

Special Analyses

It has been determined that this Treasury decision 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, the notice of proposed rulemaking was submitted to the Chief Counsel for Advocacy of the Small Business Administration for comment on its impact on small business.

Drafting Information

The principal author of these regulations is Pamela Lew, Office of Assistant Chief Counsel (Financial Institutions and Products). However, other personnel from the IRS and Treasury Department participated in their development.

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Adoption of Amendments to the Regulations

Accordingly, 26 CFR part 1 is amended as follows:

PART 1—INCOME TAXES

Paragraph 1. The authority citation for part 1 is amended by adding an entry in numerical order to read as follows:

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

Section 1.1092(c)-1 also issued under 26 U.S.C.

1092(c)(4)(H). * * *

Par. 2. Section 1.1092(c)-1 is added to read as follows:

§1.1092(c)-1 Equity options with flexible terms.

(a) *In general.* Section 1092(c)(4) provides an exception to the general rule that a straddle exists if a taxpayer holds stock and writes a call option on that stock. Under section 1092(c)(4), the ownership of stock and the issuance of a call option meeting certain requirements result in a qualified covered call, which is exempted from the general straddle rules of section 1092. This section addresses the consequences of the availability of equity op-

tions with flexible terms under the qualified covered call rules.

(b) *No effect on lowest qualified benchmark for standardized options.* The availability of strike prices for equity options with flexible terms does not affect the determination of the lowest qualified benchmark, as defined in section 1092(c)(4)(D), for an option that is not an equity option with flexible terms.

(c) [Reserved].

(d) *Definitions.* For purposes of this section—

(1) *Equity option with flexible terms* means an equity option—

(i) That is described in any of the following Securities Exchange Act Releases—

(A) Self-Regulatory Organizations; Order Approving Proposed Rule Changes and Notice of Filing and Order Granting Accelerated Approval of Amendments by the Chicago Board Options Exchange, Inc. and the Pacific Stock Exchange, Inc., Relating to the Listing of Flexible Equity Options on Specified Equity Securities, Securities Exchange Act Release No. 34-36841 (Feb. 21, 1996); or

(B) Self-Regulatory Organizations; Order Approving Proposed Rule Changes and Notice of Filing and Order Granting Accelerated Approval of Amendment Nos. 2 and 3 to the Proposed Rule Change by the American Stock Exchange, Inc., Relating to the Listing of Flexible Equity Options on Specified Equity Securities, Securities Exchange Act Release No. 34-37336 (June 27, 1996); or

(C) Self-Regulatory Organizations; Order Approving Proposed Rule Change and Notice of Filing and Order Granting Accelerated Approval of Amendment Nos. 2, 4 and 5 to the Proposed Rule Change by the Philadelphia Stock Exchange, Inc., Relating to the Listing of Flexible Exchange Traded Equity and Index Options, Securities Exchange Act Release No. 34-39549 (Jan. 23, 1998); or

(D) Any changes to the SEC releases described in paragraphs (d)(1)(i)(A) through (C) of this section that are approved by the Securities and Exchange Commission; or

(ii) That is traded on any national securities exchange which is registered with the Securities and Exchange Commission (other than those described in the SEC Releases set forth in paragraph (d)(1)(i)

this section) or other market which the Secretary determines has rules adequate to carry out the purposes of section 1092 and is—

(A) Substantially identical to the equity options described in paragraph (d)(1)(i) of this section; and

(B) Approved by the Securities and Exchange Commission in a Securities Exchange Act Release.

(2) *Securities Exchange Act Release* means a release issued by the Securities and Exchange Commission. To determine identifying information for releases referenced in paragraph (d)(1) of this section, including release titles, identification numbers, and issue dates, contact the Office of the Secretary, Securities and Exchange Commission, 450 5th Street, NW., Washington, DC 20549. To obtain a copy of a Securities Exchange Act Release, submit a written request, including the specific release identification number, title, and issue date, to Securities and Exchange Commission, Attention Public Reference, 450 5th Street, NW., Washington, DC 20549.

(e) *Effective date.* These regulations apply to equity options with flexible terms entered into on or after January 25, 2000.

Robert E. Wenzel,
Deputy Commissioner
of Internal Revenue.

Approved January 17, 2000.

Jonathan Talisman,
Acting Assistant Secretary
of the Treasury.

(Filed by the Office of the Federal Register on January 21, 2000, 8:45 a.m., and published in the issue of the Federal Register for January 25, 2000, 65 F.R. 3812)

Section 1274.—Determination of Issue Price in the Case of Certain Debt Instruments Issued for Property

(Also Sections 42, 280G, 382, 412, 467, 468, 482, 483, 642, 807, 846, 1288, 7520, 7872.)

Federal rates; adjusted federal rates; adjusted federal long-term rate, and the long-term exempt rate. For purposes of sections 1274, 1288, 382, and other sections of the Code, tables set forth the

rates for February 2000.

Rev. Rul. 2000-9

This revenue ruling provides various prescribed rates for federal income tax purposes for February 2000 (the current month.) Table 1 contains the short-term, mid-term, and long-term applicable federal rates (AFR) for the current month for

purposes of section 1274(d) of the Internal Revenue Code. Table 2 contains the short-term, mid-term, and long-term adjusted applicable federal rates (adjusted AFR) for the current month for purposes of section 1288(b). Table 3 sets forth the adjusted federal long-term rate and the long-term tax-exempt rate described in section 382(f). Table 4 contains the ap-

propriate percentages for determining the low-income housing credit described in section 42(b)(2) for buildings placed in service during the current month. Finally, Table 5 contains the federal rate for determining the present value of an annuity, an interest for life or for a term of years, or a remainder or a reversionary interest for purposes of section 7520.

REV. RUL. 2000-9 TABLE 1				
Applicable Federal Rates (AFR) for February 2000				
	<i>Period for Compounding</i>			
	<i>Annual</i>	<i>Semiannual</i>	<i>Quarterly</i>	<i>Monthly</i>
<i>Short-Term</i>				
AFR	6.20%	6.11%	6.06%	6.03%
110% AFR	6.83%	6.72%	6.66%	6.63%
120% AFR	7.46%	7.33%	7.26%	7.22%
130% AFR	8.10%	7.94%	7.86%	7.81%
<i>Mid-Term</i>				
AFR	6.56%	6.46%	6.41%	6.37%
110% AFR	7.24%	7.11%	7.05%	7.01%
120% AFR	7.90%	7.75%	7.68%	7.63%
130% AFR	8.58%	8.40%	8.31%	8.26%
150% AFR	9.92%	9.69%	9.58%	9.50%
175% AFR	11.63%	11.31%	11.15%	11.05%
<i>Long-Term</i>				
AFR	6.77%	6.66%	6.61%	6.57%
110% AFR	7.46%	7.33%	7.26%	7.22%
120% AFR	8.15%	7.99%	7.91%	7.86%
130% AFR	8.85%	8.66%	8.57%	8.51%

REV. RUL. 2000-9 TABLE 2				
Adjusted AFR for February 2000				
	<i>Period for Compounding</i>			
	<i>Annual</i>	<i>Semiannual</i>	<i>Quarterly</i>	<i>Monthly</i>
Short-term adjusted AFR	4.19%	4.15%	4.13%	4.11%
Mid-term adjusted AFR	4.87%	4.81%	4.78%	4.76%
Long-term adjusted AFR	5.73%	5.65%	5.61%	5.58%

REV. RUL. 2000-9 TABLE 3

Rates Under Section 382 for February 2000

Adjusted federal long-term rate for the current month	5.73%
Long-term tax-exempt rate for ownership changes during the current month (the highest of the adjusted federal long-term rates for the current month and the prior two months.)	5.73%

REV. RUL. 2000-9 TABLE 4

Appropriate Percentages Under Section 42(b)(2)
for February 2000

Appropriate percentage for the 70% presentvalue low-income housing credit	8.57%
Appropriate percentage for the 30% presentvalue low-income housing credit	3.67%

REV. RUL. 2000-9 TABLE 5

Rate Under Section 7520 for February 2000

Applicable federal rate for determining the present value of an annuity, an interest for life or a term of years, or a remainder or reversionary interest	8.0%
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Section 1288.—Treatment of Original Issue Discounts on Tax Exempt Obligations

The adjusted applicable federal short-term, mid-term, and long-term rates are set forth for the month of February 2000. See Rev. Rul. 2000-9, page 497.

Section 1361.—S Corporation Defined

26 CFR 1.351-2: Definitions relating to S corporation subsidiaries.

T.D. 8869

**DEPARTMENT OF THE TREASURY
Internal Revenue Service
26 CFR Parts 1, 301, and 602**

Subchapter S Subsidiaries

AGENCY: Internal Revenue Service (IRS), Treasury.

ACTION: Final regulations.

SUMMARY: This document contains final regulations that relate to the treatment of corporate subsidiaries of S corporations and interpret the rules added to the Internal Revenue Code by section 1308 of the Small Business Job Protection Act of 1996. These regulations provide the public with guidance needed to comply with applicable law and will affect S corporations and their shareholders.

DATES: *Effective Date:* These regulations are effective January 20, 2000.

Applicability Date: For dates of applicability, see §§ 1.1361-4(a)(3)(iii), 1.1361-4(a)(5)(i), 1.1361-5(c)(2), 1.1361-6, 1.1362-8(e), and 301.6109-1(i)(4).

FOR FURTHER INFORMATION CONTACT: Jeanne M. Sullivan (202)622-3050 (not a toll-free number) or David J. Sotos (202)622-3050 (Subchapter S); Michael N. Kaibni (202)622-7550 (Subchapter C) (not toll-free numbers).

SUPPLEMENTARY INFORMATION:

Paperwork Reduction Act

The collections of information contained in these final regulations have been reviewed and approved by the Office of Management and Budget in accordance with the Paperwork Reduction Act (44 U.S.C. 3507) under control number 1545-1590. Responses to these collections of information are required to determine the manner in which a corporate subsidiary of an S corporation will be treated under the Internal Revenue Code.

An agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless the collection of information displays a valid control number assigned by the Office of Management and Budget.

The estimated annual burden per respondent/recordkeeper varies from 45 minutes to 1 hour, depending on individual circumstances, with an estimated average of 57 minutes.

Comments concerning the accuracy of this burden estimate and suggestions for reducing this burden should be sent to the **Internal Revenue Service**, Attn: IRS Reports Clearance Officer, OP:FS:FP, Washington, DC 20224, and to the **Office of**