

(4) *Conditions of use in cattle*—(i) *Amount.* 10,000 USP units as a single, deep intramuscular injection; 500 to 2,500 USP units for intrafollicular injection; 2,500 to 5,000 USP units intravenously.

* * * * *

(5) *Conditions of use in finfish*—(i) *Amount.* 50 to 510 I.U. per pound of body weight for males, 67 to 1816 I.U. per pound of body weight for females, by intramuscular injection.

(ii) *Indications for use.* An aid in improving spawning function in male and female brood finfish.

(iii) *Limitations.* May administer up to three doses. The total dose administered per fish (all injections combined) should not exceed 25,000 I.U. chorionic gonadotropin (25 milliliters) in fish intended for human consumption. Federal law restricts this drug to use by or on the order of a licensed veterinarian.

(b) * * *

(3) *Related tolerances.* See § 556.304 of this chapter.

(4) *Conditions of use in heifers* * * *

* * * * *

PART 556—TOLERANCES FOR RESIDUES OF NEW ANIMAL DRUGS IN FOOD

3. The authority citation for 21 CFR part 556 continues to read as follows:

Authority: 21 U.S.C. 342, 360b, 371.

4. Section 556.304 is added to subpart B to read as follows:

§ 556.304 Gonadotropin.

(a) *Acceptable daily intake (ADI).* The ADI for residues of total gonadotropins (human chorionic gonadotropin and pregnant mare serum gonadotropin) is 42.25 I.U. per kilogram of body weight per day.

(b) *Tolerances.* A tolerance for residues of gonadotropin in uncooked edible tissues of cattle or of fish is not required.

Dated: August 24, 1999.

Stephen F. Sundlof,

Director, Center for Veterinary Medicine.

[FR Doc. 99-23132 Filed 9-3-99; 8:45 am]

BILLING CODE 4160-01-F

DEPARTMENT OF THE TREASURY

Internal Revenue Service

26 CFR Part 1

[TD 8838]

RIN 1545-AU45

Inflation-Indexed Debt Instruments

AGENCY: Internal Revenue Service (IRS), Treasury.

ACTION: Final regulations.

SUMMARY: This document contains final regulations relating to the federal income tax treatment of inflation-indexed debt instruments, including Treasury Inflation-Indexed Securities. The regulations in this document provide needed guidance to holders and issuers of inflation-indexed debt instruments.

EFFECTIVE DATE: The regulations are effective September 7, 1999.

FOR FURTHER INFORMATION CONTACT: Helen Vanek-Bigelow or William E. Blanchard, (202) 622-3950 (not a toll-free number).

SUPPLEMENTARY INFORMATION:

Background

On January 6, 1997, temporary regulations (TD 8709 [1997-1 C.B. 167]) relating to the federal income tax treatment of inflation-indexed debt instruments under sections 1275 and 1286 of the Internal Revenue Code (Code) were published in the **Federal Register** (62 FR 615). A notice of proposed rulemaking (REG-242996-96 [1997-1 C.B. 784]) cross-referencing the temporary regulations was published in the **Federal Register** for the same day (62 FR 694). A public hearing was held on April 30, 1997. However, no one requested to speak at the hearing.

No written comments responding to the notice were received. Therefore, the proposed regulations under sections 1275 and 1286 are adopted by this Treasury decision with no changes, and the corresponding temporary regulations are redesignated as final regulations.

Explanation of Provisions

The following is a general explanation of the provisions in the final regulations, which are the same as the provisions in the temporary regulations.

A. In General

The final regulations provide rules for the treatment of certain debt instruments that are indexed for inflation and deflation, including Treasury Inflation-Indexed Securities.

The final regulations generally require holders and issuers of inflation-indexed debt instruments to account for interest and original issue discount (OID) using constant yield principles. In addition, the final regulations generally require holders and issuers of inflation-indexed debt instruments to account for inflation and deflation by making current adjustments to their OID accruals.

B. Applicability

The final regulations apply to inflation-indexed debt instruments. In general, an inflation-indexed debt instrument is a debt instrument that (1) is issued for cash, (2) is indexed for inflation and deflation (as described below), and (3) is not otherwise a contingent payment debt instrument. The final regulations do not apply, however, to certain debt instruments, such as debt instruments issued by qualified state tuition programs.

C. Indexing Methodology

A debt instrument is considered indexed for inflation and deflation if the payments on the instrument are indexed by reference to the changes in the values of a general price or wage index over the term of the instrument. Specifically, the amount of each payment on an inflation-indexed debt instrument must equal the product of (1) the amount of the payment that would be payable on the instrument (determined as if there were no inflation or deflation over the term of the instrument) and (2) the ratio of the value of the reference index for the payment date to the value of the reference index for the issue date.

The reference index for a debt instrument is the mechanism for measuring inflation and deflation over the term of the instrument. This mechanism associates the value of a single qualified inflation index for a particular month with a specified day of a succeeding month. For example, under the terms of the Treasury Inflation-Indexed Securities, the reference index for the first day of a month is the value of a qualified inflation index for the third preceding month. The reference index must be reset once a month to the current value of a qualified inflation index. Between reset dates, the value of the reference index is determined through straight-line interpolation.

A qualified inflation index is a general price or wage index that is updated and published at least monthly by an agency of the United States Government. A general price or wage index is an index that measures price or wage changes in the economy as a whole. An index is not general if it only

measures price or wage changes in a particular segment of the economy. For example, the non-seasonally adjusted U.S. City Average All Items Consumer Price Index for All Urban Consumers (CPI-U), which is published by the Bureau of Labor Statistics of the Department of Labor, is a qualified inflation index because it measures general price changes in the economy. By contrast, the gasoline price component of the CPI-U is not a qualified inflation index because it only measures price changes in a particular segment of the economy.

D. Coupon Bond Method

The final regulations provide a simplified method of accounting for qualified stated interest and inflation adjustments on certain inflation-indexed debt instruments (the coupon bond method). To qualify for the coupon bond method, an inflation-indexed debt instrument must satisfy two conditions. First, there must be no more than a de minimis difference between the debt instrument's issue price and its principal amount for the issue date. Second, all stated interest on the debt instrument must be qualified stated interest. Because Treasury Inflation-Indexed Securities that are not stripped into principal and interest components satisfy both of these conditions, the coupon bond method applies to these securities.

If an inflation-indexed debt instrument qualifies for the coupon bond method, the stated interest payable on the debt instrument is taken into account under the taxpayer's regular method of accounting. Any increase in the inflation-adjusted principal amount is treated as OID for the period in which the increase occurs. Any decrease in the inflation-adjusted principal amount is taken into account under the rules for deflation adjustments described below.

For example, if a taxpayer holds a Treasury Inflation-Indexed Security for an entire calendar year and the taxpayer uses the cash receipts and disbursements method of accounting (cash method), the taxpayer generally includes in income the interest payments received on the security during the year. In addition, the taxpayer includes in income an amount of OID measured by subtracting the inflation-adjusted principal amount of the security at the beginning of the year from the inflation-adjusted principal amount of the security at the end of the year. If the taxpayer uses an accrual method of accounting rather than the cash method, the taxpayer includes in income the qualified stated interest that accrued on the debt instrument during

the year and an amount of OID measured by subtracting the inflation-adjusted principal amount of the security at the beginning of the year from the inflation-adjusted principal amount of the security at the end of the year.

E. Discount Bond Method

If an inflation-indexed debt instrument does not qualify for the coupon bond method (for example, because it is issued at a discount), the instrument is subject to the discount bond method. In general, the discount bond method requires holders and issuers to make current adjustments to their OID accruals to account for inflation and deflation.

Under the discount bond method, a taxpayer determines the amount of OID allocable to an accrual period by using steps similar to those provided in § 1.1272-1(b)(1). First, the taxpayer determines the yield to maturity of the debt instrument as if there were no inflation or deflation over the term of the instrument. Second, the taxpayer determines the length of the accrual periods to be used to allocate OID over the term of the debt instrument, provided no accrual period is longer than one month. Third, the taxpayer determines the percentage change in the value of the reference index during the accrual period by comparing the value at the beginning of the period to the value at the end of the period. Fourth, the taxpayer determines the OID allocable to the accrual period by using a formula that takes into account both the yield of the debt instrument and the percentage change in the value of the reference index during the period. Fifth, the taxpayer allocates to each day in the accrual period a ratable portion of the OID for the accrual period (the daily portions). If the daily portions for an accrual period are positive amounts, these amounts are taken into account under section 163(e) by an issuer and under section 1272 by a holder. If the daily portions for an accrual period are negative amounts, these amounts are taken into account under the rules for deflation adjustments described below.

F. Deflation Adjustments

The final regulations treat deflation adjustments in a manner consistent with the treatment of net negative adjustments on contingent payment debt instruments under § 1.1275-4(b)(6)(iii). If a holder has a deflation adjustment for a taxable year, the deflation adjustment first reduces the amount of interest otherwise includible in income with respect to the debt instrument for the taxable year. If the

amount of the deflation adjustment exceeds the interest otherwise includible in income for the taxable year, the holder treats the excess as an ordinary loss in the taxable year. However, the amount treated as an ordinary loss is limited to the amount by which the holder's total interest inclusions on the debt instrument in prior taxable years exceed the total amount treated by the holder as an ordinary loss on the debt instrument in prior taxable years. If the deflation adjustment exceeds the interest otherwise includible in income by the holder with respect to the debt instrument for the taxable year and the amount treated as an ordinary loss for the taxable year, the excess is carried forward to offset interest income on the debt instrument in subsequent taxable years. Similar rules apply to determine an issuer's interest deductions and income for the debt instrument.

G. Miscellaneous Rules

The final regulations provide special rules for reopenings, strips, subsequent holders, and minimum guarantees.

H. Effective Date

The final regulations apply to an inflation-indexed debt instrument issued on or after January 6, 1997.

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 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 the regulations is Helen Vanek-Bigelow, Office of Assistant Chief Counsel (Financial Institutions and Products). However, other personnel from the IRS and Treasury Department participated in their development.

List of Subjects in 26 CFR Part 1

Income taxes, Reporting and recordkeeping requirements.

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 removing the entries for §§ 1.1275-7T and 1.1286-2T and adding two entries in numerical order to read in part as follows:

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

Section 1.1275-7 also issued under 26 U.S.C. 1275(d). * * *

Section 1.1286-2 also issued under 26 U.S.C. 1286(f). * * *

§ 1.148-4 [Amended]

Par. 2. Section 1.148-4 is amended by:

1. Removing the "T" from the reference "§ 1.1275-7T" in paragraph (h)(2)(v)(A).
2. Removing the "T" from the reference "§ 1.1275-7T" in paragraph (h)(2)(v)(B).

§ 1.163-13 [Amended]

Par. 3. Section 1.163-13 is amended by:

1. Removing the "T" from the reference "§ 1.1275-7T(f)(1)(ii)" in the next to the last sentence in paragraph (e)(2).
2. Removing the "T" from the reference "§ 1.1275-7T" in the last sentence in paragraph (e)(2).

§ 1.171-3 [Amended]

Par. 4. Section 1.171-3 is amended by:

1. Removing the "T" from the reference "§ 1.1275-7T(f)(1)(i)" in the next to last sentence in paragraph (b).
2. Removing the "T" from the reference "§ 1.1275-7T" in the last sentence in paragraph (b).

Par. 5. In § 1.1271-0, paragraph (b) is amended by revising the entry for § 1.1275-7T to read as follows:

§ 1.1271-0 Original issue discount; effective date; table of contents.

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(b) * * *

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§ 1.1275-7 Inflation-indexed debt instruments.

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§ 1.1275-4 [Amended]

Par. 6. Section 1.1275-4 is amended by removing the "T" from the reference "§ 1.1275-7T" in paragraph (a)(2)(vii).

§ 1.1275-7T [Redesignated as § 1.1275-7]

Par. 7. Section 1.1275-7T is redesignated as § 1.1275-7 and the language "(temporary)" is removed from the section heading.

§ 1.1286-2T [Redesignated as § 1.1286-2]

Par. 8. Section 1.1286-2T is redesignated as § 1.1286-2 and the language "(temporary)" is removed from the section heading.

Par. 9. Newly designated § 1.1286-2 is amended by removing the "T" from the reference "§ 1.1275-7T(e)".

Robert E. Wenzel,

Deputy Commissioner of Internal Revenue.

Approved: August 25, 1999.

Jonathan Talisman,

Deputy Assistant Secretary of the Treasury.

[FR Doc. 99-23082 Filed 9-3-99; 8:45 am]

BILLING CODE 4830-01-P

DEPARTMENT OF THE TREASURY

Internal Revenue Service

26 CFR Part 301

[TD 8837]

RIN 1545-AV50

Revision of the Tax Refund Offset Program

AGENCY: Internal Revenue Service (IRS), Treasury.

ACTION: Final regulations.

SUMMARY: This document contains final regulations relating to the administration of the Tax Refund Offset Program (TROP). This action is necessary because effective January 1, 1999, TROP, which had been administered by the IRS, was fully merged into the centralized administrative offset program known as the Treasury Offset Program (TOP), which is administered by the Financial Management Service (FMS). These regulations will affect State and Federal agencies that participate in TROP.

DATES: Effective Dates: These regulations are effective September 7, 1999.

Dates of Applicability: For dates of applicability of these regulations, see §§ 301.6402-5(h) and 301.6402-6(n).

FOR FURTHER INFORMATION CONTACT: Beverly A. Baughman, (202) 622-4940 (not a toll-free number).

SUPPLEMENTARY INFORMATION:

Background

This document contains final regulations on Procedure and Administration (26 CFR part 301) that revise the effective dates for regulations under section 6402(c) and (d). Those subsections provide rules relating to the offset of past-due support payments and debts owed to Federal agencies against Federal tax refunds, respectively.

On August 31, 1998, a notice of proposed rulemaking (REG-104565-97) under section 6402(c) and (d) was published in the **Federal Register** (63 FR 46205). Although written or electronic comments and requests for a public hearing were solicited, no comments were received and no public hearing was requested or held. The proposed regulations under section 6402(c) and (d) are adopted by this Treasury decision without revision.

Explanation of Provisions

Section 6402(c) provides, in general, that the amount of any overpayment to be refunded to the person making the overpayment must be reduced by the amount of any past-due support (as defined in section 464(c) of the Social Security Act) owed by that person of which the Secretary has been notified by a State in accordance with section 464 of the Social Security Act.

Section 6402(d) provides, in general, that upon receiving notice from any Federal agency that a named person owes a past-due, legally enforceable debt to that agency, the Secretary must reduce the amount of any overpayment payable to that person by the amount of the debt, pay the amount by which the overpayment is reduced to the agency, and notify the person making the overpayment that the overpayment has been reduced.

Prior to January 1, 1998, the IRS made offsets pursuant to section 6402(d) according to regulations prescribed under § 301.6402-6. Prior to January 1, 1999, the IRS made offsets pursuant to section 6402(c) according to regulations prescribed under § 301.6402-5.

Section 31001(v)(2) and (w) of the Debt Collection Improvement Act of 1996 (110 Stat. 1321-375), amended 42 U.S.C. 664(a)(2)(A) and 31 U.S.C. 3720A(h), respectively, to clarify that the disbursing agency of the Treasury Department may conduct tax refund offsets. The disbursing agency of the Treasury Department is the Financial Management Service (FMS).

The IRS and FMS agreed to merge the Tax Refund Offset Program (TROP), which had been administered by the IRS, into the centralized administrative offset program known as the Treasury Offset Program (TOP), which is administered by the FMS. The merger of the two programs is intended to maximize and improve the Treasury Department's government-wide collection of nontax debts, including those subject to offset against the debtor's federal tax refund. The full merger of TROP with TOP occurred on January 1, 1999.