

reflect unrealized appreciation and depreciation in the value of partnership assets.

DATE: *Effective Date*: These regulations are effective May 6, 2004.

FOR FURTHER INFORMATION CONTACT: Laura Nash at (202) 622-3050 (not a toll-free number).

SUPPLEMENTARY INFORMATION:

### Background

On July 2, 2003, proposed regulations (REG-116914, 2003-32 I.R.B. 338 [68 FR 39498]) relating to the capital account maintenance rules under section 704 of the Internal Revenue Code (Code) were published in the **Federal Register**. The proposed regulations expanded the circumstances under which a partnership is permitted to increase or decrease the capital accounts of the partners to reflect a revaluation of partnership property on the partnership's books. Specifically, the regulations proposed to allow revaluations in connection with the grant of an interest in the partnership (other than a *de minimis* interest) on or after the date these final regulations are published in the **Federal Register** as consideration for the provision of services to or for the benefit of the partnership by an existing partner acting in a partner capacity, or by a new partner acting in a partner capacity or in anticipation of being a partner. In addition, the notice of proposed rulemaking requested comments on other situations in which revaluations of partnership property should be permitted. No written or electronic comments were received in response to the notice of proposed rulemaking. No requests for a public hearing were received, and accordingly, no hearing was held.

### Explanation of Provisions

This Treasury decision adopts the proposed regulations without change. The regulations apply to the grant of an interest in a partnership (other than a *de minimis* interest) on or after May 6, 2004, as consideration for the provision of services to or for the benefit of the partnership by an existing partner acting in a partner capacity, or by a new partner acting in a partner capacity or in anticipation of being a partner.

### Special Analysis

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 has also 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 these 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 Code, the notice of proposed rulemaking preceding these regulations was submitted to the Chief Counsel for Advocacy of the Small Business Administration for comment on its impact on small businesses.

### Drafting Information

The principal author of these regulations is Laura Nash, Office of Associate Chief Counsel (Passthroughs and Special Industries), IRS. 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 continues to read, in part, as follows:

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

Par. 2. Section 1.704-1 is amended as follows:

1. Paragraph (b)(2)(iv)(f)(5)(iii) is redesignated as paragraph (b)(2)(iv)(f)(5)(iv).

2. New paragraph (b)(2)(iv)(f)(5)(iii) is added to read as follows:

*§1.704-1 Partner's distributive share.*

\* \* \* \* \*

(b) \* \* \*

(2) \* \* \*

(iv) \* \* \*

(f) \* \* \*

(5) \* \* \*

(iii) In connection with the grant of an interest in the partnership (other than a *de*

*minimis* interest) on or after May 6, 2004, as consideration for the provision of services to or for the benefit of the partnership by an existing partner acting in a partner capacity, or by a new partner acting in a partner capacity or in anticipation of being a partner.

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Mark E. Matthews,  
*Deputy Commissioner for  
Services and Enforcement.*

Approved April 29, 2004.

Gregory F. Jenner,  
*Assistant Secretary of the Treasury.*

(Filed by the Office of the Federal Register on May 5, 2004, 8:45 a.m., and published in the issue of the Federal Register for May 6, 2004, 69 F.R. 25315)

## Section 807.—Rules for Certain Reserves

The adjusted applicable federal short-term, mid-term, and long-term rates are set forth for the month of June 2004. See Rev. Rul. 2004-54, page 1024.

## Section 846.—Discounted Unpaid Losses Defined

The adjusted applicable federal short-term, mid-term, and long-term rates are set forth for the month of June 2004. See Rev. Rul. 2004-54, page 1024.

## 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 382, 642, 1274, 1288, and other sections of the Code, tables set forth the rates for June 2004.

## Rev. Rul. 2004-54

This revenue ruling provides various prescribed rates for federal income tax purposes for June 2004 (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 appropriate 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 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. 2004-54 TABLE 1				
Applicable Federal Rates (AFR) for June 2004				
	<i>Period for Compounding</i>			
	<i>Annual</i>	<i>Semiannual</i>	<i>Quarterly</i>	<i>Monthly</i>
<i>Short-Term</i>				
AFR	1.98%	1.97%	1.97%	1.96%
110% AFR	2.18%	2.17%	2.16%	2.16%
120% AFR	2.37%	2.36%	2.35%	2.35%
130% AFR	2.58%	2.56%	2.55%	2.55%
<i>Mid-Term</i>				
AFR	3.89%	3.85%	3.83%	3.82%
110% AFR	4.28%	4.24%	4.22%	4.20%
120% AFR	4.67%	4.62%	4.59%	4.58%
130% AFR	5.07%	5.01%	4.98%	4.96%
150% AFR	5.86%	5.78%	5.74%	5.71%
175% AFR	6.85%	6.74%	6.68%	6.65%
<i>Long-Term</i>				
AFR	5.20%	5.13%	5.10%	5.08%
110% AFR	5.72%	5.64%	5.60%	5.57%
120% AFR	6.25%	6.16%	6.11%	6.08%
130% AFR	6.78%	6.67%	6.62%	6.58%

REV. RUL. 2004-54 TABLE 2				
Rates Under Section 382 for June 2004				
	<i>Period for Compounding</i>			
	<i>Annual</i>	<i>Semiannual</i>	<i>Quarterly</i>	<i>Monthly</i>
Short-term adjusted AFR	1.61%	1.60%	1.60%	1.59%
Mid-term adjusted AFR	3.06%	3.04%	3.03%	3.02%
Long-term adjusted AFR	4.62%	4.57%	4.54%	4.53%

REV. RUL. 2004-54 TABLE 3	
Rates Under Section 382 for June 2004	
Adjusted federal long-term rate for the current month	4.62%
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.)	4.62%

REV. RUL. 2004-54 TABLE 4

Appropriate Percentages Under Section 42(b)(2) for June 2004

Appropriate percentage for the 70% present value low-income housing credit	8.06%
Appropriate percentage for the 30% present value low-income housing credit	3.45%

REV. RUL. 2004-54 TABLE 5

Rate Under Section 7520 for June 2004

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	4.6%
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## Section 1288.—Treatment of Original Issue Discount on Tax-Exempt Obligations

The adjusted applicable federal short-term, mid-term, and long-term rates are set forth for the month of June 2004. See Rev. Rul. 2004-54, page 1024.

## Section 6103.—Confidentiality and Disclosure of Returns and Return Information

26 CFR 301.6103: Confidentiality of returns.

**Clarification of scope of section 6103(a).** This ruling clarifies the fact that government employees who receive returns or return information pursuant to disclosures under section 6103(c), (k)(6), or (e) of the Code, other than section 6103(e)(1)(D)(iii) (relating to certain shareholders), are not subject to the disclosure restrictions of section 6103(a) with regard to the returns or return information received.

### Rev. Rul. 2004-53

#### ISSUE

Whether Federal, State and local government officers or employees (“government employees”) are subject to the disclosure restrictions of Internal Revenue Code section 6103(a) with regard to returns or return information received as a result of disclosures under:

- section 6103(c) with the consent of the taxpayer (taxpayer consent exception)

- section 6103(e) as a person having a material interest, but not under section 6103(e)(1)(D)(iii) relating to disclosures to certain shareholders (material interest exception), or
- section 6103(k)(6) for investigative purposes (investigative disclosure exception).

#### FACTS

*Situation 1.* A requests the assistance of his friend B with respect to a tax matter. A also requests that the Internal Revenue Service provide A’s returns and return information to B. B subsequently discloses to a third party returns and return information obtained as a result of A’s request that the Service provide the returns and return information.

*Situation 2.* Same as situation 1, above, except that B happens to be an employee in the office of a State agency.

*Situation 3.* C is a lawyer employed by a law firm. The firm has a policy of taking disciplinary action against any of its attorneys who do not properly fulfill their tax obligations. The Service serves a notice of levy with respect to C’s tax liability on the payroll department of the firm. A payroll department employee (D) processes the notice of levy and informs the firm’s managing partners of C’s tax delinquency to enable the firm to take appropriate action consistent with firm policy.

*Situation 4.* E is an employee of a State agency. The agency has a policy of taking disciplinary action against employees who do not properly fulfill their tax obligations. The Service serves a notice of levy with respect to E’s tax liability on the payroll department of the agency. A payroll depart-

ment employee (F) processes the notice of levy and informs the agency’s labor relations office of E’s tax delinquency to enable the agency to take appropriate action consistent with its policy.

*Situation 5.* Same as Situation 4, above, except that E and F are employees of a Federal agency.

*Situation 6.* G is the unemployed father of 5-year-old film star H. H’s mother signs H’s return as parent for a minor child and dies shortly thereafter. G is the guardian of H’s estate under applicable State law. G receives notice that H’s return is under examination. G does not have a copy of H’s return. To assist in the examination, G obtains the return and return information from the Service. When subsequently asked by a news reporter how much income H reported on the return, G replies “three million dollars.”

*Situation 7.* Same as Situation 6, above, except that G happens to be an employee of a Federal agency.

#### LAW

Generally, section 6103 provides that returns and return information (as defined in section 6103(b)(2)) are confidential and may not be disclosed except as expressly authorized by the Code. Specifically, except as authorized by the Code, section 6103(a) prohibits the disclosure by officers or employees of the United States, of any State, or of specified local government agencies, or by certain other specified persons, of returns and return information obtained in connection with service as such an officer or employee or otherwise. See *Girard v. Bentsen*, 94-2 U.S.T.C. ¶ 50,625 (N.D. Cal. 1994) (“or otherwise” modifies “in connection with his service”, allow-