

within the meaning of section 752. See also Rev. Rul. 81-241 (1981-2 C.B. 146) (citing and following Rev. Rul. 73-301). Treasury and the IRS request comments regarding whether there are circumstances under which the receipt of progress payments under a contract accounted for under a long-term contract method of accounting could give rise to a liability under section 752, and, if so, how the regulations would need to be revised to account for such liabilities.

#### Proposed Effective Date

As indicated in Notice 2002-37, the regulations are proposed to apply to contributions, transfers, and distributions that occur on or after May 15, 2002.

#### Special Analyses

It has been determined that this notice of proposed rulemaking is not a significant regulatory action as defined in Executive Order 12866. Therefore, a regulatory assessment is not required. It also has been determined that section 553(b) of the Administrative Procedure Act (5 U.S.C. chapter 5) does not apply to these regulations, and because the regulations do not impose a collection of information on small entities, the Regulatory Flexibility Act (5 U.S.C. chapter 6) does not apply. Pursuant to section 7805(f) of the Internal Revenue Code, this notice of proposed rulemaking has been submitted to the Chief Counsel for Advocacy of the Small Business Administration for comment on its impact on small businesses.

#### Comments and Public Hearing

Before these proposed regulations are adopted as final regulations, consideration will be given to any written comments (a signed original and eight copies) that are submitted timely to the IRS. Alternatively, taxpayers may submit comments electronically directly to the IRS Internet site at <http://www.irs.gov/regs>. Treasury and the IRS request comments on the clarity of the proposed rules and how they can be made easier to understand. All comments will be available for public inspection and copying.

A public hearing may be scheduled if requested in writing by any person that timely submits written comments. If a public hearing is scheduled, notice of the date, time, and place for the hearing will be published in the **Federal Register**.

#### Drafting Information

The principal authors of these proposed regulations are Matthew Lay and Richard Probst of the Office of the

Associate Chief Counsel (Passthroughs and Special Industries). However, personnel from other offices of Treasury 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, 26 CFR part 1 is proposed to be amended as follows:

### PART 1—INCOME TAXES

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

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

**Par. 2.** Section 1.460-0 is amended as follows:

1. Revising the entry for paragraph 1.460-4(k)(2)(iv).
2. Adding entries for § 1.460-4(k)(2)(iv)(A) through (E).
3. Revising the entry for § 1.460-4(k)(3)(iv).
4. Revising the entry for § 1.460-4(k)(3)(iv)(A)(2) and adding an entry for § 1.460-4(k)(3)(iv)(c).
5. Revising the entry for § 1.460-4(k)(3)(v).
6. Adding entries for § 1.460-4(k)(3)(v)(A) through (D).
7. Adding entries for § 1.460-6(g)(3)(ii)(D)(1) and (2).

The revisions and additions read as follows:

#### § 1.460-0 Outline of regulations under section 460.

\* \* \* \* \*

#### § 1.460-4 Methods of accounting for long-term contracts.

\* \* \* \* \*

- (k) \* \* \*
- (2) \* \* \*
- (iv) Special rules relating to distributions of certain contracts by a partnership.

- (A) In general.
- (B) Old taxpayer.
- (C) New taxpayer.
- (D) Basis rules.
- (E) Section 751.

- (1) In general.
- (2) Ordering rules.
- (3) \* \* \*

(iv) Special rules related to certain corporate and partnership transactions.

(A) \* \* \*

(2) Basis adjustment in excess of stock or partnership interest basis.

\* \* \* \* \*

(C) Definition of old taxpayer and new taxpayer for certain partnership transactions.

(v) Special rules relating to certain partnership transactions.

(A) Section 704(c).

(1) Contributions of contracts.

(2) Revaluations of partnership property.

(3) Allocation methods.

(B) Basis adjustments under sections 743(b) and 734(b).

(C) Cross reference.

(D) Exceptions to step-in-the-shoes rules.

\* \* \* \* \*

#### § 1.460-6 Look-back method.

\* \* \* \* \*

(g) \* \* \*

(3) \* \* \*

(ii) \* \* \*

(D) \* \* \*

(1) In general.

(2) Special rules for certain pass-through entity transactions.

\* \* \* \* \*

**Par. 3.** Section 1.460-4 is amended as follows:

1. Revising the sixth sentence in paragraph (k)(1).
2. Revising paragraph (k)(2)(iv).
3. Removing the first word "The" in paragraph (k)(3)(i) and adding in its place: "Except as otherwise provided in paragraph (k)(3)(v)(D) of this section, the"
4. Revising paragraph (k)(3)(i)(I).
5. Redesignating paragraphs (k)(3)(i)(J), (K) and (L) as paragraphs (k)(3)(i)(K), (L) and (M), respectively.
6. Adding a new paragraph (k)(3)(i)(J).
7. Revising paragraph (k)(3)(iv).
8. Adding text to paragraph (k)(3)(v).
9. Adding to paragraph (k)(5) *Example 9 through Example 13*.

The additions and revisions read as follows.

#### § 1.460-4 Methods of accounting for long-term contracts.

\* \* \* \* \*

(k) \* \* \*

(1) \* \* \* Special rules relating to the treatment of certain partnership transactions are provided in paragraphs (k)(2)(iv) and (k)(3)(v) of this section.

\* \* \*

(2) \* \* \*

(iv) *Special rules relating to distributions of certain contracts by a partnership—(A) In general.* The constructive completion rules of paragraph (k)(2) of this section apply to the distribution of a contract accounted for under a long-term contract method of accounting by a partnership to a partner. The constructive completion rules of paragraph (k)(2) of this section do not apply to a transfer by a partnership (transferor partnership) of all of its assets and liabilities to a