

FPRS is determined in accordance with FS's liquidation value percentage. However, because FS does not control FPRS within the meaning of paragraph (b)(2)(iii) of this section and because the special allocation does not have a principal purpose of avoiding the purposes of section 956, under paragraph (b)(2)(ii) of this section, FS's attributable share of the FPRS property is determined by reference to its special allocation. FS's special allocation percentage for the FPRS property is 80%, and thus FS's attributable share of the FPRS property is 80% and its attributable share of FPRS's basis in the FPRS property is \$80x. Accordingly, for purposes of determining the amount of United States property held by FS as of the close of quarter 1 of year 1, FS is treated as holding United States property with an adjusted basis of \$80x.

Example 3. (i) *Facts.* USP, a domestic corporation, wholly owns FS, a controlled foreign corporation, which, in turn, owns a 25% capital and profits interest in FPRS, a foreign partnership. The remaining 75% capital and profits interest in FPRS is owned by an unrelated foreign person. Thus, FS does not control FPRS within the meaning of paragraph (b)(2)(iii) of this section. FPRS holds property (the "FPRS property") that would be United States property if held by FS directly. The FPRS property has an adjusted basis of \$100x and is anticipated to appreciate in value but generate relatively little income. The FPRS partnership agreement, which satisfies the requirements of section 704(b), specially allocates 80% of the income with respect to the FPRS property to the unrelated foreign person and 80% of the gain with respect to the disposition of FPRS property to FS. The special allocation does not have a principal purpose of avoiding the purposes of section 956.

(ii) *Result.* Because FPRS is not controlled by FS within the meaning of paragraph (b)(2)(iii) of this section, and the special allocation does not have a principal purpose of avoiding the purposes of section 956, under paragraph (b)(2)(ii) of this section, FS's attributable share of the FPRS property is determined by reference to a special allocation with respect to the FPRS property. Given the income and gain anticipated with respect to the FPRS property, it is appropriate to determine FS's attributable share of the property in accordance with the special allocation of gain. Accordingly, for purposes of determining the amount of United States property held by FS in each year that FPRS holds the FPRS property, FS's attributable share of the FPRS property is 80% and its attributable share of FPRS's basis in the FPRS property is \$80x. Thus, FS is treated as holding United States property with an adjusted basis of \$80x.

Example 4. (i) *Facts.* The facts are the same as in *Example 3* of this paragraph (b)(3), except that USP owns the 75% capital and profits interest in FPRS rather than an unrelated foreign person. Thus, FS controls FPRS within the meaning of paragraph (b)(2)(iii) of this section. At the close of quarter 1 of year 1, the liquidation value percentage, as determined under paragraph (b)(2) of this section, for FS with respect to

(ii) *Result.* Because FPRS is controlled by FS within the meaning of paragraph (b)(2)(iii) of this section, under paragraph (b)(2)(iii) of this section, FS's attributable share of the FPRS property is not determined by reference to the special allocation of gain with respect to the FPRS property. Accordingly, for purposes of determining the amount of United States property held by FS in each year that FPRS holds the FPRS property, FS's attributable share of the FPRS property is determined under paragraph (b)(2)(i) in accordance with FS's liquidation value percentage, which is 25%, and its attributable share of FPRS's basis in the FPRS property is \$25x. Thus, FS is treated as holding United States property with an adjusted basis of \$25x.

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(f) * * *

(1) Except as otherwise provided in this paragraph (f)(1), paragraph (b) of this section applies to taxable years of controlled foreign corporations ending on or after November 3, 2016, and taxable years of United States shareholders in which or with which such taxable years end, with respect to property acquired on or after November 3, 2016. Paragraphs (b)(2)(ii) and (iii) of this section, as well as *Example 2*, *Example 3*, and *Example 4* of paragraph (b)(3) of this section, apply to taxable years of controlled foreign corporations ending on or after the date of publication in the **Federal Register** of the Treasury decision adopting this rule as a final regulation, and taxable years of United States shareholders in which or with which such taxable years end, with respect to property acquired on or after the date of publication in the **Federal Register** of the Treasury decision adopting this rule as a final regulation. For purposes of this paragraph (f)(1), a deemed exchange of property pursuant to section 1001 on or after November 3, 2016 constitutes an acquisition of the property on or after that date, and a deemed exchange of property pursuant to section 1001 on or after the date of publication in the **Federal Register** of the Treasury decision adopting this rule as a final regulation constitutes an acquisition of the property on or after that date.

See § 1.956-2(a)(3), as contained in 26 CFR part 1 revised as of April 1, 2016, for the rules applicable to taxable years of a controlled foreign corporation beginning on or after July 23, 2002, and ending before November 3, 2016, and with respect to property acquired before November 3, 2016, to taxable years of a

controlled foreign corporation beginning on or after July 23, 2002.

John Dalrymple,

Deputy Commissioner for Services and Enforcement.

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DEPARTMENT OF THE TREASURY

Internal Revenue Service

26 CFR Part 1

[REG-122387-16]

RIN 1545-BL86

Treatment of Related Person Factoring Income; Certain Investments in United States Property; and Stock Redemptions Through Related Corporations

AGENCY: Internal Revenue Service (IRS), Treasury.

ACTION: Partial withdrawal of notice of proposed rulemaking.

SUMMARY: This document withdraws portions of a notice of proposed rulemaking (INTL-49-86, subsequently converted to REG-209001-86) published in the **Federal Register** (53 FR 22186) on June 14, 1988, (the 1988 NPRM). The withdrawn portions relate to stock redemptions through related corporations, the application of section 956 to United States property indirectly held by a controlled foreign corporation (CFC), and certain related party factoring transactions, as well as the definition of the term "obligation" for purposes of section 956.

DATES: Sections 1.304-4, 1.956-1(b)(4), 1.956-2(d)(2), and 1.956-3(b)(2)(ii) of proposed rules published in the **Federal Register** on June 14, 1988, are withdrawn as of November 3, 2016.

FOR FURTHER INFORMATION CONTACT: Rose E. Jenkins, (202) 317-6934 (not a toll-free number).

SUPPLEMENTARY INFORMATION:

Background

On June 14, 1988, the Department of Treasury (Treasury Department) and the IRS published in the **Federal Register** proposed regulations (INTL-49-86, subsequently converted to REG-209001-86, 53 FR 22186), including: (i) Proposed 1.304-4, which provides a special rule regarding the use of a related corporation to acquire for property the stock of another commonly owned corporation; (ii) proposed § 1.956-1(b)(4), which describes United States property indirectly held by a CFC

for purposes of section 956; (iii) proposed § 1.956–2(d)(2), which sets forth the definition of “obligation” for purposes of section 956; and (iv) proposed § 1.956–3, which provides guidance on the treatment of certain trade or service receivables received in factoring transactions as United States property for purposes of section 956, including rules in proposed § 1.956–3(b)(2)(ii) that address the acquisition of a trade or service receivable by a nominee or pass-through entity. The regulations were proposed by cross-reference to temporary regulations in §§ 1.304–4T, 1.956–1T(b)(4), 1.956–2T(d), and 1.956–3T that were published in the same issue of the **Federal Register** (TD 8209, 53 FR 22163). This document withdraws certain of these proposed regulations because the rules in the proposed regulations are supplanted by final regulations or other proposed regulations.

Specifically, in the Rules and Regulations section of this issue of the **Federal Register**, the Treasury Department and the IRS are issuing final regulations that contain rules in § 1.956–1(b) concerning United States property indirectly held by a CFC for purposes of section 956, and rules in § 1.956–3(b)(2)(ii) concerning the acquisition by a nominee, pass-through entity, or related foreign corporation for purposes of the section 956 rules governing factoring transactions. The final regulations in §§ 1.956–1(b) and 1.956–3(b)(2)(ii) were included in a notice of proposed rulemaking (REG–155164–09) published in the **Federal Register** on September 2, 2015 (80 FR 53058, as corrected at 80 FR 66485). Thus, the rules in proposed §§ 1.956–1(b)(4) and 1.956–3(b)(2)(ii) provided in the 1988 NPRM are withdrawn. As described in the preamble to the final regulations published in the Rules and Regulations section of this issue of the **Federal Register**, the remainder of the rules in § 1.956–3 proposed in the 1988 NPRM also are included in the final regulations, with minor modifications.

Additionally, on December 30, 2009, the Treasury Department and the IRS published in the **Federal Register** proposed regulations (74 FR 69043), which contain in proposed § 1.304–4 special rules regarding the use of related corporations to avoid the application of section 304 that supplant the rules set forth in the 1988 NPRM. On December 26, 2012, final regulations including § 1.304–4 as proposed in 2009 were published in the **Federal Register** (TD 9606, 77 FR 75844). Accordingly, the rule in the 1988 NPRM that addresses section 304 is withdrawn.

Furthermore, on April 8, 2016, the Treasury Department and the IRS published in the **Federal Register** proposed regulations (81 FR 20588), which contain in proposed § 1.956–2(d) a definition of obligation for purposes of section 956, as well as several exceptions from the definition, including those set forth in the 1988 NPRM. Accordingly, the rule in the 1988 NPRM that addresses the definition of obligation is withdrawn.

List of Subjects in 26 CFR Part 1

Income taxes, Reporting and recordkeeping requirements.

Partial Withdrawal of a Notice of Proposed Rulemaking

Accordingly, under the authority of 26 U.S.C. 7805, §§ 1.304–4, 1.956–1(b)(4), 1.956–2(d)(2), and 1.956–3(b)(2)(ii) of the notice of proposed rulemaking (INTL–49–86) published in the **Federal Register** on June 14, 1988, (53 FR 22186) are withdrawn.

John M. Dalrymple,

Deputy Commissioner for Services and Enforcement.

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DEPARTMENT OF HOMELAND SECURITY

Coast Guard

33 CFR Part 165

[Docket Number USCG–2016–0799]

RIN 1625–AA87

Safety and Security Zones; New York Marine Inspection and Captain of the Port Zone

AGENCY: Coast Guard, DHS.

ACTION: Advance notice of proposed rulemaking.

SUMMARY: The Coast Guard is requesting public comments from any and all waterway users regarding the permanent security zone that encompasses all waters within 150 yards of the bridge connecting Liberty State Park and Ellis Island. The Coast Guard is considering restoring navigational access to the waterway between Ellis Island and Liberty State Park by modifying the security zone around the Ellis Island Bridge. The purpose removal of the security zone would be to increase navigational safety in New York Harbor by allowing vessels to transit under the Ellis Island Bridge, rather than being required to transit the Anchorage Channel.

DATES: Comments and related material must be received by the Coast Guard on or before January 3, 2017.

ADDRESSES: You may submit comments identified by docket number USCG–2016–0799 using the Federal eRulemaking Portal at <http://www.regulations.gov>. See the “Public Participation and Request for Comments” portion of the **SUPPLEMENTARY INFORMATION** section for further instructions on submitting comments.

FOR FURTHER INFORMATION CONTACT: If you have questions on this rule, call or email MST1 Kristina Pundt, Waterways Management, U.S. Coast Guard; telephone (718) 354–4352, email Kristina.H.Pundt@uscg.mil.

SUPPLEMENTARY INFORMATION:

Table of Acronyms

ANPRM Advance notice of proposed rulemaking
NPRM Notice of proposed rulemaking
DHS Department of Homeland Security
FR Federal Register
MARSEC Maritime Security
NYCMTA New York City Water Trail Association

A. Public Participation and Request for Comments

We view public participation as essential to effective rulemaking, and will consider all comments and material received during the comment period. Your comment can help shape the outcome of this possible rulemaking. If you submit a comment, please include the docket number for this rulemaking, indicate the specific section of this document to which each comment applies, indicate the specific question number to which each comment applies, and provide a reason for each suggestion or recommendation.

We encourage you to submit comments through the Federal eRulemaking Portal at <http://www.regulations.gov>. If your material cannot be submitted using <http://www.regulations.gov>, contact the person in the **FOR FURTHER INFORMATION CONTACT** section of this document for alternate instructions.

We accept anonymous comments. All comments received will be posted without change to <http://www.regulations.gov> and will include any personal information you have provided. For more about privacy and the docket, you may review a Privacy Act notice regarding the Federal Docket Management System in the March 24, 2005, issue of the **Federal Register** (70 FR 15086).

Documents mentioned in this ANPRM as being available in the docket, and all