

Business Administration for comment on its impact on small business.

Drafting Information

The principal author of these temporary regulations is Stephen Tackney of the Office of Division Counsel/Associate Chief Counsel (Tax Exempt and Government Entities). However, other personnel from the IRS and Treasury Department participated in their development.

List of Subjects in 26 CFR Part 1

Income taxes, Reporting and recordkeeping requirements.

Adoption of Amendments to the Regulations

■ Accordingly, 26 CFR part 1 is amended as follows:

PART 1—INCOME TAXES

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

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

■ 2. Section 1.83–7 is amended by adding paragraph (d) to read as follows:

§ 1.83–7 Taxation of nonqualified stock options.

* * * * *

(d) *Effective dates.* This section applies for periods before July 2, 2003. For periods on or after July 2, 2003, *see* § 1.83–7T.

■ 3. Section 1.83–7T is added to read as follows:

§ 1.83–7T Taxation of nonqualified stock options (Temporary).

(a) *In general.* If there is granted to an employee or independent contractor (or beneficiary thereof) in connection with the performance of services, an option to which section 421 (relating generally to certain qualified and other options) does not apply, section 83(a) shall apply to such grant if the option has a readily ascertainable fair market value (determined in accordance with paragraph (b) of this section) at the time the option is granted. The person who performed such services realizes compensation upon such grant at the time and in the amount determined under section 83(a). If section 83(a) does not apply to the grant of such an option because the option does not have a readily ascertainable fair market value at the time of grant, sections 83(a) and 83(b) shall apply at the time the option is exercised or otherwise disposed of, even though the fair market value of such option may have become readily ascertainable before such time. If the option is exercised, sections 83(a) and 83(b) apply to the transfer of property

pursuant to such exercise, and the employee or independent contractor realizes compensation upon such transfer at the time and in the amount determined under section 83(a) or 83(b). If the option is sold or otherwise disposed of in an arm's length transaction, sections 83(a) and 83(b) apply to the transfer of money or other property received in the same manner as sections 83(a) and 83(b) would have applied to the transfer of property pursuant to an exercise of the option. The preceding sentence does not apply to a sale or other disposition of the option to a person related to the service provider that occurs on or after July 2, 2003. For this purpose, a person is related to the service provider if—

(1) The person and the service provider bear a relationship to each other that is specified in section 267(b) or 707(b)(1), subject to the modifications that the language “20 percent” is used instead of “50 percent” each place it appears in sections 267(b) and 707(b)(1), and section 267(c)(4) is applied as if the family of an individual includes the spouse of any member of the family; or

(2) The person and the service provider are engaged in trades or businesses under common control (within the meaning of section 52(a) and (b)); provided that a person is not related to the service provider if the person is the service recipient with respect to the option or the grantor of the option.

(b) and (c) For further guidance, *see* § 1.83–7(b) and (c).

(d) *Effective dates.* This section applies on or after July 2, 2003. For dates before July 2, 2003 *see* § 1.83–7.

Robert E. Wenzel,

Deputy Commissioner of Internal Revenue.

Approved: June 26, 2003.

Pamela F. Olson,

Assistant Secretary of the Treasury.

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DEPARTMENT OF THE TREASURY

Alcohol and Tobacco Tax and Trade Bureau

27 CFR Part 4

[TTB T.D.—2; Ref. Notice No. ATF–953]

RIN 1512—AC63

Amelioration of Fruit and Agricultural Wines; Technical Amendments (2001R–197P)

AGENCY: Alcohol and Tobacco Tax and Trade Bureau (TTB), Treasury.

ACTION: Treasury decision, final rule.

SUMMARY: The Treasury Department and its Alcohol and Tobacco Tax and Trade Bureau are correcting an error in the wine labeling regulations regarding the amelioration of fruit (non-grape) and agricultural wines. The Bureau is also making a number of technical corrections to the wine labeling regulations.

EFFECTIVE DATE: Effective September 2, 2003.

FOR FURTHER INFORMATION CONTACT: Jennifer Berry, Alcohol and Tobacco Tax and Trade Bureau, Regulations and Procedures Division, PO Box 18152, Roanoke, Virginia 24014; telephone (540) 344–9333.

SUPPLEMENTARY INFORMATION:

Impact of the Homeland Security Act on Rulemaking

Effective January 24, 2003, the Homeland Security Act of 2002 divided the Bureau of Alcohol, Tobacco and Firearms (ATF) into two new agencies, the Alcohol and Tobacco Tax and Trade Bureau (TTB) in the Department of the Treasury and the Bureau of Alcohol, Tobacco, Firearms and Explosives in the Department of Justice. Regulation of wine labeling is the responsibility of the new TTB. References to ATF in this document relate to events that occurred prior to January 24, 2003, or to functions that the Bureau of Alcohol, Tobacco, Firearms and Explosives continues to perform.

Background

The Alcohol and Tobacco Tax and Trade Bureau administers regulations published in chapter I of title 27 CFR. In a recent review of part 4 of this chapter, Labeling and Advertising of Wine, we noted an error at § 4.22(b)(5) regarding the amelioration of fruit (non-grape) and agricultural wines. We are correcting this error and making several other technical amendments to the wine labeling regulations in part 4.

Amelioration Error

The regulations at § 4.22(b)(5) state that fruit (non-grape) and agricultural wines may be treated with sugar or water in excess of the quantities prescribed for their standards of identity without TTB viewing such treatment as an alteration of class and type, if, among other conditions, “the content of natural acid is not less than 7.5 parts per thousand.” [Italics added.] This limitation of 7.5 parts per thousand is incorrect. Pursuant to 26 U.S.C. 5383 and 5384, the correct minimum acid level should be 7.69 parts per thousand.