Service, P.O. Box 7604, Ben Franklin Station, Washington, DC 20044.

FOR FURTHER INFORMATION CONTACT: Concerning the proposed regulations, Nathan Cox of the Office of Associate Chief Counsel (Income Tax & Accounting) at (202) 317–7006 (not a toll-free number); concerning submissions of comments and requests for a public hearing, the Publications and Regulations Section at (202) 317–6901 (not a toll-free number) or by email at *publichearings@irs.gov* (preferred).

SUPPLEMENTARY INFORMATION:

Authority

This notice of proposed rulemaking contains proposed amendments that would add new regulations to the Income Tax Regulations (26 CFR part 1) under section 1062 of the Internal Revenue Code (Code), which was enacted by section 70437 of Public Law 119–21, 139 Stat. 72, 248–250 (July 4, 2025), commonly known as the One, Big, Beautiful Bill Act (OBBBA). Section 1062(a) provides an election to pay in equal installments over a four-year period the tax on the gain from the sale or exchange of qualified farmland property to a qualified farmer (qualified sale or exchange).

The proposed regulations are issued under the authority of section 7805(a) of the Code, which authorizes the Secretary of the Treasury or the Secretary's delegate (Secretary) to prescribe all needful rules and regulations for the enforcement of the Code, including all rules and regulations as may be necessary by reason of any alteration of law in relation to internal revenue.

The proposed regulations also are issued under the authority of section 1062(c)(2). Section 1062(c)(2) authorizes the Secretary to prescribe regulations or other guidance as necessary to carry out the purposes of section 1062(c)(2), which provides that, in the case of a qualified sale or exchange by a partnership or an S corporation, the election under section 1062(a) is made at the partner or shareholder level.

In addition, the proposed regulations that would address consolidated groups are also issued under the authority of section 1502. Section 1502 authorizes the Secretary to prescribe regulations in order that the tax liability of any affiliated group of corporations making a consolidated return and of each corporation in the group, both during and after the period of affiliation, may be returned, determined, computed, assessed, collected, and adjusted, in such manner as clearly to reflect the income-tax liability and the various factors necessary for the determination of such liability, and in order to prevent avoidance of such tax liability.

Background

Section 70437(a) of the OBBBA redesignated former section 1062 of the Code as new section 1063 of the Code and added a new section 1062. This new section 1062 allows taxpayers who sell or exchange qualified farmland property in a qualified sale or exchange to make an election to pay the tax on the gain from the qualified sale or exchange in equal installments over a four-year period (section 1062 election). Section 70437(c) of the OBBBA provides that the section 1062 election applies to qualified sales or exchanges made in taxable years beginning after July 4, 2025, the date of enactment of the OBBBA.

Section 1062(b)(1) provides that, if a section 1062 election is made with respect to a qualified sale or exchange, the first installment payment is due on the due date (without regard to extensions) for the Federal income tax return (return) for the taxable year of the qualified sale or exchange, and each successive installment payment is due on the due date (without regard to extensions) for the return for the taxable year following the taxable year for which the previous installment payment was made.

Section 1062(b)(2) provides three rules that may result in the acceleration of one or more installment payments prior to the date(s) for which the installment payment(s) otherwise would be due. First, section 1062(b)(2)(A) provides that, if there is an addition to tax for failure to timely pay an installment required under section 1062, the unpaid portion of all remaining installments is due on the date of that failure. Second, section 1062(b)(2)(B) provides that, in the case of an individual taxpayer who dies, the unpaid portion of all remaining installments is due on the due date for the return for the taxable year in which the taxpayer dies. Third, section 1062(b)(2)(C) provides that, for a taxpayer that is a C corporation, a trust, or an estate, if there is a liquidation or sale of substantially all the assets of the taxpayer, including in a case under title 11 of the United States Code or a similar case (title 11 or similar case), a cessation of business by the taxpayer (in the case of a C corporation), or any similar circumstance, the unpaid portion of all remaining installments is due on the date of that event (or, in the case of a title 11 or similar case, the day before the petition is filed). However, the rule in section 1062(b)(2)(C) does not apply in the case of a sale of substantially all the assets of the taxpayer to a buyer if the buyer enters into an agreement with the Commissioner of Internal Revenue (Commissioner) under which the buyer is liable for the remaining installment payments due under section 1062(b) in the same manner as if the buyer were the taxpayer.

Section 1062(b)(3) sets forth rules, referred to as the ''proration rules'' in this notice of proposed rulemaking, providing that, if a taxpayer has made a section 1062 election, and if a deficiency subsequently is assessed with respect to the taxpayer's ''applicable net tax liability,'' the amount of the deficiency is prorated among the installments payable under section 1062(a). The part of the deficiency prorated to any installment payments that are not yet due will be due at the same time as, and as part of, that installment payment. The part of the deficiency prorated to any installment payment that is past due must be paid upon notice and demand from the Commissioner. However, the proration rules do not apply if the deficiency is due to negligence, intentional disregard of rules and regulations, or fraud with intent to evade tax.

Section 1062(c) provides rules regarding the making of a section 1062 election. Section 1062(c)(1) provides that a section 1062 election must be made no later than the due date for the return for the taxable year of the qualified sale or exchange. Section 1062(c)(2) provides that, in the case of a qualified sale or exchange by a partnership or an S corporation, the section 1062 election is made at the partner or shareholder level. In addition, section 1062(c)(2) authorizes the Secretary to prescribe such regulations or other guidance as necessary to carry out the purposes of section 1062(c)(2).

Section 1062(d) provides definitions of terms used in section 1062. Section 1062(d)(1) defines the term ''applicable net tax liability'' as the excess (if any) of (i) the taxpayer's net income tax for the taxable year, over (ii) the taxpayer's net income tax for that taxable year determined without regard to any gain recognized from the qualified sale or exchange. For this purpose, the term ''net income tax'' means the taxpayer's regular tax liability reduced by the credits allowed under subparts A, B, and D of part IV of subchapter A of chapter 1 of the Code. As is provided in section 1062(a), the amount of tax on the gain from the qualified sale or exchange that may be paid in installments by the taxpayer is limited to the applicable net tax liability.

Section 1062(d)(2)(A) defines the term ''qualified farmland property'' to mean real property located in the United States that the taxpayer either has used as a farm for farming purposes or leased to a qualified farmer for farming purposes during substantially all of the 10-year period ending on the date of the qualified sale or exchange (prior 10-year period), and that is subject to a covenant or other legally enforceable restriction (section 1062 covenant) prohibiting the use of that real property other than as a farm for farming purposes during the 10-year period beginning on the date of the qualified sale or exchange. Section 1062(d)(2)(A) further provides that real property that is used as a farm for farming purposes or leased to a qualified farmer for farming purposes by a partnership or an S corporation during substantially all of the prior 10-year period will be treated as used or leased in that manner by each person who holds a direct or indirect interest in the partnership or S corporation.

Section 1062(d)(2)(B) defines the terms ''farm'' and ''farming purposes'' to have the respective meanings given to those terms under section 2032A(e) of the Code. Section 1062(d)(3) defines the term ''qualified farmer'' to mean any individual who is actively engaged in farming within the meaning of 7 U.S.C. 1308–1(b) and (c).

Section 1062(e) provides that a taxpayer making a section 1062 election must include a copy of the section 1062 covenant with the taxpayer's return for the taxable year of the qualified sale or exchange.

Explanation of Provisions

I. Overview

This notice of proposed rulemaking proposes rules regarding the election under section 1062(a) to defer payment of tax on qualified sales or exchanges. Proposed § 1.1062–1 would provide general rules and definitions of terms used in the section 1062 regulations (that is, §§ 1.1062–0 through 1.1062–3). Proposed § 1.1062–2 would provide operating rules regarding the availability of the section 1062 election, the manner in which to make the section 1062 election, the amount of, timing of, and manner in which to make the installment payments of the applicable net tax liability, and other special rules. Proposed § 1.1062–3 would provide rules regarding events that would result in the acceleration of unpaid installment payments.

II. General Rules and Definitions

Proposed § 1.1062–2(a)(1) would provide that, in the case of gain from a qualified sale or exchange, the taxpayer may make a section 1062 election to pay in four equal annual installments the portion of the taxpayer's net income tax for the taxable year of the qualified sale or exchange that is equal to the taxpayer's applicable net tax liability. Proposed § 1.1062–1(q) would define the term ''qualified sale or exchange'' to mean a sale or exchange of qualified farmland property to a qualified farmer.

A. Qualified Farmland Property

Proposed § 1.1062–1(o)(1) would define the term ''qualified farmland property'' as real property (as defined in proposed § 1.1062–1(o)(8)) that meets the following three requirements. First, the real property must be located in the United States. Second, the real property must, during substantially all of the prior 10-year period (as would be defined in proposed § 1.1062–1(n)), either have been used by the taxpayer as a farm for farming purposes or have been leased by the taxpayer to a qualified farmer for farming purposes. Third, the real property must be subject to a section 1062 covenant (as would be defined in proposed § 1.1062–1(t)) that is attached to the taxpayer's return for the relevant taxable year as required under section 1062(e). With respect to this third requirement, failure to attach the section 1062 covenant to the return would result in the real property not being qualified farmland property, which would mean that the sale or exchange of that property would not qualify for the section 1062 election.

Proposed § 1.1062–1(j) would define the term ''farm'' to mean a farm as defined in section 2032A(e)(4), and proposed § 1.1062–1(k) would define the term ''farming purposes'' to mean farming purposes as defined in section 2032A(e)(5). Finally, proposed § 1.1062–1(r) would define the term ''relevant taxable year'' of the taxpayer to mean the taxable year of the qualified sale or exchange.

1. Certain Periods of Non-Use Disregarded

Proposed § 1.1062–1(o)(2) would clarify that certain periods of non-use during a prior 10-year period are disregarded for purposes of determining whether real property may be considered qualified farmland property. Under the proposed rule, real property would not fail to be considered as used by the taxpayer as a farm for farming purposes or leased by the taxpayer to a qualified farmer for farming purposes if all necessary functions, such as land management activities (for example, protecting the soil from erosion), are performed to maintain the real property for farming purposes during periods in which one or more of the following conditions is met: the real property is taken out of production pursuant to a Federal, State, Tribal, or local government program; the real property is taken out of production pursuant to recognized good farming practices (for example, laying fallow or conditioning the soil); or the real property is taken out of production due to unforeseen events caused by factors outside the taxpayer's control.

2. Certain Acquisitions of Qualified Farmland Property During the Prior 10-Year Period

Proposed § 1.1062–1(o)(3) would address limited cases in which real property acquired by the taxpayer during the prior 10-year period may be considered to be used or leased by the taxpayer during the prior 10-year period. Under proposed § 1.1062–1(o)(3)(i), if the taxpayer acquired the real property during the prior 10-year period in a transaction in which the taxpayer's holding period for the real property is determined under section 1223(1) of the Code (for example, in an exchange under section 1031 of the Code), the taxpayer may include the period during the prior 10-year period for which the taxpayer used the real property exchanged for the acquired real property as a farm for farming purposes, or leased the real property exchanged for the acquired real property to a qualified farmer for farming purposes. In addition, under proposed § 1.1062–1(o)(3)(ii), if the taxpayer acquired the real property during the prior 10-year period in a transaction in which the taxpayer's holding period for the real property is determined under section 1223(2) (for example, in a reorganization described in section 368(a) of the Code), the taxpayer may include the period during the prior 10-year period for which the other person referenced in section 1223(2) used the real property acquired as a farm for farming purposes, or leased the real property acquired to a qualified farmer for farming purposes. Finally, proposed § 1.1062–1(o)(3)(iii) would provide that if the taxpayer acquired the real property during the prior 10-year period from a decedent by reason of that individual's death, the taxpayer may include the period during the prior 10-year period for which the decedent used the real property acquired as a farm for farming purposes, or leased the real property acquired to a qualified farmer for farming purposes.

3. Real Property Partially Used for Farming Purposes; Residential Real Property; Portion of Real Property Subject to Covenant Attached to Return

Proposed § 1.1062–1(o)(4) would clarify that residential buildings and related improvements (as described in section 2032A(e)(3), substituting the requirements of section 1062(d) for the requirements under section 2032A(b)(1)(C)) are considered to be used or leased by the taxpayer for farming purposes. Proposed § 1.1062–1(o)(5) would clarify that if only a portion of the real property is used or leased for farming purposes, only that portion of the real property is considered to be qualified farmland property. Similarly, proposed § 1.1062–1(o)(6) would clarify that, if only a portion of the real property is subject to a section 1062 covenant that is attached to the return for the relevant taxable year, only that portion of the real property is considered to be qualified farmland property.

4. Real Property Used or Leased by a Pass-Through Entity

Proposed § 1.1062–1(o)(7)(i) would clarify that real property used or leased by a pass-through entity in a manner described in proposed § 1.1062–1(o)(1)(i) during any period is considered used or leased in such manner by each person who holds a direct or indirect beneficial or equity interest in that pass-through entity during such period. A person who holds a direct or indirect beneficial or equity interest in the pass-through entity for only a portion of such period is considered to use or lease the property in a manner described in proposed § 1.1062–1(o)(1)(i) only during such portion of the period. *See* part III.A.2 of this Explanation of Provisions for the proposed definition of ''pass-through entity.'' Proposed § 1.1062–1(o)(7)(ii) would further provide that, in the case of a sale or exchange of real property by a pass-through entity, the determination of whether the real property is qualified farmland property must be made separately by each person who holds a direct or indirect beneficial or equity interest in that pass-through entity.

5. Section 1062 Covenant

Proposed § 1.1062–1(t) would define a ''section 1062 covenant'' to mean a covenant or other legally enforceable restriction with respect to real property that meets five requirements. First, the section 1062 covenant must prohibit using the real property as anything other than a farm for farming purposes for the 10-year period following the date of the sale or exchange. Second, the section 1062 covenant must be executed prior to or contemporaneously with the closing of the sale or exchange. Third, the section 1062 covenant must be recorded in the land records office of the jurisdiction in which the real property is located prior to or contemporaneously with the filing of the deed of transfer of the real property. Fourth, the section 1062 covenant must be enforceable against the buyer and any future owners of the real property prior to or beginning with the date of the sale or exchange. Finally, the section 1062 covenant must be enforceable against the buyer and any future owners of the real property, that is, the covenant must ''run with the land,'' for a period of at least 10 years following the date of the sale or exchange. The term ''section 1062 covenant'' would include an easement or other interest in real property that, under applicable law, has attributes similar to a covenant (for example, an equitable servitude).

B. Qualified Farmer

Proposed § 1.1062–1(p)(1) would define a ''qualified farmer'' to mean an individual who is actively engaged in farming within the meaning of 7 U.S.C. 1308–1(b) and (c). *See, for example,* 7 U.S.C. 1308–1(b)(2)(A) (providing a general rule regarding when a person is considered to be actively engaged in farming). However, proposed § 1.1062–1(p)(2) would provide that a buyer is not treated as a qualified farmer if, pursuant to a plan or an arrangement between the seller, buyer, and a third party existing at the time of a sale or exchange, the qualified farmland property subsequently is transferred to a person who is neither a related person within the meaning of section 267(b) or section 707(b)(1) of the Code with respect to the individual, nor a qualified farmer.

III. Section 1062 Election

A. Eligibility To Make Election

1. In General

As described in part II of this Explanation of Provisions, proposed § 1.1062–2(a)(1) would provide that, in the case of gain from a qualified sale or exchange, the taxpayer may make a section 1062 election to pay in four equal annual installments the portion of the taxpayer's net income tax for the taxable year of the qualified sale or exchange that is equal to the taxpayer's applicable net tax liability. Proposed § 1.1062–2(a)(2)(i)(A) thus would provide that only a person with an applicable net tax liability may elect to make a section 1062 election. Proposed § 1.1062–2(a)(2)(i)(B) further would provide that, absent an exception, a section 1062 election may be made only by a taxpayer with respect to whom none of the acceleration events described in proposed § 1.10623(b)(1) have occurred after the qualified sale or exchange but before the election is made.

2. Pass-Through Entities

a. Partnerships and S Corporations

As noted in the Background section of this preamble, section 1062(c)(2) provides that, in the case of a qualified sale or exchange by a partnership or an S corporation, the section 1062 election is made at the partner or shareholder level and authorizes the Secretary to issue regulations or other guidance as necessary to carry out the purposes of section 1062(c)(2).

Proposed § 1.1062–1(m) would define the term ''pass-through entity'' as a partnership, an S corporation, or any other person other than a C corporation if the person's gain from a qualified sale or exchange may be included in the income of one or more direct or indirect owners or beneficiaries of the person. This term would not include a real estate investment trust (as defined in section 856 of the Code), a regulated investment company (as defined in section 851 of the Code), or a bankruptcy estate under section 1398 of the Code.

Proposed § 1.1062–2(a)(2)(ii) would provide, in part, that a partner or an S corporation shareholder may make a section 1062 election with respect to that partner's or shareholder's applicable net tax liability arising from a qualified sale or exchange by a pass-through entity. This rule would apply even if there were several tiers of pass-through entities between the pass-through entity that engaged in the qualified sale or exchange and the taxpayer with the applicable net tax liability.

b. Trusts and Decedent's Estates

In certain cases, a trust or a decedent's estate may pass through some or all of its income, including gain from a qualified sale or exchange, to one or more beneficiaries. *See, for example,* sections 661 through 663 of the Code. In that case, the applicable net tax liability will be borne, in full or in part, by the beneficiaries rather than the trust or the decedent's estate. Consistent with the rules for partnerships and S corporations, the definition of ''pass-through entity'' in proposed § 1.1062–1(m) would include a trust or a decedent's estate because a trust or a decedent's estate may pass through to one or more beneficiaries gain from a qualified sale or exchange. In that event, under proposed § 1.1062–2(a)(2)(ii), the beneficiary of the trust or decedent's estate would be permitted to make a section 1062 election with respect to the beneficiary's applicable net tax liability arising from a qualified sale or exchange by a pass-through entity.

c. Disregarded Entities and Grantor Trusts

Under existing rules (*see, for example,* § 301.7701–3(b)), an entity may be disregarded as separate from its owner for Federal income tax purposes. Accordingly, for Federal income tax purposes (including for purposes of section 1062), activities of a disregarded entity are treated as the activities of the owner. Additionally, a grantor or other person treated as owning any portion of a trust under sections 671 through 679 of the Code (grantor trust) is treated as the owner of that portion of the trust property for Federal income tax purposes. *See, for example,* Revenue Ruling 85–13 (1985–1 C.B. 184). In the case of a qualified sale or exchange by a disregarded entity or a grantor trust, the qualified sale or exchange would be considered to have been made under existing rules by the owner of the disregarded entity or the grantor, respectively. Therefore, a disregarded entity or a grantor trust would not be a ''pass-through entity'' under proposed § 1.10621(m).

d. Pass-Through Entities Subject To Tax at the Entity Level

In certain cases, a trust, a decedent's estate, or an S corporation may be subject to Federal income tax at the entity level, including on gain from a qualified sale or exchange. *See, for example,* sections 641 and 1374 of the Code. To address these situations, the definition of a ''pass-through entity'' in proposed § 1.1062–1(m) would provide that an entity other than a C corporation may be a pass-through entity even if it is subject to an entity-level tax with respect to a qualified sale or exchange, if any gain from the qualified sale or exchange may be included in the income of one or more direct or indirect owners or beneficiaries. For example, if a trust is subject to Federal income tax on a portion of its gain from a qualified sale or exchange and its beneficiaries are subject to tax on the remaining portion, the trust is treated as a pass-through entity.

Proposed § 1.1062–2(a)(2)(ii) would further provide that a pass-through entity may make a section 1062 election with respect to an entity-level applicable net tax liability. Thus, a trust with an entity-level tax liability from a qualified sale or exchange, or an S corporation subject to tax under section 1374 with respect to a qualified sale or exchange, may make a section 1062 election.

Additionally, proposed § 1.1062–2(a)(2)(ii) would provide that a section 1062 election by a pass-through entity is made solely with respect to its own applicable net tax liability and is independent from, and has no effect on, a section 1062 election by an owner or beneficiary of the pass-through entity with respect to the owner's or beneficiary's applicable net tax liability, and vice versa. Thus, a pass-through entity cannot make a section 1062 election on behalf of an owner or beneficiary, and vice versa. Rather, both the passthrough entity and each owner or beneficiary may make the election under section 1062 with regard to their respective shares of that gain.

3. Consolidated Group

Proposed § 1.1062–2(a)(2)(iii) would provide that, if a ''member'' of a ''consolidated group'' (within the meaning of § 1.1502–1(b) and (h), respectively) recognizes gain from a qualified sale or exchange, the consolidated group is treated as the taxpayer.

4. Election Unavailable Due to Acceleration Event

Proposed § 1.1062–2(a)(2)(i)(B) generally would not allow a taxpayer to make a section 1062 election if, with respect to the taxpayer, any acceleration event, as described in proposed § 1.1062–3(b)(1), has occurred after the qualified sale or exchange but before the election is due. *See* part IV.A of this Explanation of Provisions for a discussion of acceleration events. However, proposed § 1.1062–2(a)(2)(iv) would permit such a taxpayer to make the section 1062 election after the occurrence of an acceleration event if the election is made in accordance with proposed § 1.1062–2 and either the acceleration event is the death of the taxpayer, or the eligible section 1062 transferee exception applies. *See* part IV.B of this Explanation of Provisions.

B. Time and Manner of Making Election

1. In General

Proposed § 1.1062–2(b)(1) would require that, in order to make a section 1062 election, a taxpayer must complete and file with its return a Form 1062, *Deferral of Tax on Gain from the Sale or Exchange of Qualified Farmland Property to Qualified Farmers,* and a Schedule A (Form 1062), *Section 1062 Gain From the Sale or Exchange of Qualified Farmland Property to a Qualified Farmer,* or in any other manner prescribed in guidance published in the Internal Revenue Bulletin or in forms and instructions.

2. Pass-Through Entities

To ensure that a partner, a shareholder, a beneficiary, or any other owner of a pass-through entity has the information necessary to make a section 1062 election with respect to its applicable net tax liability arising from a qualified sale or exchange by the pass-through entity, proposed § 1.1062–2(b)(2)(i)(A) and (B) would require the pass-through entity to complete and file a Schedule A (Form 1062) in accordance with its instructions (that is, the entity files only the Schedule A (Form 1062), but not the Form 1062 itself), and to provide a copy of its completed Schedule A (Form 1062) and the section 1062 covenant to its owners or beneficiaries. If a pass-through entity provides a copy of its Schedule A (Form 1062) and section 1062 covenant to an owner that is itself a pass-through entity (upper-tier pass-through entity), proposed § 1.1062–2(b)(2)(ii) would require the upper-tier pass-through entity to forward a copy of the Schedule A (Form 1062) and the section 1062 covenant to its owners, and so on through any additional tiers.

Proposed § 1.1062–2(b)(2)(iii) would require a pass-through entity to identify and report on the Schedule K–1 issued to its owners or beneficiaries each owner's or beneficiary's allocable share of the gain attributable to the qualified sale or exchange and such other information as may be required by the prescribed forms and the accompanying instructions. Proposed § 1.1062–2(b)(2)(iv) would provide that, if a pass-through entity fails to comply with the requirements of proposed § 1.10622(b)(2)(i) through (iii), its owners would be ineligible to make the section 1062 election with respect to any gain allocated by the pass-through entity. Proposed § 1.1062–2(b)(2)(v) would provide that a pass-through entity does not complete or file Form 1062 itself unless the pass-through entity has an entity-level applicable net tax liability and wishes to make a section 1062 election with respect to that tax liability. Lastly, proposed § 1.1062–2(b)(2)(vi) would provide that, in the case of a taxpayer who is a partner, a shareholder, a beneficiary, or any other owner of a pass-through entity that satisfies the requirements in § 1.10622(b)(2)(i) through (iii), the taxpayer makes the section 1062 election by completing and filing Form 1062 and Schedule A (Form 1062) with its return for the relevant taxable year.

3. Consolidated Groups

With respect to a consolidated group, proposed § 1.1062–2(a)(2)(iii) would provide that the agent for the group (within the meaning of § 1.1502–77) must make the section 1062 election.

4. Revocation

Proposed § 1.1062–2(b)(3) would provide that, once made, a section 1062 election may be revoked only by paying the full amount of the remaining unpaid applicable net tax liability.

C. Installment Payments

1. General Rules

Proposed § 1.1062–2(c)(1) would provide that, if a taxpayer makes a section 1062 election, the amount of each installment payment is 25 percent of the taxpayer's applicable net tax liability. Proposed § 1.1062–2(c)(2) would provide that the first installment payment is due on the due date (without regard to extensions) for filing the return for the relevant taxable year. For example, a calendar-year individual taxpayer making a section 1062 election for the relevant taxable year must pay the individual's first installment payment on or before April 15, even if that individual has an extension of time to file the individual's return until October 15. That is, the first installment payment may be due before the taxpayer makes the section 1062 election on the taxpayer's return for the relevant taxable year. Similarly, each succeeding installment payment is due on the due date (without regard to extensions) for filing the return for the taxable year following the taxable year with respect to which the previous installment payment was made.

However, proposed § 1.1062–2(c)(3) would provide that, if a taxpayer is a specified individual with respect to a taxable year within which an installment payment is due, then for purposes of determining the due date of an installment payment, the due date (without regard to extensions) for filing the return for the taxable year will be treated as the fifteenth day of the sixth month following the close of the prior taxable year. Proposed § 1.10621(v) would define a ''specified individual'' as a person described in § 1.6081–5(a)(5) or (6) (which means a United States citizen or resident whose tax home and abode, in a real and substantial sense, is outside the United States and Puerto Rico or a United States citizen or resident in military or naval service on duty, including non-permanent or short term duty, outside the United States and Puerto Rico) who receives an extension of time under § 1.6081–5(a) for filing a return and paying any tax shown on the return for the taxable year.

2. Increased Installment Payments Due to Deficiency

Proposed § 1.1062–2(c)(4)(i) would provide that, if a taxpayer makes a section 1062 election, any deficiency assessed with respect to the taxpayer's applicable net tax liability is prorated to the required installment payments. Proposed § 1.10622(c)(4)(ii)(A) would provide that, if the due date for an installment payment to which the deficiency is prorated has passed, then the amount of any deficiency prorated to that installment payment must be paid on notice and demand by the Commissioner. Proposed § 1.1062–2(c)(4)(ii)(B) would provide that, if the due date of an installment payment to which the deficiency is prorated has not passed, then the prorated amount is due at the same time as, and as part of, the relevant installment payment.

However, proposed § 1.1062–2(c)(4)(iii) would provide that this proration rule does not apply if a deficiency is due to negligence, intentional disregard of rules and regulations, or fraud with intent to evade tax. In that event, the full amount of the deficiency (including any applicable interest and penalties) must be paid on notice and demand by the Commissioner.

D. Applicable Net Tax Liability

Proposed § 1.1062–2(d) would provide that a taxpayer's applicable net tax liability equals the excess (if any) of the taxpayer's net income tax for the relevant taxable year, over the taxpayer's net income tax for the relevant taxable year determined without regard to the taxpayer's gain that is recognized from the qualified sale or exchange. Proposed § 1.1062–1(l) would define the term ''net income tax'' to mean the taxpayer's regular tax liability (as defined in section 26(b) of the Code) reduced by the credits allowed under subparts A, B, and D of part IV of subchapter A of chapter 1 of the Code.

Proposed § 1.1062–2(e) would provide that, for purposes of determining the amount of gain the taxpayer recognizes from a sale or exchange of property, only a portion of which is qualified farmland property, the taxpayer must equitably allocate its cost or other basis and the amount realized between the portion of the property that is qualified farmland property and the portion that is not qualified farmland property. *See* § 1.61–6 of the Income Tax Regulations. Taxpayers must maintain all documentation demonstrating how they made their equitable allocations.

Proposed § 1.1062–2(f) would provide that, in determining the amount of the taxpayer's gain from a qualified sale or exchange, only the gain from the qualified sale or exchange that is included in gross income and recognized in the relevant taxable year is used. *See* the example in proposed § 1.1062–2(g)(5).

IV. Acceleration of Installment Payments

A. Acceleration Events

Proposed § 1.1062–3(a) would provide that, if a taxpayer makes a section 1062 election, and if an acceleration event subsequently occurs with respect to that taxpayer, then the due date for the unpaid portion of all remaining installment payments is accelerated unless the eligible section 1062 transferee exception (as set forth in proposed § 1.1062–3(c)) applies.

1. Acceleration Events Applicable to All Taxpayers

Proposed § 1.1062–3(b)(1)(i) would provide that the assessment of an addition to tax for the failure to timely pay an installment payment is an acceleration event. Proposed § 1.1062–3(b)(2)(i) would provide that, in the case of such an acceleration event, the due date for the unpaid portion of all remaining installment payments is the date the addition to tax is assessed on the untimely installment payment.

2. Acceleration Events Applicable to Individual Taxpayers

Proposed § 1.1062–3(b)(1)(ii) would provide in part that, in the case of a taxpayer who is an individual, the death of that individual is an acceleration event. Proposed § 1.1062–3(b)(2)(ii) would provide that, in the case of such an acceleration event, the due date for the unpaid portion of all remaining installment payments is the due date (determined without regard to any extension of time for filing) for filing the individual's return for the taxable year in which the individual dies.

3. Acceleration Events Applicable to Trusts and Estates

Proposed § 1.1062–3(b)(1)(iii) would provide in part that, in the case of a taxpayer that is a non-grantor trust or a decedent's estate, a liquidation or sale, exchange, or other disposition of substantially all the assets of the taxpayer (including in a title 11 or similar case) is an acceleration event. Proposed § 1.1062–3(b)(2)(iii) would provide that, in the case of such an acceleration event, the due date for the unpaid portion of all remaining installment payments is the date of the acceleration event (or, in a title 11 or similar case, the day before the petition is filed).

As described in part III.A.2 of this Explanation of Provisions, under proposed § 1.1062–2(a)(2)(ii), a non-grantor trust or a decedent's estate that passes through some but not all the gain with respect to a qualified sale or exchange may make a section 1062 election with respect to its entity-level applicable net tax liability, and a beneficiary may make a section 1062 election with respect to the beneficiary's applicable net tax liability. In that case, the non-grantor trust or decedent's estate is treated as a separate taxpayer from the beneficiary for purposes of section 1062. Thus, the death of the individual beneficiary would be an acceleration event for that individual's remaining unpaid applicable net tax liability, but it would not be an acceleration event for the trust's or decedent's estate's remaining unpaid applicable net tax liability. Similarly, the termination of the trust or decedent's estate would be an acceleration event for the trust or decedent's estate, but it would not be an acceleration event for any individual beneficiary with an applicable net tax liability prior to the trust's or estate's termination.

As described in part IV.B of this Explanation of Provisions, the eligible section 1062 transferee exception would apply in the case of acceleration due to a trust or estate selling substantially all its assets provided all requirements for the exception are satisfied.

4. Acceleration Events Applicable to C Corporations

Proposed § 1.1062–3(b)(1)(iii) through (vi) would describe acceleration events for a taxpayer that is a C corporation. An acceleration event includes: a liquidation or sale, exchange, or other disposition of substantially all the assets of the taxpayer (including in a title 11 or similar case); a cessation of business by the taxpayer; in the case of a C corporation that is not a member of a consolidated group, the C corporation becoming a member of a consolidated group; and in the case of a C corporation that is a member of a consolidated group, the consolidated group ceasing to exist or otherwise discontinuing to file a consolidated return.

Proposed § 1.1062–1(d) would define the term ''C corporation'' to mean a C corporation as defined in section 1361(a)(2) of the Code. This definition would include any corporation operating on a cooperative basis. Proposed § 1.1062–1(s) would define the term ''S corporation'' to mean an S corporation as defined in section 1361(a)(1). Additionally, proposed § 1.1062–3(a) would provide that if an S corporation has an applicable net tax liability or a remaining unpaid applicable net tax liability at the entity-level, then the S corporation is treated as a C corporation for purposes of determining whether there is an acceleration event. Accordingly, if an S corporation previously was a C corporation, and the S corporation makes an entity-level section 1062 election with respect to an applicable net tax liability from gain on a qualified sale or exchange that is subject to tax under section 1374, then the S corporation is treated as a C corporation for purposes of determining whether there is an acceleration event with respect to that applicable net tax liability. Additionally, if a C corporation makes a section 1062 election, and if the C corporation subsequently elects to be taxed as an S corporation under section 1362(a) of the Code while there is a remaining unpaid applicable net tax liability, the S corporation is treated as a C corporation for purposes of determining whether there is an acceleration event with respect to that remaining unpaid applicable net tax liability.

Proposed § 1.1062–3(b)(2)(iii) would provide that, in the case of an acceleration event described in proposed § 1.1062–3(b)(1)(iii) through (vi), the due date for the unpaid portion of all remaining installment payments is the date of the acceleration event (or, in a title 11 or similar case, the day before the petition is filed). As described in part IV.B of this Explanation of Provisions, the eligible section 1062 transferee exception would apply in the case of acceleration due to a C corporation selling substantially all its assets provided all requirements for the exception are satisfied.

B. Eligible Section 1062 Transferee Exception

1. In General

Proposed § 1.1062–3(c)(1) would provide that the acceleration rules described in part IV.A of this Explanation of Provisions do not apply if the acceleration event is a sale of substantially all the assets of the eligible section 1062 transferor, and the eligible section 1062 transferor and the eligible section 1062 transferee enter into an agreement (transfer agreement) that satisfies the requirements set forth in proposed § 1.10623(c)(2). Proposed § 1.1062–1(i) would define the term ''eligible section 1062 transferor'' to mean a C corporation, trust, or estate that makes a section 1062 election, and with respect to which an acceleration event has occurred. Proposed § 1.1062–1(g) would define the term ''eligible section 1062 transferee'' to mean a single (that is, one) United States person that is not a partnership or an S corporation, a debtor in a title 11 or similar case, or insolvent (within the meaning of section 108(d)(3) of the Code). Section 1062 generally does not view partnerships and S corporations as taxpayers. *See* section 1062(c)(2). In this regard, since the statute treats an assumption of a section 1062 liability as though the obligor itself (in this case, a partnership or S corporation) incurred the liability, excluding partnerships and S corporations from the definition of an eligible section 1062 transferee is consistent with statute's intent—that is, partnerships and S corporations are generally not entities eligible to incur a section 1062 liability.

2. Transfer Agreement

Proposed § 1.1062–3(c)(2)(i) would require a transfer agreement to be entered into by an eligible section 1062 transferor and an eligible 1062 transferee by timely filing a Form 1062–T, *Transfer Agreement Under Section 1062(b)(2)(C),* or in any other manner prescribed in guidance published in the Internal Revenue Bulletin or in forms and instructions. Proposed § 1.1062–3(c)(2)(iv) would set forth the items required to be included in the transfer agreement.

Proposed § 1.1062–3(c)(2)(ii)(A) generally would require the transfer agreement to be filed by both the eligible section 1062 transferor and the eligible section 1062 transferee on or before the date that is 30 days after the date of the acceleration event with respect to which the transfer agreement is entered into, with two exceptions. First, proposed § 1.1062–3(c)(2)(ii)(B) would provide that, if an acceleration event occurs prior to the date the taxpayer makes a section 1062 election, the transfer agreement with respect to that acceleration event will be timely filed if the eligible section 1062 transferor files the transfer agreement simultaneously with its section 1062 election. Second, proposed § 1.1062–3(c)(2)(ii)(C) would provide that, if an acceleration event occurs prior to the date of publication of final regulations under section 1062 in the **Federal Register**, the transfer agreement with respect to that acceleration event will be treated as timely filed if it is filed within 30 days after the date of publication of final regulations under section 1062 in the **Federal Register**.

Proposed § 1.1062–3(c)(2)(iii) would require the transfer agreement to be signed under penalties of perjury by both a person who is authorized to sign a return on behalf of the eligible section 1062 transferor, and a person who is authorized to sign a return on behalf of the eligible section 1062 transferee. With respect to consolidated groups, proposed § 1.1062–2(a)(2)(iii) would require the agent for the group to enter into any transfer agreement.

3. Consent of Commissioner

Proposed § 1.1062–3(c)(3)(i) would provide that, if an eligible section 1062 transferor and an eligible section 1062 transferee file a transfer agreement satisfying the requirements of proposed § 1.1062–3(c)(2), the eligible section 1062 transferee will be considered to have entered into an agreement with the Commissioner for purposes of proposed § 1.1062–3(c). If the Commissioner determines that additional information (for example, additional information regarding the ability of the eligible section 1062 transferee to fully pay the remaining applicable net tax liability) is necessary, the eligible section 1062 transferee would be required to provide that information upon request.

However, proposed § 1.1062–3(c)(3)(ii) would provide what could occur if the Commissioner determines that a transfer agreement contains a material misrepresentation or material omission, or if the eligible section 1062 transferee does not provide any additional information requested by the Commissioner within a time frame communicated by the Commissioner to the eligible section 1062 transferee. The Commissioner either may reject the transfer agreement (effective as of the date of the related acceleration event), or determine that an acceleration event has occurred with respect to the eligible section 1062 transferee as of the date of the Commissioner's determination that a transfer agreement contains a material misrepresentation or material omission (such that any unpaid installment payments become due on that date).

4. Effect of Assumption

Proposed § 1.1062–3(c)(4)(i) would provide that, if the eligible section 1062 transferee exception applies with respect to an acceleration event, the eligible section 1062 transferee assumes all outstanding obligations and responsibilities of the eligible section 1062 transferor with respect to the applicable net tax liability as though the eligible section 1062 transferee had included the gain from the qualified sale or exchange in that transferee's income. Accordingly, the eligible section 1062 transferee is responsible for making payments and reporting with respect to any unpaid installment payments of the eligible section 1062 transferor.

Proposed § 1.1062–3(c)(4)(ii) would provide that, if an acceleration event described in proposed § 1.1062–3(b)(1)(iii) through (vi) subsequently occurs with respect to an eligible section 1062 transferee, any unpaid installment payments of the eligible section 1062 transferor that were assumed by the eligible section 1062 transferee will become due on the date provided in proposed § 1.1062–3(b)(2)(iii).

Proposed Applicability Date

These regulations are proposed to apply to qualified sales and exchanges occurring in taxable years ending after the date these final regulations are published in the **Federal Register**. Taxpayers may rely on these proposed regulations under section 1062 with respect to qualified sales or exchanges that occur in a taxable year beginning after July 4, 2025, and ending on or before the date these regulations are published as final regulations in the **Federal Register**, provided that the taxpayers comply with these proposed regulations in their entirety and in a consistent manner.

Special Analyses

I. Regulatory Planning and Review—Economic Analysis

These proposed regulations are not subject to review under section 6(b) of Executive Order 12866 pursuant to the Memorandum of Agreement (July 4, 2025) between the Treasury Department and the Office of Management and Budget (OMB) regarding review of tax regulations.

II. Paperwork Reduction Act

The Paperwork Reduction Act of 1995 (44 U.S.C. 3501–3520) (PRA) generally requires that a Federal agency obtain the approval of the OMB before collecting information from the public, whether that collection of information is mandatory, voluntary, or required to obtain or retain a benefit. An agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless it displays a valid control number assigned by the OMB.

The recordkeeping requirements mentioned within these proposed regulations are considered general tax records under section 6001 of the Code. A taxpayer would use these records to establish its eligibility for the section 1062 election or the eligible section 1062 transferee exception. These records are required for the IRS to validate that taxpayers have met the regulatory requirements and are required as proof of their qualification for the section 1062 election. For PRA purposes, general tax records are already approved by OMB under 1545–0047 for tax-exempt organization filers, 1545–0074 for individual filers, 1545–0092 for estate and trust filers, and 1545–0123 for business filers. These proposed regulations are not changing this already approved OMB collection.

The collections of information in these proposed regulations include reporting, third-party disclosure, and recordkeeping requirements that are necessary to ensure that taxpayers qualify for the section 1062 election. The reporting requirements in these proposed regulations would include providing a copy of the section 1062 covenant found in § 1.1062–1(o)(1)(ii), and listing the information required to make a section 1062 election in § 1.1062–2(b)(1). Section 1.1062–2(b)(2) also would require a pass-through entity to provide information regarding the qualified sale or exchange to the IRS and its owners or beneficiaries and a copy of the section 1062 covenant to its owners or beneficiaries. The collections will be used by the IRS for tax compliance purposes and by taxpayers to ensure they qualify for the section 1062 election. The burden for these requirements will be approved by OMB, in accordance with 5 CFR 1320.10, under OMB control numbers 1545–0047 for tax-exempt organization filers, 1545–0074 for individual filers, 1545–0092 for estate and trust filers, and 1545–0123 for business entities.

In addition, proposed § 1.1062–3(c)(2) contains collection of information and reporting requirements for an eligible section 1062 transferor and an eligible section 1062 transferee. The collections of information in proposed § 1.1062–3(c)(2)(iii) and (iv) include reporting, third-party disclosure, and recordkeeping requirements that are necessary to ensure that taxpayers qualify for the eligible section 1062 transferee exception set forth in proposed § 1.1062–3(c). These collections will be used by the IRS for tax compliance purposes and by taxpayers to ensure they qualify for the eligible section 1062 transferee exception.

The IRS is soliciting feedback on the collection requirements for the eligible section 1062 transferee exception. The IRS anticipates that the likely respondents for the eligible section 1062 transferee exception are C corporations, trusts, and estates.

Estimated number of respondents: 1,030.

Estimated average annual burden per respondent: 3 hours, 12 minutes.

Estimated total annual reporting burden: 3,296 hours.

The collections contained in this notice of proposed rulemaking with respect to the eligible section 1062 transferee exception have been submitted to the OMB for review in accordance with the PRA under OMB Control Number 1545–NEW. Commenters are strongly encouraged to submit public comments electronically. Written comments and recommendations for the proposed information collection should be sent to *https://www.reginfo.gov/public/do/PRAMain,* with copies to the IRS. Find this particular information collection by selecting ''Currently under Review—Open for Public Comments'' then by using the search function. Submit electronic submissions for the proposed information collection to the IRS via email at *pra.comments@irs.gov* (indicate REG–117095–25 on the Subject line). Comments on the collection of information should be received by November 30, 2026.

Comments are specifically requested concerning: (i) Whether the proposed collection of information is necessary for the proper performance of the functions of the IRS, including whether the information will have practical utility; (ii) the accuracy of the estimated burden associated with the proposed collection of information; (iii) how the quality, utility, and clarity of the information to be collected may be enhanced; (iv) how the burden of complying with the proposed collection of information may be minimized, including through the application of automated collection techniques or other forms of information technology; and (v) estimates of capital or start-up costs and costs of operation, maintenance, and purchase of services to provide information.

III. Regulatory Flexibility Act

It is hereby certified that these proposed regulations would not have a significant economic impact on a substantial number of small entities pursuant to the Regulatory Flexibility Act (5 U.S.C. chapter 6). The proposed rule would affect any entity electing to pay in installments the tax on the gain from the sale or exchange of qualified farmland property to an individual qualified farmer. Qualified farmland property is defined as real property located in the United States, that for substantially all of the prior 10-year period, has been used by the taxpayer as a farm for farming purposes or has been leased by the taxpayer to a qualified farmer for farming purposes and is subject to a section 1062 covenant. This election is voluntary.

Based on 2022 U.S. Census Bureau data, the Small Business Administration Office of Advocacy published a 2025 Small Business Profile showing there are more than 36.2 million U.S. small businesses. Based on filing data for the 2023 taxable year, the Treasury Department and the IRS estimate that approximately 1.9 million small entities may qualify to make the election under section 1062, but likely less will be impacted because this provision applies solely to entities that sell or exchange qualified farmland property to an individual qualified farmer during the taxable year. Based on the current data, the proposed regulations will not affect a substantial number of small entities. Further, the economic impact of the proposed regulations is not likely to be significant. Although a small business entity must complete and file additional forms to make a section 1062 election, the estimated time and cost burden per affected entity for completing and filing this election is $237.40 or 8.45 hours. Furthermore, the election is voluntary, and the small entity will economically benefit by making the election because it may defer the payment of tax on the gain from the sale or exchange of qualified farmland property over a four-year period. Thus, the economic impact of these proposed regulations is not likely to be significant.

Notwithstanding this certification, the Treasury Department and the IRS welcome comments on the impact of these proposed regulations on small entities.

IV. Submission to the Small Business Administration

Pursuant to section 7805(f) of the Code, the proposed regulations will be submitted to the Chief Counsel for the Office of Advocacy of the Small Business Administration for comment on their impact on small business.

V. Unfunded Mandates Reform Act

Section 202 of the Unfunded Mandates Reform Act of 1995 requires that agencies assess anticipated costs and benefits and take certain other actions before issuing a final rule that includes any Federal mandate that may result in expenditures in any one year by a State, local, or Tribal government, in the aggregate, or by the private sector, of $100 million in 1995 dollars, updated annually for inflation. These proposed regulations do not include any Federal mandate that may result in expenditures by State, local, or Tribal governments, or by the private sector, in excess of that threshold.

VI. Executive Order 13132: Federalism

Executive Order 13132 (Federalism) prohibits an agency from publishing any rule that has federalism implications if the rule either imposes substantial, direct compliance costs on State and local governments, and is not required by statute, or preempts State law, unless the agency meets the consultation and funding requirements of section 6 of the Executive order. These proposed regulations do not have federalism implications, do not impose substantial direct compliance costs on State and local governments, and do not preempt State law within the meaning of the Executive order.

Comments and Requests for a Public Hearing

Before these proposed regulations are adopted as final regulations, consideration will be given to any comments that are submitted timely to the IRS as prescribed in the preamble under the **ADDRESSES** heading. The Treasury Department and the IRS request comments on all aspects of the proposed regulations. Any comments submitted will be made available at *https://www.regulations.gov* or upon request.

A public hearing will be scheduled if requested in writing by any person that timely submits electronic or written comments. Requests for a public hearing also are encouraged to be made electronically. If a public hearing is scheduled, notice of the date and time for the public hearing will be published in the **Federal Register**.

Statement of Availability of IRS Documents

IRS announcements and revenue rulings cited in this preamble are published in the Internal Revenue Bulletin and are available from the Superintendent of Documents, U.S. Government Publishing Office, Washington, DC 20402, or by visiting the IRS website at *https://www.irs.gov.*

Drafting Information

The principal author of these proposed regulations is Chiyun Lee, Office of Associate Chief Counsel (Income Tax and Accounting). However, 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.

Proposed Amendments to the Regulations

Accordingly, the Treasury Department and the IRS propose to amend 26 CFR part 1 as follows:

PART 1—INCOME TAXES

■ **Paragraph 1.** The authority citation for part 1 is amended by adding entries for §§ 1.1062–0 through 1.1062–3 in numerical order to read in part as follows:

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

* * * * *

Section 1.1062–1 also issued under 26 U.S.C. 1062.

Section 1.1062–2 also issued under 26 U.S.C. 1062(c)(2).

Section 1.1062–3 also issued under 26 U.S.C. 1502.

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■ **Par. 2.** Sections 1.1062–0 through 1.1062–3 are added to read as follows:

Sec.

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§ 1.1062–0 Table of contents.

This section lists the major captions contained in §§ 1.1062–1 through 1.1062–3.

§ 1.1062–1 Section 1062 general rules and definitions.

(a) *Scope.* Section 1062(a) of the Internal Revenue Code (Code) allows a taxpayer that recognizes gain from the sale or exchange of qualified farmland property to a qualified farmer to make a section 1062 election to pay in four equal annual installments the portion of the taxpayer's net income tax for the taxable year of the qualified sale or exchange that is equal to the taxpayer's applicable net tax liability. Paragraphs (b) through (w) of this section set forth general rules and define terms for purposes of this section and §§ 1.1062–2 and 1.1062–3, and paragraph (x) of this section contains examples. Section 1.1062–2 provides rules regarding eligibility for and making a section 1062 election, paying the installments, and other special rules. Section 1.1062–3 provides rules regarding events that may result in the acceleration of the unpaid portion of all remaining installment payments.

(b) *Acceleration event.* The term *acceleration event* means an event described in § 1.1062–3(b)(1).

(c) *Applicable net tax liability.* The term *applicable net tax liability* means an amount described in § 1.1062–2(d).

(d) *C corporation.* The term *C corporation* means a C corporation as defined in section 1361(a)(2) of the Code.

(e) *Commissioner.* The term *Commissioner* means the Commissioner of Internal Revenue or the Commissioner's delegate.

(f) *Consolidated group; member.* The term *consolidated group* means a consolidated group as defined in § 1.1502–1(h). The term *member* means a member (within the meaning of § 1.1502–1(b)) of a consolidated group.

(g) *Eligible section 1062 transferee.* The term *eligible section 1062 transferee* means a single United States person, as defined in section 7701(a)(30) of the Code, that is not—

(1) A partnership or an S corporation;

(2) A debtor in a case under title 11 of the United States Code or a similar case (title 11 or similar case); or

(3) Insolvent (within the meaning of section 108(d)(3) of the Code).

(h) *Eligible section 1062 transferee exception.* The term *eligible section 1062 transferee exception* means the exception described in § 1.1062–3(c)(1).

(i) *Eligible section 1062 transferor.* The term *eligible section 1062 transferor* means a C corporation, trust, or estate—

(1) That makes a section 1062 election; and

(2) With respect to which an acceleration event has occurred.

(j) *Farm.* The term *farm* means a farm as defined in section 2032A(e)(4) of the Code.

(k) *Farming purposes.* The term *farming purposes* means farming purposes as defined in section 2032A(e)(5).

(l) *Net income tax.* The term *net income tax* means the taxpayer's regular tax liability (as defined in section 26(b) of the Code) reduced by the credits allowed under subparts A, B, and D of part IV of subchapter A of chapter 1 of the Code.

(m) *Pass-through entity.* The term *pass-through entity* means a partnership, an S corporation, or any other person other than a C corporation if any of the person's gain from a qualified sale or exchange may be included in the income of one or more direct or indirect owners or beneficiaries of the person. If an entity other than a C corporation is subject to Federal income tax on a portion of the gain from a qualified sale or exchange and its owners or beneficiaries are subject to tax on the remaining portion, the entity is treated as a pass-through entity, and both the person and each owner or beneficiary of the person may make the election under section 1062 with regard to their respective shares of that gain.

(n) *Prior 10-year period.* The term *prior 10-year period* means the 10-year period ending on the date of the qualified sale or exchange.

(o) *Qualified farmland property*—(1) *In general.* The term *qualified farmland property* means real property located in the United States, as defined in section 7701(a)(9), that—

(i) During substantially all of the prior 10-year period—

(A) Has been used by the taxpayer as a farm for farming purposes; or

(B) Has been leased by the taxpayer to a qualified farmer for farming purposes; and

(ii) Is subject to a section 1062 covenant that is attached to the taxpayer's Federal income tax return (return) for the relevant taxable year.

(2) *Certain periods of non-use disregarded.* If all necessary functions, such as land management activities (for example, protecting the soil from erosion), continue to be performed to maintain real property for farming purposes, real property will not fail to be considered as real property described in paragraph (o)(1)(i)(A) or (B) of this section, as applicable, during periods in which—

(i) The real property is taken out of production pursuant to a Federal, State, Tribal, or local government program;

(ii) The real property is taken out of production pursuant to recognized good farming practices (for example, laying fallow or conditioning the soil); or

(iii) The real property is taken out of production due to unforeseen events caused by factors outside the taxpayer's control, such as natural disasters.

(3) *Certain acquisitions of qualified farmland property during the prior 10-year period.* If the taxpayer acquired the real property during the prior 10-year period under circumstances described in any of paragraphs (o)(3)(i) through (iii) of this section, the taxpayer may count any period described in paragraphs (o)(3)(i) through (iii) of this section, as applicable, toward the taxpayer's satisfaction of the requirement described in paragraph (o)(1)(i) of this section.

(i) If the taxpayer acquired the real property in a transaction in which the taxpayer's holding period for the real property is determined under section 1223(1) of the Code, the taxpayer may include the period during the prior 10-year period for which the taxpayer—

(A) Used the real property exchanged as a farm for farming purposes; or

(B) Leased the real property exchanged to a qualified farmer for farming purposes.

(ii) If the taxpayer acquired the real property in a transaction in which the taxpayer's holding period for the real property is determined under section 1223(2), the taxpayer may include the period during the prior 10-year period in which the other person—

(A) Used the real property as a farm for farming purposes; or

(B) Leased the real property to a qualified farmer for farming purposes.

(iii) If the taxpayer acquired the real property by reason of a decedent's death, the taxpayer may include the period during the prior 10-year period in which the decedent—

(A) Used the real property as a farm for farming purposes; or

(B) Leased the real property to a qualified farmer for farming purposes.

(4) *Certain residential real property.* For purposes of this paragraph (o), residential buildings and related improvements (as described in section 2032A(e)(3), substituting the requirements of section 1062(d) for the requirements under section 2032A(b)(1)(C)) are considered to be used or leased by the taxpayer for farming purposes.

(5) *Real property partially used or leased for farming purposes.* For purposes of this paragraph (o), if only a portion of the real property is used or leased for farming purposes, only that portion of the real property is considered to be qualified farmland property.

(6) *Portion of real property covered by covenant.* For purposes of this paragraph (o), if only a portion of the real property is subject to a section 1062 covenant, only the portion of the real property that is subject to the section 1062 covenant that is attached to the taxpayer's return for the relevant taxable year is considered to be qualified farmland property.

(7) *Real property used or leased by a pass-through entity*—(i) *Use of qualified farmland property by a pass-through entity.* For purposes of this paragraph (o), real property used or leased by a pass-through entity in a manner described in proposed paragraph (o)(1)(i) of this section during any period is considered used or leased in such manner by each person who holds a direct or indirect beneficial or equity interest in that pass-through entity during such period. A person who holds a direct or indirect beneficial or equity interest in the pass-through entity for only a portion of such period is considered to use or lease the property in a manner described in proposed paragraph (o)(1)(i) only during such portion of the period.

(ii) *Sale or exchange by a pass-through entity.* In the case of a sale or exchange of real property by a pass-through entity, the determination of whether the real property is qualified farmland property must be made separately by each person who holds a direct or indirect beneficial or equity interest in that pass-through entity.

(8) *Real property.* For purposes of this section, the term real property has the meaning provided in § 1.1031(a)–3(a).

(p) *Qualified farmer*—(1) *In general.* A qualified farmer is an individual who is actively engaged in farming within the meaning of 7 U.S.C. 1308–1(b) and (c).

(2) *Plan or arrangement.* The term qualified farmer does not include an individual if, pursuant to a plan or an arrangement between the seller, buyer, and a third party existing at the time of a sale or exchange of qualified farmland property to that individual, the qualified farmland property subsequently is transferred to a person who is neither—

(i) A related person within the meaning of section 267(b) or section 707(b)(1) of the Code with respect to that individual; nor

(ii) A qualified farmer.

(q) *Qualified sale or exchange.* The term *qualified sale or exchange* means a sale or exchange of qualified farmland property to a qualified farmer.

(r) *Relevant taxable year.* The term *relevant taxable year* means the taxable year of the qualified sale or exchange.

(s) *S corporation.* The term *S corporation* means an S corporation as defined in section 1361(a)(1) of the Code.

(t) *Section 1062 covenant*—(1) *In general.* With respect to real property, the term *section 1062 covenant* means a covenant or other legally enforceable restriction that—

(i) Prohibits the use of the real property other than as a farm for farming purposes for any period before the date that is 10 years after the date of the sale or exchange of the real property;

(ii) Is executed prior to or contemporaneously with the closing of the sale or exchange;

(iii) Is recorded in the land records office of the jurisdiction in which the real property is located prior to or contemporaneously with the filing of the deed of transfer of the real property;

(iv) Is enforceable against the buyer and all future owners of the real property prior to or beginning with the date of the sale or exchange of the real property; and

(v) Does not cease to be enforceable against the buyer and all future owners of the real property on a date earlier than the date that is 10 years after the date of the sale or exchange.

(2) *Other legally enforceable restrictions.* The term *section 1062 covenant* includes an easement or other interest in real property that, under applicable law, has attributes similar to a covenant (for example, an equitable servitude).

(u) *Section 1062 election.* The term *section 1062 election* means the election described in § 1.1062–2(a).

(v) *Specified individual.* The term *specified individual* means a person described in § 1.6081–5(a)(5) or (6) who receives an extension of time under § 1.60815(a) for filing a return and for paying any tax shown on the return for the taxable year.

(w) *Transfer agreement.* The term *transfer agreement* has the meaning provided in § 1.1062–3(c)(2).

(x) *Examples.* The following examples illustrate the application of the rules of this section.

(1) *Example 1: Certain periods of non-use disregarded*—(i) *Facts.* Individual J has gain from the sale of real property that is subject to a section 1062 covenant, which J attached to J's return for the relevant taxable year. During the prior 10-year period, J used the real property to grow crops during the spring and summer growing seasons. During the nonproducing seasons, J performs all necessary functions to maintain the real property for farming purposes. In addition, during that prior 10-year

period, J left the real property fallow every third year as part of J's crop rotation strategy to restore soil fertility, conserve moisture, and prevent pests and diseases. During those periods in which the real property has been left fallow, J performs all necessary functions to maintain the real property for farming purposes.

(ii) *Analysis.* To determine whether the real property has been used as a farm for farming purposes during substantially all of the prior 10-year period for purposes of paragraph (o)(1)(i) of this section, J may include both the nonproducing seasons and the fallow periods because J has performed all necessary functions to maintain the real property for farming purposes. Because the real property is subject to a section 1062 covenant (which J attaches to J's return for the relevant taxable year) and has been used as a farm for farming purposes during substantially all of the prior 10-year period, pursuant to paragraph (o)(2)(ii) of this section, the real property qualifies as qualified farmland property.

(2) *Example 2: Certain acquisitions of qualified farmland property during the prior 10-year period*—(i) *Facts.* Individual K uses Property A as a farm for farming purposes for six years. K exchanges Property A for Property B in an exchange qualifying under section 1031 of the Code. K uses Property B as a farm for farming purposes for an additional four years before selling Property B to a qualified farmer at a gain. Property B is subject to a section 1062 covenant (which K attaches to K's return for the relevant taxable year).

(ii) *Analysis.* To determine whether Property B has been used as a farm for farming purposes during substantially all of the prior 10-year period for purposes of paragraph (o)(1)(i) of this section, K may include the period during which K used Property A as a farm for farming purposes. Because Property B is subject to a section 1062 covenant (which K attaches to K's return for the relevant taxable year) and has been used as a farm for farming purposes during substantially all of the prior 10-year period, pursuant to paragraph (o)(3)(i) of this section, Property B qualifies as qualified farmland property.

(3) *Example 3: Qualified farmer's acquisition through a disregarded entity*—(i) *Facts.* Individual N is a qualified farmer who operates his farming business through Y, a limited liability company that is disregarded as an entity separate from N for Federal income tax purposes. Y enters into an agreement to purchase a qualified farmland property (Property C), from Individual O. Y will continue to use Property C for farming purposes after the sale.

(ii) *Analysis.* Because Y is disregarded as an entity separate from N for Federal income tax purposes, Y's purchase of Property C is treated as a purchase by N, who is a qualified farmer. Accordingly, if O otherwise satisfies the requirements to make a section 1062 election, O may make a section 1062 election.

(4) *Example 4: Qualified farmer's subsequent contribution to an S corporation*—(i) *Facts.* The facts are the same as in paragraph (x)(3)(i) of this section (*Example 3*), except that N enters into an agreement to purchase Property C directly from O, and N plans on contributing Property C to P (an S corporation wholly owned by N).

(ii) *Analysis.* N had a plan to contribute Property C to N's wholly owned S corporation P at the time N purchased Property C from O. However, because N will transfer Property C to a related person, the acquisition by N is respected as an acquisition by a qualified farmer pursuant to paragraph (p) of this section.

(5) *Example 5: Failure to attach the section 1062 covenant to the return for the relevant taxable year*—(i) *Facts.* Individual P has owned Property Q, which is real property as defined in paragraph (o)(8) of this section that is located in the United States, and used as a farm for farming purposes for the last eleven years. In year twelve, P sells Property Q, which is subject to a section 1062 covenant, to a qualified farmer. P makes a section 1062 election pursuant to § 1.1062–2(b). However, P fails to attach a copy of the section 1062 covenant to P's return for the relevant taxable year.

(ii) *Analysis.* Paragraph (o)(1)(ii) of this section requires a taxpayer to attach a copy of the section 1062 covenant to the taxpayer's return for the relevant taxable year in order for their real property to constitute qualified farmland property. Because P did not attach a section 1062 covenant to P's return for the relevant taxable year, Property Q is not qualified farmland property.

(y) *Applicability date.* This section applies to qualified sales or exchanges occurring in taxable years ending after [date of publication of final regulations in the **Federal Register**].

§ 1.1062–2 Election to pay in installments tax on the gain from qualified sales or exchanges and other special rules.

(a) *Section 1062 election*—(1) *In general.* In the case of gain from a qualified sale or exchange, a taxpayer may make an election in accordance with the rules of this section to pay in four equal annual installments the portion of the net income tax for the taxable year of the qualified sale or exchange that is equal to the taxpayer's applicable net tax liability.

(2) *Eligible taxpayers*—(i) *In general.* Except as provided in paragraph (a)(2)(iv) of this section, a section 1062 election may be made only by a taxpayer—

(A) With an applicable net tax liability; and

(B) With respect to whom none of the acceleration events described in § 1.10623(b)(1) have occurred after the qualified sale or exchange but before the election is made.

(ii) *Section 1062 election by a pass-through entity.* In the case of a qualified sale or exchange made by a pass-through entity, a partner, shareholder, beneficiary, or other owner of the pass-through entity may make a section 1062 election with respect to the owner's or the beneficiary's applicable net tax liability arising from the qualified sale or exchange. If a pass-through entity has an entity-level applicable net tax liability, the pass-through entity may make a section 1062 election with respect to that tax liability. A section 1062 election by a pass-through entity is made solely with respect to its own applicable net tax liability and is independent from, and has no effect on, a section 1062 election by an owner or a beneficiary of the pass-through entity with respect to that owner's or beneficiary's applicable net tax liability, and vice versa.

(iii) *Section 1062 election by a consolidated group.* If a member of a consolidated group recognizes gain from a qualified sale or exchange, the consolidated group is treated as the taxpayer for purposes of this section and § 1.1062–3. Only the agent for the group (within the meaning of § 1.150277) may make a section 1062 election under this section and enter into any transfer agreement under § 1.10623(c)(2).

(iv) *Exception in the case of certain acceleration events.* A taxpayer that would be eligible to make a section 1062 election but for the occurrence of an acceleration event described in § 1.1062–3(b)(1) that occurs after the sale but before the election is to be made may make the section 1062 election in accordance with this section despite the intervening acceleration event if either—

(A) The acceleration event is the death of the individual as described in § 1.10623(b)(1)(ii); or

(B) The eligible section 1062 transferee exception in § 1.1062–3(c)(1) applies.

(b) *Time and manner of making a section 1062 election*—(1) *In general.* A section 1062 election must be made no later than the due date (including extensions, if any) for filing the taxpayer's return for the relevant taxable year. An eligible taxpayer makes the section 1062 election for the relevant taxable year—

(i) By completing and filing with the taxpayer's return a Form 1062, *Deferral of Tax on Gain from the Sale or Exchange of Qualified Farmland Property to Qualified Farmers* (or successor) and a Schedule A (Form 1062), *Section 1062 Gain From the Sale or Exchange of Qualified Farmland Property to a Qualified Farmer* (or successor); or

(ii) In any other manner prescribed in guidance published in the Internal Revenue Bulletin or in forms and instructions (*see* §§ 601.601(d)(2) and 601.602 of this chapter).

(2) *Pass-through entities.* In the case of a qualified sale or exchange made by a pass-through entity, the rules of this paragraph (b)(2) apply:

(i) In order for a partner, shareholder, beneficiary, or other owner of a pass-through entity to make a section 1062 election with respect to its applicable net tax liability arising from a qualified sale or exchange by a pass-through entity, the pass-through entity—

(A) Must complete and file Schedule A (Form 1062) (or successor) in accordance with its instructions (that is, the entity files only the Schedule A (Form 1062), but not the Form 1062 itself); and

(B) Must provide a copy of its completed Schedule A (Form 1062) (or successor) and the section 1062 covenant to its owners or beneficiaries.

(ii) If a pass-through entity provides a copy of its Schedule A (Form 1062) (or successor) and the section 1062 covenant to an owner that is itself a pass-through entity (upper-tier pass-through entity), the upper-tier pass-through entity must provide a copy of the Schedule A (Form 1062) (or successor) and the section 1062 covenant to its owners, and so on through any additional tiers.

(iii) A pass-through entity must identify and report on the Schedule K–1 issued to its owners or beneficiaries each owner's or beneficiary's allocable share of the gain attributable to the qualified sale or exchange and such other information as may be required by the prescribed forms and the accompanying instructions.

(iv) If a pass-through entity fails to comply with the requirements of paragraphs (b)(2)(i) through (iii) of this section, its owners or beneficiaries will be deemed ineligible to make the section 1062 election with respect to any gain allocated to them by the pass-through entity.

(v) A pass-through entity does not complete or file Form 1062 itself unless the pass-through entity has an entity-level applicable net tax liability and wishes to make a section 1062 election with respect to that tax liability.

(vi) If the requirements of paragraphs (b)(2)(i) through (iii) of this section have been satisfied, a partner, shareholder, beneficiary, or other owner of a pass-through entity makes the section 1062 election by completing and filing Form 1062 (or successor) and Schedule A (Form 1062) (or successor) with its return for the relevant taxable year.

(3) *Revocation of election.* Once made, a section 1062 election may be revoked only by paying the full amount of the remaining unpaid applicable net tax liability.

(c) *Installment payments*—(1) *In general.* Except as provided in paragraph (c)(4) of this section, if a taxpayer makes a section 1062 election, the amount of each installment payment is 25 percent of the applicable net tax liability.

(2) *Due date of installment payments.* Except as provided in paragraph (c)(3) or (4) of this section or § 1.1062–3, if a taxpayer makes a section 1062 election—

(i) The first installment payment is due on the due date (without regard to extensions) for filing the return for the relevant taxable year; and

(ii) Each succeeding installment payment is due on the due date (without regard to extensions) for filing the return for the taxable year following the taxable year with respect to which the previous installment payment was made.

(3) *Extension for specified individuals.* If a taxpayer is a specified individual (as defined under § 1.1062–1(v)) with respect to a taxable year within which an installment payment is due pursuant to paragraph (c)(2) of this section, then, for purposes of determining the due date of an installment payment under paragraph (c)(2) of this section, the due date (without regard to extensions) for filing the return for the taxable year will be treated as the fifteenth day of the sixth month following the close of the prior taxable year.

(4) *Increased installment payments due to a deficiency*—(i) *In general.* Except as provided in paragraph (c)(4)(iii) of this section, if a taxpayer makes a section 1062 election, any deficiency assessed with respect to the taxpayer's applicable net tax liability is prorated to the installment payments described in paragraph (c)(1) of this section.

(ii) *Timing*—(A) *Due date has passed.* If the due date for an installment payment to which a deficiency described in paragraph (c)(4)(i) of this section is prorated has passed, the amount of any deficiency prorated to that installment payment must be paid on notice and demand by the Commissioner.

(B) *Due date has not passed.* If the due date for an installment payment to which the deficiency is prorated has not passed, then that prorated amount is due at the same time as, and as part of, the relevant installment payment.

(iii) *Exception for negligence, intentional disregard, or fraud.* If a deficiency is due to negligence, intentional disregard of rules and regulations, or fraud with intent to evade tax, the proration rule in this paragraph (c)(4) does not apply, and the full amount of the deficiency (as well as any applicable interest and penalties) must be paid on notice and demand by the Commissioner.

(d) *Applicable net tax liability.* With respect to a taxpayer, the amount of applicable net tax liability equals the excess (if any) of—

(1) The taxpayer's net income tax for the relevant taxable year; over

(2) The taxpayer's net income tax for the relevant taxable year determined without regard to the taxpayer's gain that is recognized from the qualified sale or exchange.

(e) *Allocation of basis and amount realized from a sale or exchange of property only a portion of which is qualified farmland property.* For purposes of determining the amount of gain the taxpayer recognizes from a sale or exchange of property, only a portion of which is qualified farmland property, the taxpayer must equitably allocate the taxpayer's cost or other basis and the amount realized between the portion of the property that is qualified farmland property and the portion that is not qualified farmland property.

(f) *Coordination with other provisions.* Only the gain from the qualified sale or exchange that is included in gross income and recognized in the relevant taxable year is used to determine the taxpayer's gain from the qualified sale or exchange. *See* paragraphs (g)(5) and (6) of this section.

(g) *Examples.* The following examples illustrate the application of the rules of this section.

(1) *Example 1: Pass-through entity*—(i) *Facts.* Individuals A and B are the sole members in W, a limited liability company that is classified as a partnership for Federal income tax purposes. Under the organizing agreement for W, A and B share equally in the capital and profits of W. W recognizes gain from a qualified sale or exchange that is allocable equally to A and B. W has no applicable net tax liability with respect to that gain, but A and B each has an applicable net tax liability with respect to their distributive shares of that gain. W complies with the requirements of paragraphs (b)(2)(i) through (iii) of this section.

(ii) *Analysis.* Pursuant to paragraph (a)(2)(ii) of this section, because W has no applicable net tax liability with respect to the qualified sale or exchange, W may not make a section 1062 election. However, because A and B each has an applicable net tax liability with respect to the qualified sale or exchange, A and B each separately may choose to make a section 1062 election with respect to their distributive shares of W's recognized gain.

(2) *Example 2: Tiered pass-through entities*—(i) *Facts.* C is a C corporation and D is an S corporation. C and D are the sole members in V, a limited liability company that is classified as a partnership for Federal income tax purposes. Individuals E and F are the sole shareholders of D. Under the organizing agreement for V, C and D share equally in the capital and profits of V. V recognizes gain from a qualified sale or exchange that is allocable equally to C and D. E and F each take into account a pro rata share of the gain from the qualified sale or exchange that is allocated to D. Neither V nor D has any applicable net tax liability with respect to the gain recognized from the qualified sale or exchange. However, C, E, and F each has an applicable net tax liability with respect to their respective shares of the gain recognized by V from the qualified sale or exchange. V and D each comply with the requirements of paragraphs (b)(2)(i) through (iii) of this section.

(ii) *Analysis.* Pursuant to paragraph (a)(2)(ii) of this section, because V and D have no applicable net tax liability with respect to the qualified sale or exchange, neither V nor D may make a section 1062 election. However, because C, E, and F each has an applicable net tax liability with respect to the qualified sale or exchange, they each separately may choose to make a section 1062 election with respect to their respective shares of V's recognized gain.

(3) *Example 3: Pass-through entity subject to entity-level tax*—(i) *Facts.* Individuals G and H are the sole shareholders of R, an S corporation that previously was a C corporation. At the time of its conversion to an S corporation, R owned assets with a net unrealized built-in gain (as defined in section 1374(d)(2) of the Code), including a parcel of qualified farmland property. Within the recognition period (as defined in section 1374(d)(7)), R sells the qualified farmland property in a qualified sale or exchange and recognizes gain. Under section 1374, R is subject to an entity-level tax with respect to a portion of the gain recognized from its qualified sale or exchange. As a result, R has an applicable net tax liability with respect to the gain that is subject to tax under section 1374. G and H each takes into account a pro rata share of the remaining portion of net gain from the qualified sale or exchange and has an applicable net tax liability with regard to their pro rata shares of R's items attributable to the qualified sale or exchange. R complies with the requirements of paragraphs (b)(2)(i) through (iii) of this section.

(ii) *Analysis.* Pursuant to paragraph (a)(2)(ii) of this section, because R has an applicable net tax liability with respect to part of the gain from the qualified sale or exchange, R may make a section 1062 election with respect to that applicable net tax liability. Whether R makes a section 1062 election has no effect on the application of section 1062 to G and H. Thus, G and H separately may choose to make a section 1062 election with respect to their applicable net tax liabilities.

(4) *Example 4: Death of the individual after the qualified sale or exchange but before the section 1062 election is made*—(i) *Facts.* Individual Q, a calendar year taxpayer, has an applicable net tax liability from a qualified sale or exchange in Year X. Q passes away shortly thereafter in January of the following taxable year, Year Y, prior to the due date for making an election and before Q makes a section 1062 election.

(ii) *Analysis.* Year X is the relevant taxable year. The death of Q is an acceleration event as described in § 1.1062–3(b)(1)(ii). However, pursuant to paragraph (a)(2)(iv) of this section, Q's personal representative may make the section 1062 election on Q's return for Year X by the due date of Q's return if the requirements to make a section 1062 election are otherwise satisfied. Further, because Q's death is an acceleration event described in § 1.1062–3(b)(1)(ii), the remaining amount of the unpaid applicable net tax liability will be due on the due date (without regard to extensions) of the Year Y return.

(5) *Example 5: Coordination with section 453*—(i) *Facts.* Corporation L owns qualified farmland property with a basis of $100x. L sells the qualified farmland property to a qualified farmer for $500x in a qualified sale or exchange. L will receive equal payments of $100x from the qualified farmer over five years, together with adequate stated interest, and will recognize gain pursuant to the installment method under section 453 of the Code. L receives the first payment of $100x in the relevant taxable year, of which $80x is recognized as gain from the qualified sale or exchange in the relevant taxable year.

(ii) *Analysis.* Pursuant to paragraph (f) of this section, only the gain from the qualified sale or exchange that is included in gross income and recognized in the relevant taxable year is used to determine L's gain from the qualified sale or exchange. Under section 453, L's gain from the qualified sale or exchange in the relevant taxable year is $80x. Accordingly, only $80x of gain is used to determine L's gain from the qualified sale or exchange. No section 1062 election is available with respect to any net tax liability attributable to the remaining $320x ($400x − $80x) of L's gain that is deferred to a taxable year other than the relevant taxable year.

(6) *Example 6: Coordination with section 121*—(i) *Facts.* Individual M and M's spouse realize $1,000x of gain from a qualified sale or exchange. The qualified farmland property includes a farmhouse that is described in section 2032A(e)(3) (without regard to the requirements under section 2032A(b)(1)(C)). M and M's spouse file a joint return for the relevant taxable year and determine that $300x of the gain is attributable to the farmhouse and is excluded from gross income under section 121 of the Code.

(ii) *Analysis.* Pursuant to paragraph (f) of this section, only the gain from the qualified sale or exchange that is included in gross income and recognized in the relevant taxable year is used to determine the couple's gain from the qualified sale or exchange. Because $300x of the couple's gain from the qualified sale or exchange is excluded from their gross income under section 121, only $700x of gain is used to determine their gain from the qualified sale or exchange.

(h) *Applicability date.* This section applies to qualified sales or exchanges occurring in taxable years ending after [date of publication of final regulations in the **Federal Register**].

§ 1.1062–3 Acceleration of payments.

(a) *Acceleration of remaining installment payments.* If a taxpayer makes a section 1062 election, and if an acceleration event subsequently occurs with respect to that taxpayer, the due date for the unpaid portion of all remaining installment payments is accelerated as provided in paragraph (b)(2) of this section unless the eligible section 1062 transferee exception provided in paragraph (c) of this section applies. For purposes of paragraph (b) of this section, an S corporation is treated as a C corporation if it has an applicable net tax liability or a remaining unpaid applicable net tax liability at the entity-level.

(b) *Acceleration events*—(1) *In general.* The following events are acceleration events for purposes of paragraph (a) of this section with respect to a taxpayer that has made a section 1062 election—

(i) The assessment of an addition to tax for the failure to timely pay an installment described in § 1.1062–2(c)(1);

(ii) In the case of a taxpayer that is an individual, the death of that individual;

(iii) In the case of a taxpayer that is a C corporation, a trust, or an estate, a liquidation, dissolution, termination, or sale, exchange, distribution, or other disposition of substantially all the assets of the taxpayer (including in a title 11 or similar case);

(iv) In the case of a taxpayer that is a C corporation, a cessation of business by the taxpayer;

(v) In the case of a taxpayer that is a C corporation and is not a member of a consolidated group, the C corporation becoming a member of a consolidated group;

(vi) In the case of a taxpayer that is a C corporation and a member of a consolidated group, the consolidated group ceasing to exist or otherwise discontinuing to file a consolidated return; and

(vii) In the case of a taxpayer that is a C corporation, a trust, or an estate, a determination by the Commissioner described in paragraph (c)(3)(ii)(A) of this section.

(2) *Due date of remaining installment payments.* The due date for the unpaid portion of all remaining installment payments is—

(i) In the case of an acceleration event described in paragraph (b)(1)(i) of this section, the date on which the addition to tax for failure to timely pay the installment payment is assessed;

(ii) In the case of an acceleration event described in paragraph (b)(1)(ii) of this section, the due date (without regard to extensions) for filing the return for the taxable year in which the individual dies; and

(iii) In the case of an acceleration event described in paragraphs (b)(1)(iii) through (vii) of this section, the date of the acceleration event (or, in a title 11 or similar case, the day before the petition is filed).

(3) *Consolidated groups.* Paragraphs (b)(1)(iii) and (iv) of this section apply to a consolidated group by treating the group as a single taxpayer. *See* § 1.1062–2(a)(2)(iii).

(c) *Eligible section 1062 transferee exception*—(1) *In general.* Paragraph (a) of this section will not apply to accelerate the unpaid portion of all remaining installment payments of a taxpayer with respect to which an acceleration event occurs if—

(i) The acceleration event is a sale of substantially all the assets of the eligible section 1062 transferor; and

(ii) The eligible section 1062 transferor and the eligible section 1062 transferee enter into a transfer agreement that satisfies the requirements of paragraph (c)(2) of this section.

(2) *Transfer agreement*—(i) *Manner of making transfer agreement.* A transfer agreement must be entered into by an eligible section 1062 transferor and an eligible section 1062 transferee—

(A) By both the eligible section 1062 transferor and the eligible section 1062 transferee timely filing a Form 1062–T, *Transfer Agreement Under Section 1062(b)(2)(C)* (or successor); or

(B) In any other manner prescribed in guidance published in the Internal Revenue Bulletin or in forms and instructions (*see* §§ 601.601(d)(2) and 601.602 of this chapter).

(ii) *Timing*—(A) *In general.* Except as provided in paragraph (c)(2)(ii)(B) or (C) of this section, a transfer agreement must be filed on or before the date that is 30 days after the date of the acceleration event with respect to which the transfer agreement is entered into.

(B) *Acceleration event occurring before section 1062 election.* If an acceleration event occurs prior to the date an eligible section 1062 transferor makes a section 1062 election, the transfer agreement with respect to the acceleration event will be treated as timely filed for purposes of paragraph (c)(2)(i)(A) of this section if it is filed simultaneously with the eligible section 1062 transferor's section 1062 election. *See* § 1.1062–2(a)(2)(iv).

(C) *Transition rule.* If an acceleration event with respect to which a transfer agreement is entered into occurs on or before [date of publication of final regulations in the **Federal Register**], the transfer agreement with respect to the acceleration event will be treated as timely filed for purposes of paragraph (c)(2)(i)(A) of this section if it is filed by 30 days after [date of publication of final regulations in the **Federal Register**].

(iii) *Signature requirement.* The transfer agreement must be signed under penalties of perjury by both—

(A) A person who is authorized to sign a return on behalf of the eligible section 1062 transferor; and

(B) A person who is authorized to sign a return on behalf of the eligible section 1062 transferee.

(iv) *Terms of transfer agreement.* A transfer agreement must contain the following items:

(A) The name, address, and taxpayer identification number of the eligible section 1062 transferor and the eligible section 1062 transferee.

(B) The amount of the eligible section 1062 transferor's remaining unpaid applicable net tax liability.

(C) The date and a detailed description of the acceleration event that led to the transfer agreement.

(D) A statement that the document constitutes an agreement by the eligible section 1062 transferee to assume the liability of the eligible section 1062 transferor for any unpaid installment payments of the eligible section 1062 transferor under section 1062.

(E) A statement that the eligible section 1062 transferee agrees to comply with all conditions and requirements of section 1062, this section and § 1.1062–2.

(F) A representation that the eligible section 1062 transferee has the financial ability to make the remaining installment payments required under section 1062, this section and § 1.1062–2 with respect to the applicable net tax liability being assumed by the eligible section 1062 transferee.

(G) A certification by the eligible section 1062 transferee stating that the eligible section 1062 transferee waives the right to a notice of liability and consents to the immediate assessment of the remaining unpaid portion of the eligible section 1062 transferor's applicable net tax liability.

(H) If the eligible section 1062 transferor continues to exist immediately after the acceleration event, an acknowledgement that the eligible section 1062 transferor (and any subsequent successor to the eligible section 1062 transferor) will remain jointly and severally liable (including under § 1.1502–6, if applicable) for any unpaid applicable net tax liability of the eligible section 1062 transferor.

(I) Any additional information, representation, or certification required by guidance published in the Internal Revenue Bulletin or in forms and instructions (*see* §§ 601.601(d)(2) and 601.602 of this chapter).

(3) *Consent of Commissioner*—(i) *In general.* If an eligible section 1062 transferor and an eligible section 1062 transferee file a transfer agreement satisfying all the requirements of paragraph (c)(2) of this section, the eligible section 1062 transferee will be considered to have entered into an agreement with the Commissioner for purposes of this paragraph (c). If the Commissioner determines that additional information (for example, additional information regarding the ability of the eligible section 1062 transferee to fully pay the remaining applicable net tax liability) is necessary, the eligible section 1062 transferee must provide that information upon request.

(ii) *Material misrepresentations and omissions.* If the Commissioner determines that a transfer agreement contains a material misrepresentation or material omission, or if the eligible section 1062 transferee does not provide the additional information requested under paragraph (c)(3)(i) of this section within the timeframe communicated by the Commissioner to the eligible section 1062 transferee, then the Commissioner—

(A) May reject the transfer agreement (effective as of the date of the related acceleration event); or

(B) May determine that an acceleration event has occurred with respect to the eligible section 1062 transferee as of the date of the Commissioner's determination that a transfer agreement contains a material misrepresentation or material omission (such that any unpaid installment payments become due on that date).

(4) *Effect of assumption*—(i) *In general.* If the eligible section 1062 transferee exception in this paragraph (c) applies with respect to an acceleration event, the eligible section 1062 transferee assumes all outstanding obligations and responsibilities of the eligible section 1062 transferor with respect to the applicable net tax liability as though the eligible section 1062 transferee had included in income the gain from the qualified sale or exchange. Accordingly, the eligible section 1062 transferee is responsible for making payments and reporting with respect to any unpaid installment payments.

(ii) *Eligible section 1062 transferee.* If an acceleration event described in paragraphs (b)(1)(iii) through (vi) of this section subsequently occurs with respect to an eligible section 1062 transferee, any unpaid installment payments of the eligible section 1062 transferor that were assumed by the eligible section 1062 transferee will become due on the date provided in paragraph (b)(2)(iii) of this section.

(d) *Examples.* The following examples illustrate the application of the rules of this section. For purposes of the examples under this paragraph (d), assume that the taxpayer has made a valid section 1062 election with respect to an applicable net tax liability from a qualified sale or exchange.

(1) *Example 1: Acceleration event—C corporation*—(i) *Facts.* At a time when A has remaining unpaid installment payments, A sells all its assets to B, a United States person, in a fully taxable transaction. Each of A and B is a C corporation.

(ii) *Analysis.* Pursuant to paragraph (b)(1)(iii) of this section, the sale by A of all its assets to B is an acceleration event. Accordingly, pursuant to paragraph (b)(2)(iii) of this section, the due date for the unpaid portion of A's remaining installment payments is the date of the sale. However, B is an eligible section 1062 transferee. *See* § 1.1062–1(g). Consequently, if A and B enter into and file a transfer agreement that satisfies the requirements of paragraph (c)(2) of this section, the unpaid portion of A's remaining installment payments will not become due; instead, B will be treated as having assumed all outstanding obligations and responsibilities with respect to those unpaid installment payments. *See* paragraphs (c)(1) and (4) of this section.

(2) *Example 2: Acceleration event—S corporation*—(i) *Facts.* The facts are the same as in paragraph (d)(1)(i) of this section (*Example 1*), except that A is an S corporation that was subject to tax on the gain from the qualified sale or exchange under section 1374 and made a valid section 1062 election with respect to its applicable net tax liability from that gain.

(ii) *Analysis.* Pursuant to paragraph (a) of this section, A is treated as a C corporation because it has an applicable net tax liability. Accordingly, the results are the same as in paragraph (d)(1)(ii) of this section (*Example 1*).

(3) *Example 3: Acceleration event—consolidated group*—(i) *Facts.* The facts are the same as in paragraph (d)(1)(i) of this section (*Example 1*), except that A is a member of a consolidated group of which C is the common parent (C Group). B is not a member of the C Group.

(ii) *Analysis.* Pursuant to paragraph (b)(3) of this section, the C Group is treated as the taxpayer. Accordingly, in determining whether the sale of assets is an acceleration event under paragraph (b)(1)(iii) of this section, the C Group must determine whether the assets held by A constitute substantially all the assets of the C Group. If the sale is an acceleration event, any transfer agreement under paragraph (c)(2) of this section must be entered into by the agent for the C group on behalf of A. *See* § 1.1062–2(a)(2)(iii).

(4) *Example 4: Acceleration event—grantor trust*—(i) *Facts.* Individual D is treated as owning all of E, a grantor trust, under sections 671 through 679 of the Code. Under local law, E is the owner of qualified farmland property, which E sells in a qualified sale or exchange. D, rather than E, has an applicable net tax liability with respect to the qualified sale or exchange. D makes a section 1062 election with respect to the qualified sale or exchange. Subsequently, D dies.

(ii) *Analysis.* D is treated as the taxpayer. Accordingly, D's death is an acceleration event. Whether E has an event described in paragraph (b)(1) of this section is not relevant in determining whether an acceleration event occurs.

(5) *Example 5: Acceleration event—non-grantor trust*—(i) *Facts.* Individual F is a beneficiary of G, a non-grantor complex trust. No one is treated as owning any portion of G under sections 671 through 679. G has a qualified sale or exchange. In accordance with the provisions of sections 661, 662, and 643 of the Code, a portion of the gain on the qualified sale or exchange is deducted by G and reportable by F. F and G each has an applicable net tax liability with respect to the qualified sale or exchange, and F and G each makes a section 1062 election with respect to the qualified sale or exchange. F dies on Date 1. On Date 2, G terminates.

(ii) *Analysis.* F and G are treated as separate taxpayers. Accordingly, F's death is an acceleration event with respect to F's remaining unpaid applicable net tax liability. However, F's death is not an acceleration event for G and has no effect on G's remaining unpaid applicable net tax liability. Similarly, G's termination is not an acceleration event for F and has no effect on F's remaining unpaid applicable net tax liability. However, G's termination is an acceleration event with respect to G's remaining unpaid applicable net tax liability.

(e) *Applicability date.* This section applies to qualified sales or exchanges occurring in taxable years ending after [date of publication of final regulations in the **Federal Register**].

Frank J. Bisignano,

Chief Executive Officer.

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