

356 are treated as redemptions and all amounts treated as a dividend under section 356(a)(2) are treated as dividends under section 301. Accordingly, the final regulations delete the reference to subsection (a)(1) of section 356.

Special Analyses

It has been determined that this Treasury decision is not a significant regulatory action as defined in EO 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 regulation does 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 preceding these regulations 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 Richard K. Passales, Office of Assistant Chief Counsel (Corporate), IRS. However, other personnel from the IRS and Treasury Department participated in their development.

* * * * *

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 1.1059(e)–1 also issued under 26 U.S.C. 1059(e)(1) and (e)(2). * * *

Par. 2. In §1.302–2, paragraph (c) introductory text is amended by adding a sentence immediately following the first sentence to read as follows:

§1.302–2 Redemptions not taxable as dividends.

* * * * *

(c) * * * (For adjustments to basis required for certain redemptions of corporate shareholders that are treated as extraordinary dividends, see section 1059 and the regulations thereunder.) * * *

* * * * *

Par. 3. Section 1.1059(e)–1 is added to read as follows:

§1.1059(e)–1 Non-pro rata redemptions.

(a) *In general.* Section 1059(d)(6) (exception where stock held during entire existence of corporation) and section 1059(e)(2) (qualifying dividends) do not apply to any distribution treated as an extraordinary dividend under section 1059(e)(1). For example, if a redemption of stock is not pro rata as to all shareholders, any amount treated as a dividend under section 301 is treated as an extraordinary dividend regardless of whether the dividend is a qualifying dividend.

(b) *Reorganizations.* For purposes of section 1059(e)(1), any exchange under section 356 is treated as a redemption and, to the extent any amount is treated as a dividend under section 356(a)(2), it is treated as a dividend under section 301.

(c) *Effective date.* This section applies to distributions announced (within the meaning of section 1059(d)(5)) on or after June 17, 1996.

Michael P. Dolan,
*Acting Commissioner of
Internal Revenue.*

Approved June 27, 1997.

Donald C. Lubick,
*Acting Assistant Secretary of
the Treasury.*

(Filed by the Office of the Federal Register on July 15, 1997, 8:45 a.m., and published in the issue of the Federal Register for July 16, 1997, 62 F.R. 38027)

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 section 1274, 1288, 382, and other sections of the Code, tables set forth the rates for September 1997.

Rev. Rul. 97–36

This revenue ruling provides various prescribed rates for federal income tax purposes for September 1997 (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 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. 97-36 TABLE 1
Applicable Federal Rates (AFR) for September 1997

Period for Compounding

| | <i>Annual</i> | <i>Semiannual</i> | <i>Quarterly</i> | <i>Monthly</i> |
|-------------------|---------------|-------------------|------------------|----------------|
| <i>Short-Term</i> | | | | |
| AFR | 5.81% | 5.73% | 5.69% | 5.66% |
| 110% AFR | 6.40% | 6.30% | 6.25% | 6.22% |
| 120% AFR | 7.00% | 6.88% | 6.82% | 6.78% |
| 130% AFR | 7.59% | 7.45% | 7.38% | 7.34% |
| <i>Mid-Term</i> | | | | |
| AFR | 6.23% | 6.14% | 6.09% | 6.06% |
| 110% AFR | 6.86% | 6.75% | 6.69% | 6.66% |
| 120% AFR | 7.51% | 7.37% | 7.30% | 7.26% |
| 130% AFR | 8.14% | 7.98% | 7.90% | 7.85% |
| 150% AFR | 9.42% | 9.21% | 9.11% | 9.04% |
| 175% AFR | 11.04% | 10.75% | 10.61% | 10.52% |
| <i>Long-Term</i> | | | | |
| AFR | 6.55% | 6.45% | 6.40% | 6.36% |
| 110% AFR | 7.23% | 7.10% | 7.04% | 7.00% |
| 120% AFR | 7.89% | 7.74% | 7.67% | 7.62% |
| 130% AFR | 8.57% | 8.39% | 8.30% | 8.25% |

REV. RUL. 97-36 TABLE 2
Adjusted AFR for September 1997

Period for Compounding

| | <i>Annual</i> | <i>Semiannual</i> | <i>Quarterly</i> | <i>Monthly</i> |
|----------------------------|---------------|-------------------|------------------|----------------|
| Short-term adjusted AFR | 3.94% | 3.90% | 3.88% | 3.87% |
| Mid-term adjusted AFR | 4.28% | 4.24% | 4.22% | 4.20% |
| Long-term adjusted AFR | 5.09% | 5.03% | 5.00% | 4.98% |

REV. RUL. 97-36 TABLE 3
Rates Under Section 382 for September 1997

| | |
|--|-------|
| Adjusted federal long-term rate for the current month | 5.09% |
| 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.) | 5.45% |

REV. RUL. 97-36 TABLE 4

Appropriate Percentages Under Section 42(b)(2) for September 1997

| | |
|--|-------|
| Appropriate percentage for the 70% present value low-income housing credit | 8.50% |
| Appropriate percentage for the 30% present value low-income housing credit | 3.64% |

REV. RUL. 97-36 TABLE 5

Rate Under Section 7520 for September 1997

| | |
|---|------|
| 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 | 7.6% |
|---|------|

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 September 1997. See Rev. Rul. 97-36, page 5.

Section 7520.—Valuation Tables

The adjusted applicable federal short-term, mid-term, and long-term rates are set forth for the month of September 1997. See Rev. Rul. 97-36, page 5.

Section 7872.—Treatment of Loans With Below-Market Interest Rates

The adjusted applicable federal short-term, mid-term, and long-term rates are set forth for the month of September 1997. See Rev. Rul. 97-36, page 5.
