

agencies, and contractors declared ineligible under statutory or regulatory authority other than E.O. 12549. Contractors with awards that exceed the small purchase threshold shall provide the required certification regarding its exclusion status and that of its principal employees.

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DEPARTMENT OF THE TREASURY

Internal Revenue Service

26 CFR Part 1

[TD 8781]

RIN 1545-AV95

Center Employee Stock Ownership Plans; Section 411(d)(6) Protected Benefits (Taxpayer Relief Act of 1997); Qualified Retirement Plan Benefits

AGENCY: Internal Revenue Service (IRS), Treasury.

ACTION: Final and temporary regulations.

SUMMARY: This document contains final and temporary regulations providing for changes to the rules regarding qualified retirement plan benefits that are protected from reduction by plan amendment, that have been made necessary by the Taxpayer Relief Act of 1997 (TRA '97). The temporary regulations change the existing regulations to conform with the TRA '97 rules regarding in-kind distribution requirements for certain employee stock ownership plans, and specify the time period during which certain plan amendments for which relief has been granted by TRA '97 may be made without violating the prohibition against plan amendments that reduce accrued benefits. These temporary regulations affect sponsors of qualified retirement plans, employers that maintain qualified retirement plans, and qualified retirement plan participants. The final regulations amend the existing final regulations to cross-reference the temporary regulations. The text of the temporary regulations also serves as the text of the proposed regulations set forth in the notice of proposed rulemaking on this subject in the Proposed Rules section of this issue of the **Federal Register**.

DATES: These regulations are effective September 4, 1998.

FOR FURTHER INFORMATION CONTACT: Linda S.F. Marshall, (202) 622-6030 (not a toll-free number).

SUPPLEMENTARY INFORMATION:

Background

This document contains amendments to the Income Tax Regulations (26 CFR part 1) under section 411(d)(6). These temporary regulations change the rules under section 411(d)(6) regarding qualified retirement plan benefits that are protected from reduction by plan amendment, to take into account amendments made by the Taxpayer Relief Act of 1997 (TRA '97), Public Law 105-34, 111 Stat. 788 (1997). Specifically, these temporary regulations change the existing regulations to conform to the TRA '97 amendments to section 409 regarding the general requirement that employee stock ownership plans offer distributions in the form of employer securities. In addition, these temporary regulations specify the time period during which certain plan amendments for which relief has been granted by TRA '97 may be made without violating section 411(d)(6).

Explanation of Provisions

Section 411(d)(6) provides that a plan is not treated as satisfying the requirements of section 411 if the accrued benefit of a participant is decreased by a plan amendment. Under section 411(d)(6)(B), a plan amendment that eliminates an optional form of benefit is treated as reducing accrued benefits to the extent that the amendment applies to benefits accrued as of the later of the adoption date or the effective date of the amendment. Sections 1.411(d)-4, Q&A-1(b)(1) and 1.401(a)(4)-4(e) specify that different optional forms of benefit within the meaning of section 411(d)(6)(B) result from differences in the medium of a distribution (e.g., cash or in-kind) from a plan. Section 411(d)(6)(C) provides that any tax credit employee stock ownership plan or any employee stock ownership plan is not treated as failing to meet the requirements of section 411(d)(6) merely because it modifies distribution options in a nondiscriminatory manner.

Special Rules Regarding Medium of Distribution From ESOPs

Section 409(h) contains requirements relating to distributions from tax credit employee stock ownership plans. Section 4975(e)(7) extends the requirements of section 409(h) to other employee stock ownership plans as well, and section 401(a)(23) extends the requirements of section 409(h) to qualified plans that are stock bonus plans. Under section 409(h)(1)(A), an employee stock ownership plan or other stock bonus plan generally is required to

make distributions available in the form of employer securities. Prior to its amendment by TRA '97, section 409(h)(2) provided an exception to this rule in the case of an employer whose charter or bylaws restrict the ownership of substantially all outstanding employer securities to employees or to a trust described in section 401(a).

Under section 1361, certain small business corporations that do not have more than 75 shareholders are eligible to elect treatment as S corporations whose tax attributes generally flow through to shareholders in accordance with the rules of subchapter S of chapter 1 of subtitle A of the Internal Revenue Code. Prior to the Small Business Job Protection Act of 1996 (SBJPA), Public Law 104-188, 110 Stat. 1755 (1996), an S corporation could not maintain an employee stock ownership plan because an S corporation could not have a qualified trust described in section 401(a) as a shareholder. SBJPA amended the requirements for S corporations, effective for tax years beginning after December 31, 1996, to permit certain tax-exempt organizations, including qualified trusts described in section 401(a), to be S corporation shareholders.

TRA '97 made an additional change to the rules governing qualified plans holding securities of an S corporation employer, to make it easier for S corporation employers to facilitate employee ownership of employer securities through qualified plans. Section 1506 of TRA '97 extends the exception of section 409(h)(2) to cover S corporations, effective for taxable years beginning after December 31, 1997. Pursuant to this change, tax credit employee stock ownership plans, employee stock ownership plans, and other stock bonus plans established and maintained by S corporation employers are not required to offer distributions in the form of employer securities.

Section 1.411(d)-4, Q&A-2(d)(2)(ii) provides an exception from the requirements of section 411(d)(6) for plan amendments that eliminate optional forms of benefit from a tax credit employee stock ownership plan, an employee stock ownership plan, or a stock bonus plan, for certain employers. Section 1.411(d)-4, Q&A-2(d)(2)(ii) applies to employers that become substantially employee-owned, if the employer otherwise meets the requirements of section 409(h)(2) with respect to restrictions on the ownership of outstanding employer stock. These temporary regulations expand this exception from the requirements of section 411(d)(6) to apply to S corporations as well, to reflect the TRA '97 changes to section 409(h).

Rules for Plan Amendments Pursuant to TRA '97

Section 1541 of TRA '97 contains provisions relating to plan amendments that are adopted as a result of TRA '97. If section 1541 applies to a plan amendment, section 1541(a) provides that the plan will be treated as operated in accordance with its terms and will not fail to satisfy the requirements of section 411(d)(6) by reason of the amendment. Section 1541 applies to a plan amendment that is made pursuant to a legislative change in the pension and employee benefit provisions of TRA '97, provided the following conditions are satisfied. First, the plan amendment must be adopted before the first day of the first plan year beginning on or after January 1, 1999 (2001, in the case of a governmental plan, as defined in section 414(d)). Second, the plan must be operated in accordance with the terms of the plan amendment, beginning on the date the legislative change takes effect, or, if the amendment is not required by the legislative change, the effective date of the amendment specified by the plan. Third, the plan amendment must be made retroactively effective.

The remedial amendment period for adopting plan amendments to which section 1541 of TRA '97 applies was extended pursuant to the rules of section 401(b) in Rev. Proc. 98-14 (1998-4 I.R.B. 22). To provide a uniform time for plan amendment, these temporary regulations extend the time for the section 411(d)(6) relief provided by section 1541 of TRA '97 to the end of the remedial amendment period for these plan amendments.

Other Section 411(d)(6) Issues

In Notice 98-29 (1998-22 I.R.B. 8), the IRS requested public comment regarding a number of possible methods of providing section 411(d)(6) relief, particularly for defined contribution plans. The IRS will also consider comments submitted pursuant to Notice 98-29 that propose other methods of providing section 411(d)(6) relief to address special concerns of employee stock ownership plans.

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, these temporary regulations will be submitted to the Chief Counsel for Advocacy of the Small Business Administration for comment on their impact on small business.

Drafting Information: The principal author of these regulations is Linda S.F. Marshall, Office of the Associate Chief Counsel (Employee Benefits and Exempt Organizations). 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 adding an entry in numerical order to read in part as follows:

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

§ 1.411(d)-4T also issued under 26 U.S.C. 411(d)(6). * * *

Par. 2. Section 1.411(d)-4 is amended by:

1. Removing the reference "Q&A-5" and adding Q&A-2" in its place in the first sentence of Q&A-2(d)(1) introductory text.

2. Adding a sentence at the end of Q&A-2(d)(3) to read as follows:

§ 1.411(d)-4 Section 411(d)(6) protected benefits.

* * * * *

Q-2: * * *

A-2: * * *

(d) * * *

(3) * * * (For taxable years beginning after December 31, 1997, see § 1.411(d)-4T Q&A-2(d).)

* * * * *

Par. 3. Section 1.411(d)-4T is added to read as follows:

§ 1.411(d)-4T Section 411(d)(6) protected benefits (temporary).

Q&A-1: [Reserved]. For further information, see § 1.411(d)-4 Q&A-1.

Q-2: To what extent may section 411(d)(6) protected benefits under a plan be reduced or eliminated?

A-2: (a) through (c) [Reserved]. For further information, see § 1.411(d)-4 Q&A-2 (a) through (c).

(d) *ESOP and stock bonus plan exception*—(1) *In general.* Subject to the

limitations in paragraph (d)(2) of this Q&A-2, a tax credit employee stock ownership plan (as defined in section 409(a)), an employee stock ownership plan (as defined in section 4975(e)(7)), or a stock bonus plan that is not an employee stock ownership plan will not be treated as violating the requirements of section 411(d)(6) merely because of the circumstances described in paragraph (d)(1)(ii) of this Q&A-2.

(i) [Reserved]. For further information, see § 1.411(d)-4 Q&A-2(d)(1)(i).

(ii) *Employer becomes substantially employee-owned or is an S corporation.* The employer eliminates, or retains the discretion to eliminate, with respect to all participants, optional forms of benefit by substituting cash distributions for distributions in the form of employer stock with respect to benefits subject to section 409(h) in the circumstances described in paragraph (d)(1)(ii)(A) or (B) of this Q&A-2, but only if the employer otherwise meets the requirements of section 409(h)(2)—

(A) The employer becomes substantially employee-owned; or

(B) For taxable years of the employer beginning after December 31, 1997, the employer is an S corporation as defined in section 1361.

(iii) and (iv) [Reserved]. For further information, see § 1.411(d)-4 Q&A-2(d)(1) (iii) and (iv).

(2) *Limitations on ESOP and stock bonus plan exceptions.* [Reserved]. For further information, see § 1.411(d)-4 Q&A-2(d)(2).

(3) *Effective date.* Paragraph (d) of this Q&A-2 applies for taxable years beginning after December 31, 1997. For taxable years beginning prior to January 1, 1998, see § 1.411(d)-4 Q&A-2(d).

(4) [Reserved]. For further information, see § 1.411(d)-4 Q&A-2(d)(4).

Q&A-3 through Q&A-10 [Reserved]. For further information, see § 1.411(d)-4 Q&A-3 through Q&A-10.

Q-11: To what extent may a plan amendment that is made pursuant to the Taxpayer Relief Act of 1997 (TRA '97) (Public Law 105-34, 111 Stat. 788) reduce or eliminate section 411(d)(6) protected benefits?

A-11: A plan amendment does not violate the requirements of section 411(d)(6) merely because the plan amendment reduces or eliminates section 411(d)(6) protected benefits as of the effective date of the plan amendment, provided that—

(a) The plan amendment is made pursuant to an amendment made by title XV, or subtitle H of title X, of TRA '97; and

(b) The plan amendment is adopted no later than the last day of any

remedial amendment period that applies to the plan pursuant to §§ 1.401(b)-1 and 1.401(b)-1T for changes under TRA '97.

Approved: July 24, 1998.

Michael P. Dolan,
Deputy Commissioner of Internal Revenue.

Donald C. Lubick,
Assistant Secretary of the Treasury.

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DEPARTMENT OF TRANSPORTATION

Coast Guard

33 CFR Part 117

[CGD07-98-055]

Drawbridge Operation Regulations; Biscayne Bay, Miami, FL

AGENCY: Coast Guard, DOT.

ACTION: Notice of temporary deviation from regulations.

SUMMARY: Notice is hereby given that the Coast Guard has issued a temporary deviation to the regulation governing the operation of the East Venetian Causeway Drawbridge across Biscayne Bay, between Miami and Miami Beach, at Miami Beach, Dade County, Florida. This deviation allows the drawbridge owner or operator to close the bridge from 5 p.m. until 8 a.m. daily. The draw will open each hour on the hour from 8 a.m. to 5 p.m., daily. The draw shall open at any time for public vessels of the United States, State and local vessels used in public safety, vessels in distress where a delay would endanger life or property, commercial vessels engaged in rescue or emergency salvage operations, and vessels seeking shelter from severe weather. This temporary deviation is issued to allow the bridge owner to safely conduct necessary repairs to the drawbridge.

DATES: This deviation is effective from 8 a.m. on August 21 until 5 p.m. on October 19, 1998.

FOR FURTHER INFORMATION CONTACT: Mr. Brodie Rich, Project Manager, Seventh Coast Guard District, Bridge Section at (305) 536-5117.

SUPPLEMENTARY INFORMATION:

Background and Purpose

The East Venetian Causeway Drawbridge across Biscayne Bay between Miami and Miami Beach, has a vertical clearance of 5.8 feet above mean high water (MHW) and 8 feet above mean low water (MLW) measured at the fenders in the closed position. On August 12, 1998, the State of Florida

Department of Transportation requested a deviation from the current operating schedule in 33 CFR 117.269. This temporary deviation was requested to allow necessary repairs to the drawbridge and relieve concerns by the Venetian Isle residents that the leafs of the drawbridge might get caught in the open-to-navigation position, thereby stranding residents on the islands while the West Venetian Drawbridge over the Intracoastal Waterway is being replaced. The District Commander has granted a temporary deviation from the operating requirements listed in 33 CFR 117.269 governing the East Venetian Causeway Bridge across Biscayne Bay in accordance with the provisions of 33 CFR 117.35(a) for the purpose of conducting repairs to the drawbridge. Under this deviation, the East Venetian Causeway Drawbridge need open only on the hour from 8 a.m. to 5 p.m., daily. At all other times, the drawbridge may remain in the closed position. The deviation is effective for a period of 60 days beginning on August 21, 1998 and ending on October 19, 1998.

Dated: August 24, 1998.

Norman T. Saunders,
Rear Admiral, U.S. Coast Guard, Commander, Seventh Coast Guard District.

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DEPARTMENT OF TRANSPORTATION

Coast Guard

33 CFR Part 117

[CGD11-98-012]

Drawbridge Operation Regulations; Sacramento River, Sacramento and Yolo Counties, CA, Union Pacific "I" Street Railroad Bridge

AGENCY: Coast Guard, DOT.

ACTION: Notice of temporary deviation from regulations.

SUMMARY: Notice is hereby given that the Coast Guard has issued a temporary deviation to the regulations governing the opening of the Union Pacific "I" Street Railroad swing bridge over the Sacramento River in Sacramento, CA. The deviation specifies that the bridge need not open for vessels from 6 a.m. Monday, September 14 through 10 p.m. Wednesday, September 16, 1998. The purpose of this deviation is to allow the Union Pacific Railroad and its contractors to perform preventative maintenance on the hydraulic system on the bridge.

DATES: Effective period of the deviation is 6 a.m. Monday September 14, 1998

through 10 p.m. Wednesday September 16, 1998.

FOR FURTHER INFORMATION CONTACT:

Mr. Jerry Olmes, Bridge Administrator, Eleventh Coast Guard District, Building 50-6 Coast Guard Island, Alameda, CA 94501-5100, telephone (510) 437-3515.

SUPPLEMENTARY INFORMATION: The Coast Guard anticipates that the economic consequences of this deviation will be minimal. The Coast Guard has contacted local marine interests to determine dates when the 3-day closure would have less of an impact to the marine public. The Union Pacific Railroad initially wanted to close the bridge in late August, but a local cruise company requested the work be delayed until after Labor Day, when commercial and recreational activity is less. The Railroad agreed that while maintenance was needed, they would delay repairs until after Labor Day. With advance notice, vessel operators can plan their transits accordingly.

This deviation from the normal operating regulations in 33 CFR 117.189 is authorized in accordance with the provisions of 33 CFR 117.35.

Dated: August 21, 1998.

Thomas H. Collins,
Vice Admiral, U.S. Coast Guard, Commander Eleventh Coast Guard District.

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ENVIRONMENTAL PROTECTION AGENCY

40 CFR Part 52

[MD003-3024a, MD025-3024a, MD066-3024a; FRL-6148-9]

Approval and Promulgation of Air Quality Implementation Plans; Maryland; Conditional Limited Approval of Major VOC Source RACT and Minor VOC Source Requirements

AGENCY: Environmental Protection Agency (EPA).

ACTION: Direct final rule.

SUMMARY: EPA is conditionally and limitedly approving State Implementation Plan (SIP) revisions submitted by the State of Maryland. These revisions pertain to Maryland's major source volatile organic compound (VOC) reasonably available control technology (RACT) regulation and minor VOC source requirements. The RACT regulation applies to major VOC sources that are not covered by Maryland's category specific VOC RACT regulations. The minor source requirements apply to smaller VOC