

27, 2009. A period of 10 minutes will be allotted to each person for making comments. An agenda showing the schedule of speakers will be prepared after the deadline for receiving outlines has passed. Copies of the agenda will be available free of charge at the hearing.

#### Drafting Information

The principal author of these regulations is Megan A. Stoner of the Office of the Associate Chief Counsel (Passthroughs and Special Industries). However, other personnel from the IRS and the Treasury Department participated in their development.

#### List of Subjects in 26 CFR Part 1

Income taxes, Reporting and recordkeeping requirements.

#### Proposed Amendment to the Regulations

Accordingly, 26 CFR part 1 is proposed to be 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 1.108–8 is added to read as follows:

#### § 1.108–8 Indebtedness satisfied by partnership interest.

(a) *In general.* For purposes of determining income of a debtor from discharge of indebtedness (COD income), if a debtor partnership transfers a capital or profits interest in the partnership to a creditor in satisfaction of its recourse or nonrecourse indebtedness (a debt-for-equity exchange), the partnership is treated as having satisfied the indebtedness with an amount of money equal to the fair market value of the partnership interest.

(b) *Determination of fair market value—(1) In general.* For purposes of paragraph (a) of this section, the fair market value of a partnership interest transferred by a debtor partnership to a creditor in satisfaction of the debtor partnership's indebtedness (debt-for-equity interest) is the liquidation value of the debt-for-equity interest, where liquidation value equals the amount of cash that the creditor would receive with respect to the debt-for-equity interest if, immediately after the transfer, the partnership sold all of its assets (including goodwill, going concern value, and any other intangibles associated with the partnership's operations) for cash equal to the fair

market value of those assets and then liquidated, if—

(i) The debtor partnership determines and maintains the capital accounts of its partners in accordance with the capital accounting rules of § 1.704–1(b)(2)(iv);

(ii) The creditor, debtor partnership, and its partners treat the fair market value of the indebtedness as being equal to the liquidation value of the debt-for-equity interest for purposes of determining the tax consequences of the debt-for-equity exchange;

(iii) The debt-for-equity exchange is an arm's-length transaction; and

(iv) Subsequent to the debt-for-equity exchange, neither the partnership redeems nor any person related to the partnership purchases the debt-for-equity interest as part of a plan at the time of the debt-for-equity exchange which has as a principal purpose the avoidance of COD income by the partnership.

(2) *Exception.* If the requirements in paragraph (b)(1) of this section are not satisfied, all the facts and circumstances will be considered in determining the fair market value of a debt-for-equity interest for purposes of paragraph (a) of this section.

(c) *Example.* The following example illustrates the provisions of this section:

*Example.* (i) AB partnership has \$1,000 of outstanding indebtedness owed to C. In an arm's-length transaction, C agrees to cancel the \$1,000 indebtedness in exchange (debt-for-equity exchange) for an interest (debt-for-equity interest) in AB. AB's partnership agreement provides that its partners' capital accounts will be determined and maintained in accordance with the capital accounting rules in § 1.704–1(b)(2)(iv). The fair market value of the \$1,000 indebtedness is \$700 at the time of the debt-for-equity exchange. Under § 1.704–1(b)(2)(iv)(b), C's capital account is increased by \$700 as a result of the debt-for-equity exchange. This amount equals the liquidation value of C's debt-for-equity interest, which is the amount of cash that C would receive with respect to that interest if AB partnership sold all of its assets for cash equal to the fair market value of those assets and then liquidated. C, AB partnership, and its partners treat the fair market value of the indebtedness as being equal to the liquidation value of C's debt-for-equity interest (\$700) for purposes of determining the tax consequences of the debt-for-equity exchange. Subsequent to the debt-for-equity exchange, neither AB partnership redeems nor any person related to AB partnership purchases C's debt-for-equity interest as part of a plan at the time of the debt-for-equity exchange which has as a principal purpose the avoidance of COD income by AB partnership.

(ii) Because the requirements in paragraph (b)(1) of this section are satisfied, the fair market value of C's debt-for-equity interest in AB partnership for purposes of determining AB partnership's COD income is the

liquidation value of C's debt-for-equity interest, or \$700. Accordingly, AB partnership is treated as satisfying the \$1,000 indebtedness with \$700 under section 108(e)(8).

(d) *Effective/applicability date.* This section applies to debt-for-equity exchanges occurring on or after the date that these regulations are published as final regulations in the **Federal Register**.

**Par. 3.** Section 1.721–1 is amended by adding paragraph (d) to read as follows:

#### § 1.721–1 Nonrecognition of gain or loss on contribution.

\* \* \* \* \*

(d) *Debt-for-equity exchange—(1) In general.* Except as otherwise provided in section 721 and the regulations under section 721, and notwithstanding § 1.108–8(a), section 721 applies to a contribution of a partnership's recourse or nonrecourse indebtedness by a creditor to the debtor partnership in exchange for a capital or profits interest in the partnership.

(2) *Exception.* Section 721 does not apply to the transfer of a partnership interest to a creditor in satisfaction of a partnership's recourse or nonrecourse indebtedness for unpaid rent, royalties, or interest on indebtedness (including accrued original issue discount). For rules applicable to a determination of whether a partnership interest transferred to a creditor is treated as payment of interest or accrued original issue discount, see §§ 1.446–2(e) and 1.1275–2(a), respectively.

(3) *Effective/applicability date.* This paragraph (d) applies to debt-for-equity exchanges occurring on or after the date that these regulations are published as final regulations in the **Federal Register**.

**Linda E. Stiff,**

*Deputy Commissioner for Services and Enforcement.*

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#### LIBRARY OF CONGRESS

#### Copyright Office

#### 37 CFR Part 201

[Docket No. RM 2008–9]

#### Fees

**AGENCY:** Copyright Office, Library of Congress.

**ACTION:** Extension of time to file comments.

**SUMMARY:** The Copyright Office is extending the time in which comments may be filed in response to its notice of

proposed rulemaking regarding new fees for registration of claims, special services and Licensing Division services, and new statutory fees and fees for certain other services that the Office is proposing to submit to Congress.

**DATES:** Comments should be in writing and received on or before November 24, 2008.

**ADDRESSES:** If hand delivered by a private party, an original and ten copies of any comment should be brought to Room LM-401 of the James Madison Memorial Building between 8:30 a.m. and 5:00 p.m. and the envelope should be addressed as follows: Office of the General Counsel, U.S. Copyright Office, James Madison Memorial Building, Room LM-401, 101 Independence Avenue, SE., Washington, DC 20559-6000. If hand delivered by a commercial courier, an original and ten copies of any comment must be delivered to the Congressional Courier Acceptance Site located at Second and D Streets, NE., Washington, DC, between 8:30 a.m. and 4:00 p.m. The envelope should be addressed as follows: Office of the

General Counsel, U.S. Copyright Office, LM 401, James Madison Building, 101 Independence Avenue, SE., Washington, DC. Please note that CCAS will not accept delivery by means of overnight delivery services such as Federal Express, United Parcel Service or DHL. If sent by mail (including overnight delivery using U.S. Postal Service Express Mail), an original and five copies should be addressed to U.S. Copyright Office, Copyright GC/I&R, P.O. Box 70400, Washington, DC 20024.

**FOR FURTHER INFORMATION CONTACT:**

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**SUPPLEMENTARY INFORMATION:**

On October 14, 2008, the Copyright Office published a notice of proposed rulemaking to inform the public that the Copyright Office of the Library of Congress is considering adoption of new fees for registration of claims, special services and Licensing Division services, and that the Office intends to

submit a schedule of proposed new statutory fees and fees for certain other services to Congress. (73 FR 60658 October 14, 2008)

The NPRM contained three charts which included a comparison of existing fees and the proposed new fees. Due to a printing problem, a substantial portion of the text was missing from the charts entitled "Special services" and "Licensing Division services," and a correction document was issued by the Federal Register on October 23, 2008. (73 FR 63111) The Office is now extending the comment deadline to provide a 30 day period to consider all the fees, including those published for the first time in the correction.

The cost study which provides the basis for the proposed fee changes is posted on the Office's website at: <http://www.copyright.gov/reports/fees2008.pdf>.

Dated: October 28, 2008.

**Tanya Sandros,**  
*General Counsel.*

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