

of Y in satisfaction of the deferred compensation obligation.

(ii) In this *Example 10*, X is considered to be the grantor of the trust, and, under section 677, X is also the owner of the trust. Any income earned by the trust would be reflected on X's income tax return. Y is not considered a grantor or owner of the trust corpus at the time X transfers X stock to the trust. In Year 5, when employees of Y receive X stock in satisfaction of the deferred compensation obligation, no gain or loss is recognized on the deemed disposition of the X stock by Y. Immediately before Y's deemed disposition of the X stock, Y is treated as purchasing the X stock from X for fair market value using cash contributed to Y by X. Under section 358, X's basis in its Y stock increases by the amount of cash deemed contributed.

(f) *Effective date.* This section applies to transfers of stock or stock options of the issuing corporation occurring on or after May 16, 2000.

**Par. 5.** In § 1.1502-13, paragraph (f)(6)(v) is amended by adding a sentence after the first sentence to read as follows:

**§ 1.1502-13 Intercompany transactions.**

\* \* \* \* \*

(f) \* \* \*

(6) \* \* \*

(v) *Effective date.* \* \* \* However, paragraph (f)(6)(ii) of this section and the last sentence of paragraph (f)(6)(iv)(A) of this section do not apply to dispositions of P stock or options occurring on or after May 16, 2000.

\* \* \* \* \*

Approved: May 5, 2000.

**Robert E. Wenzel,**

*Deputy Commissioner of Internal Revenue.*

**Jonathan Talisman;**

*Assistant Secretary of the Treasury.*

[FR Doc. 00-11900 Filed 5-11-00; 2:30 pm]

**BILLING CODE 4830-01-P**

## DEPARTMENT OF THE TREASURY

### Internal Revenue Service

#### 26 CFR Part 1

[TD 8882]

**RIN 1545-AV86**

#### Reorganizations; Nonqualified Preferred Stock

**AGENCY:** Internal Revenue Service (IRS), Treasury.

**ACTION:** Final regulations.

**SUMMARY:** This document contains final regulations relating to nonqualified preferred stock and rights to acquire nonqualified preferred stock. The regulations are necessary to reflect

changes to the law concerning these instruments that were made by the Taxpayer Relief Act of 1997. The regulations affect shareholders who receive nonqualified preferred stock, or rights to acquire such stock, in certain corporate reorganizations and divisions.

**EFFECTIVE DATE:** These regulations are effective May 16, 2000.

**FOR FURTHER INFORMATION CONTACT:**

Michael J. Danbury, (202) 622-7750 (not a toll-free number).

**SUPPLEMENTARY INFORMATION:**

#### Background and Explanation of Provisions

On January 6, 1998, a temporary regulation (TD 8753) was published in the **Federal Register** (63 FR 411). A notice of proposed rulemaking (REG-121755-97) cross-referencing the temporary regulation was published in the **Federal Register** (63 FR 453) on the same day.

The temporary regulation provided that, notwithstanding contemporaneously issued final regulations treating certain rights to acquire stock as securities that can be received tax-free in corporate reorganizations and divisions, nonqualified preferred stock (as defined in section 351(g)(2) of the Internal Revenue Code) (NQPS), or a right to acquire NQPS, will in some circumstances not be treated as stock or securities for purposes of sections 354, 355, and 356. The temporary regulation added § 1.356-6T, and applied to NQPS received in connection with a transaction occurring on or after March 9, 1998 (other than certain recapitalizations of family-owned corporations and transactions described in section 1014(f)(2) of the Taxpayer Relief Act of 1997, Public Law 105-34, 111 Stat. 788, 921). No written comments responding to the notice of proposed rulemaking were received, and no public hearing was requested or held.

The regulation proposed by REG-121755-97 is adopted by this Treasury decision, and the corresponding temporary regulation is removed. Cross-references to the temporary regulation in §§ 1.354-1(e), 1.355-1(c), and 1.356-3(b) have been removed and replaced with cross-references to the final regulation at § 1.356-6.

#### 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 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. 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 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 Michael J. Danbury of the Office of Assistant Chief Counsel (Corporate). However, other personnel from the IRS and Treasury 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 \* \* \*

Section 1.356-6 also issued under 26 U.S.C. 351(g)(4). \* \* \*

#### § 1.354-1 [Amended]

**Par. 2.** In § 1.354-1, paragraph (e), first sentence, the language “§ 1.356-6T” is removed and “§ 1.356-6” is added in its place.

#### § 1.355-1 [Amended]

**Par. 3.** In § 1.355-1, paragraph (c), first sentence, the language “§ 1.356-6T” is removed and “§ 1.356-6” is added in its place.

#### § 1.356-3 [Amended]

**Par. 4.** In § 1.356-3, paragraph (b), first sentence, the language “§ 1.356-6T” is removed and “§ 1.356-6” is added in its place.

**Par. 5.** Section 1.356-6T is redesignated as § 1.356-6 and the section heading is revised to read as follows:

**§ 1.356–6 Rules for treatment of nonqualified preferred stock as other property.**

\* \* \* \* \*

Robert E. Wenzel,

*Deputy Commissioner of Internal Revenue.*

Approved: May 5, 2000.

Jonathan Talisman,

*Deputy Assistant Secretary of the Treasury.*

[FR Doc. 00–11899 Filed 5–15–00; 8:45 am]

BILLING CODE 4830–01–U

**DEPARTMENT OF THE TREASURY**

**Bureau of Alcohol, Tobacco and Firearms**

**27 CFR Part 275**

[T.D. ATF–424a]

RIN 1512–AB92

**Implementation of Public Law 105–33, Section 9302, Relating to the Imposition of Permit Requirements on the Manufacturer of Roll-Your-Own Tobacco (98R–370P)**

**ACTION:** Temporary rule; correction.

**SUMMARY:** This document corrects a section of regulations that was erroneously revised in a temporary rule (T.D. ATF–424) published in the **Federal Register** of December 22, 1999, regarding the imposition of permit requirements on manufacturers of roll-your-own tobacco.

**DATES:** This rule is effective May 16, 2000.

**FOR FURTHER INFORMATION CONTACT:** Robert Ruhf, Regulations Division, Bureau of Alcohol, Tobacco and Firearms, 650 Massachusetts Avenue NW, Washington, DC 20226 (202–927–8210).

**SUPPLEMENTARY INFORMATION:** The Bureau of Alcohol, Tobacco and Firearms (ATF) published a document in the **Federal Register** of December 22, 1999 (64 FR 71929). We erroneously revised § 275.117(e). This document corrects that error.

In rule FR Doc. 99–32602 published on December 22, 1999, on page 71932, in the third column, remove the instruction and amendatory text in paragraph 25.

Signed: May 9, 2000.

Bradley A. Buckles,

*Director.*

[FR Doc. 00–12160 Filed 5–15–00; 8:45 am]

BILLING CODE 4810–31–P

**DEPARTMENT OF DEFENSE**

**Department of the Navy**

**32 CFR Part 767**

RIN 0703–AA57

**Application Guidelines for Archeological Research Permits on Ship and Aircraft Wrecks Under the Jurisdiction of the Department of the Navy**

**AGENCY:** Department of the Navy, DOD.

**ACTION:** Final rule.

**SUMMARY:** This final rule adds guidelines for obtaining Department of the Navy (DON) archeological research permits for those applying for permission to conduct research on, and/or recover, ship or aircraft wrecks under the jurisdiction of the DON. This permit process will assist the DON in managing and protecting its historic ship and aircraft wrecks. This rule will provide clear guidance on the permit application requirements to conduct research on, and/or recover, DON ship and aircraft wrecks.

**DATES:** Effective May 16, 2000.

**FOR FURTHER INFORMATION CONTACT:** Dr. Robert S. Neyland, Underwater Archeologist, or Barbara A. Voulgaris, 202–433–2210.

**SUPPLEMENTARY INFORMATION:** On November 19, 1999 (64 FR 63263), the Department of the Navy (DON) published a notice of proposed rulemaking on the application guidelines for archeological research permits on Submerged Cultural Resources under the jurisdiction of DON. The comment period closed on January 18, 2000. Interested persons have been afforded the opportunity to participate in the making of this rule. Seven comments were submitted in response to the notice of proposed rulemaking. The comments from cultural resource professionals focused on the meaning of several definitions. In particular, there was a concern that the term “submerged cultural resources” would include more than ship and aircraft wrecks and the term would exclude ship and aircraft wrecks on land. As a result, a change was made to replace the terms “submerged cultural resources” and “underwater cultural resources” with “ship and aircraft wrecks”. Also adopted were suggestions that provide additional time in the permit review process, to increase the permit duration, and to clarify guidance on state participation when a DON resource is on a State bottomland. Comments from those representing

salvage interests were generally against restrictions. These comments and suggestions were carefully considered, but most were not adopted since they were in opposition to our goal of protecting DON cultural resources.

As background, in 1993, DON initiated an archeological management program for its historic ship and aircraft wreck sites. This was aided in part by the U.S. Department of Defense (DoD) Legacy Resource Management Program that was established by Congress in 1991, 10 U.S.C. 114, to provide DoD with an opportunity to enhance the management of DoD stewardship resources. The U.S. Naval Historical Center’s (NHC) Office of Underwater Archeology is the DON command responsible for managing the DON’s ship and aircraft wrecks under the guidelines of the Federal Archeological Program. Under the National Historic Preservation Act of 1966 as amended (NHPA), 16 U.S.C. 470 (1999), DON is obligated to protect historic properties, including ship and aircraft wrecks, for which it has custodial responsibilities. The NHPA directs federal agencies to manage their cultural resource properties in a way that emphasizes preservation and minimizes the impact of undertakings that might adversely affect such properties. Management of DON cultural resources such as ship and aircraft wrecks is not only a matter of preservation. The issues of gravesites, unexploded ordnance, and potential military usage of recovered weapons systems must also be addressed in wrecksite management.

**Custody and Management of DON Ship and Aircraft Wrecksites**

a. DON ship and aircraft wrecks are government property in the custody of DON. These seemingly abandoned wrecks remain government property until specific formal action is taken to dispose of them. DON custody of its wrecks is based on the property clause of the U.S. Constitution and international maritime law, and is consistent with Articles 95 and 96 of the Law of the Sea Convention. These laws establish that right, title, or ownership of Federal property is not lost to the government due to the passage of time. Department of the Navy ships and aircraft cannot be abandoned without formal action as authorized by Congress. Aircraft and ships stricken from the active inventory list are not considered formally disposed of or abandoned. Through the sovereign immunity provisions of admiralty law, DON retains custody of all its naval vessels and aircraft, whether lost in U.S., foreign, or international boundaries.