

\$11,875. Under paragraph (k)(3)(v)(B) of this section, the portion of T's basis adjustment that is recovered in Year 2 and Year 3 must be determined by PRS in a manner that reasonably accounts for the adjustment over the remaining term of the contract. For example, PRS could recover \$6,703 of the adjustment in Year 2 (the amount of the basis adjustment, \$11,875, multiplied by a fraction, the numerator of which is the excess of the completion factor for the year, \$650,000/\$725,000, less the completion factor for the prior year, \$610,000/\$800,000, and the denominator of which is 100 percent reduced by the completion factor for the taxable year preceding the transfer, \$610,000/\$800,000). T's distributive share of income in Year 2 from the contract would be adjusted from \$23,513 to \$16,810 as a result of the basis adjustment. In Year 3, the completion year, PRS could recover \$5,172 of the adjustment (\$11,875 \times [(\$725,000/\$725,000 - \$650,000/\$725,000) / (100 percent - \$610,000/\$800,000)]). T's distributive share of income in Year 3, the completion year, from the contract would be adjusted from \$7,112 to \$1,940 as a result of the basis adjustment.

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Par. 4. Section 1.460-6 is amended as follows:

1. Paragraph (g)(3)(ii)(D) is revised.
 2. Paragraph (g)(4) is revised.
- The revisions read as follows:

§ 1.460-6 Look-back method.

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- (g) * * *
- (3) * * *
- (ii) * * *

(D) *Information old taxpayer must provide*—(1) *In general.* Except as provided in paragraph (g)(3)(ii)(D)(2) of this section, in order to help the new taxpayer to apply the look-back method with respect to pre-transaction taxable years, any old taxpayer that accounted for income from a long-term contract under the PCM or PCCM for either regular or alternative minimum tax purposes is required to provide the information described in this paragraph to the new taxpayer by the due date (not including extensions) of the old taxpayer's income tax return for the first taxable year ending on or after a step-in-the-shoes transaction described in § 1.460-4(k)(3)(i). The required information is as follows—

(i) The portion of the contract reported by the old taxpayer under PCM for regular and alternative minimum tax purposes (*i.e.*, whether the old taxpayer used PCM, the 40/60 PCCM method, or the 70/30 PCCM method);

(ii) Any submethods used in the application of PCM (*e.g.*, the simplified cost-to-cost method or the 10-percent method);

(iii) The amount of total contract price reported by year;

(iv) The numerator and the denominator of the completion factor by year;

(v) The due date (not including extensions) of the old taxpayer's income tax returns for each taxable year in which income was required to be reported;

(vi) Whether the old taxpayer was a corporate or a noncorporate taxpayer by year; and

(vii) Any other information required by the Commissioner by administrative pronouncement.

(2) *Special rules for certain pass-through entity transactions.* For purposes of paragraph (g)(3)(ii)(D)(1) of this section, in the case of a transaction described in § 1.460-4(k)(3)(i)(I), the contributing partner is treated as the old taxpayer, and the partnership is treated as the new taxpayer. In the case of transactions described in §§ 1.460-4(k)(3)(i)(F), (G), (J), (K), or (L), the old taxpayer is not required to provide the information described in paragraph (g)(3)(ii)(D)(1) of this section, because information necessary for the new taxpayer to apply the look-back method is provided by the pass-through entity. This paragraph (g)(3)(ii)(D) is applicable for transactions on or after August 6, 2003.

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(4) *Effective date.* Except as provided in paragraph (g)(3)(ii)(D) of this section, this paragraph (g) is applicable for transactions on or after May 15, 2002.

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Par. 5. In § 1.704-3, a sentence is added at the end of paragraph (a)(3)(ii) to read as follows:

§ 1.704-3 Contributed property.

- (a) * * *
- (3) * * *
- (ii) * * *

See § 1.460-4(k)(3)(v)(A) for a rule relating to the amount of built-in income or built-in loss attributable to a contract accounted for under a long-term contract method of accounting.

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Par. 6. Section 1.722-1 is amended by adding a new sentence between the sixth and seventh sentences to read as follows:

§ 1.722-1 Basis of contributing partner's interest.

* * * See § 1.460-4(k)(3)(iv)(A) for rules relating to basis adjustments required where a contract accounted for under a long-term contract method of accounting is transferred in a contribution to which section 721(a) applies.

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Par. 7. A sentence is added at the end of § 1.723-1 to read as follows:

§ 1.723-1 Basis of property contributed to partnership.

* * * See § 1.460-4(k)(3)(iv)(B)(2) for rules relating to adjustments to the basis of contracts accounted for using a long-term contract method of accounting that are acquired in certain contributions to which section 721(a) applies.

Par. 8. In § 1.732-1, a sentence is added at the end of paragraph (c)(1)(i) to read as follows:

§ 1.732-1 Basis of distributed property other than money.

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- (c) * * *
- (1) * * *

(i) * * * See § 1.460-4(k)(2)(iv)(D) for a rule determining the partnership's basis in a long-term contract accounted for under a long-term contract method of accounting.

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Par. 9. In § 1.734-1, the undesignated paragraph immediately following paragraph (b)(1)(ii) is revised to read as follows:

§ 1.734-1 Optional adjustment to basis of undistributed partnership property.

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- (b) * * *
- (i) * * *
- (ii) * * *

See § 1.460-4(k)(2)(iv)(D) for a rule determining the partnership's basis in a long-term contract accounted for under a long-term contract method of accounting. The provisions of this paragraph (b)(1) are illustrated by the following examples:

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Par. 10. Section 1.743-1 is amended as follows:

1. A sentence is added at the end of paragraph (d)(2).
2. A sentence is added at the end of paragraph (j)(2).

The additions read as follows:

§ 1.743-1 Optional adjustment to basis of partnership property.

* * * * *

- (d) * * *

(2) * * * See § 1.460-4(k)(3)(v)(B) for a rule relating to the computation of income or loss that would be allocated to the transferee from a contract accounted for under a long-term contract method of accounting as a result of the hypothetical transaction.

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- (j) * * *

(2) * * * See § 1.460-4(k)(3)(v)(B) for rules relating to the effect of a basis adjustment under section 743(b) that is allocated to a contract accounted for under a long-term contract method of accounting in determining the