

Rev. Rul. 98-58

This revenue ruling provides the dollar amounts, increased by the 1999 inflation adjustment, for § 1274A of the Internal Revenue Code.

BACKGROUND

In general, §§ 483 and 1274 determine the principal amount of a debt instrument given in consideration for the sale or exchange of nonpublicly traded property. In addition, any interest on a debt instrument subject to § 1274 is taken into account under the original issue discount provisions of the Code. Section 1274A, however, modifies the rules under §§ 483 and 1274 for certain types of debt instruments.

In the case of a “qualified debt instrument,” the discount rate used for purposes of §§ 483 and 1274 may not exceed 9 percent, compounded semiannually. Section 1274A(b) defines a qualified debt instrument as any debt instrument given in consideration for the sale or exchange of property (other than new § 38 property

within the meaning of § 48(b), as in effect on the day before the date of enactment of the Revenue Reconciliation Act of 1990) if the stated principal amount of the instrument does not exceed the amount specified in § 1274A(b). For debt instruments arising out of sales or exchanges before January 1, 1990, this amount is \$2,800,000.

In the case of a “cash method debt instrument,” as defined in § 1274A(c), the borrower and lender may elect to use the cash receipts and disbursements method of accounting. In particular, for any cash method debt instrument, § 1274 does not apply, and interest on the instrument is accounted for by both the borrower and the lender under the cash method of accounting. A cash method debt instrument is a qualified debt instrument that meets the following additional requirements: (A) In

the case of instruments arising out of sales or exchanges before January 1, 1990, the stated principal amount does not exceed \$2,000,000; (B) the lender does not use an accrual method of accounting and is not a dealer with respect to the property sold or exchanged; (C) § 1274 would have applied to the debt instrument but for an election under § 1274A(c); and (D) an election under § 1274A(c) is jointly made with respect to the debt instrument by the borrower and lender. Section 1.1274A-1(c)(1) of the Income Tax Regulations provides rules concerning the time for, and manner of, making this election.

Section 1274A(d)(2) provides that, for any debt instrument arising out of a sale or exchange during any calendar year after 1989, the dollar amounts stated in § 1274A(b) and § 1274A(c)(2)(A) are increased by the inflation adjustment for the

calendar year. Any increase due to the inflation adjustment is rounded to the nearest multiple of \$100 (or, if the increase is a multiple of \$50 and not of \$100, the increase is increased to the nearest multiple of \$100). The inflation adjustment for any calendar year is the percentage (if any) by which the CPI for the preceding calendar year exceeds the CPI for calendar year 1988. Section 1274A(d)(2)(B) defines the CPI for any calendar year as the average of the Consumer Price Index as of the close of the 12-month period ending on September 30 of that calendar year.

INFLATION-ADJUSTED AMOUNTS

For debt instruments arising out of sales or exchanges after December 31, 1989, the inflation-adjusted amounts under § 1274A are shown in Table 1.

<i>Calendar Year of Sale or Exchange</i>	<i>1274A(b) Amount (qualified debt instrument)</i>	<i>1274A(c)(2)(A) Amount (cash method debt instrument)</i>
1990	\$2,933,200	\$2,095,100
1991	\$3,079,600	\$2,199,700
1992	\$3,234,900	\$2,310,600
1993	\$3,332,400	\$2,380,300
1994	\$3,433,500	\$2,452,500
1995	\$3,523,600	\$2,516,900
1996	\$3,622,500	\$2,587,500
1997	\$3,723,800	\$2,659,900
1998	\$3,823,100	\$2,730,800
1999	\$3,885,500	\$2,775,400

Note: These inflation adjustments were computed using the All-Urban, Consumer Price Index, 1982-1984 base, published by the Bureau of Labor Statistics.

EFFECT ON OTHER DOCUMENTS

Rev. Rul. 97-56, 1997-2 C.B. 107 is supplemented and superseded.

DRAFTING INFORMATION

The principal author of this revenue ruling is Diana A. Inhof of the Office of the Assistant Chief Counsel (Financial Institutions and Products). For further information regarding this revenue ruling

contact Ms. Inhof on (202) 622-3930 (not a toll-free call).

Section 2032A.—Valuation of Certain Farm, etc., Real Property

The Service provides an inflation adjustment to the maximum amount by which the value of qualified real property included in a decedent's gross estate may be decreased for the estate of a decedent

dying in calendar year 1999. See Rev. Proc. 98-62, page 18.

Section 2503.—Taxable Gifts

The Service provides an inflation adjustment to the amount of gifts that may be made to a person in a calendar year without including the amount in taxable gifts for calendar year 1999. See Rev. Proc. 98-61, page 18.

Section 2523.—Gift to Spouse

The Service provides an inflation adjustment to the amount of gifts that may be made to a spouse who is not a citizen of the United States in a calendar year without including the amount in taxable gifts for calendar year 1999. See Rev. Proc. 98-61, page 18.

Section 2631.—GST Exemption

The Service provides an inflation adjustment to the amount of the generation-skipping transfer tax exemption for calendar year 1999. See Rev. Proc. 98-61, page 18.

Section 4001.—Passenger Vehicles

The Service provides an inflation adjustment to the price above which a passenger vehicle becomes subject to an excise tax for transactions occurring in calendar year 1999. See Rev. Proc. 98-61, page 18.

Section 4003.—Special Rules

The Service provides an inflation adjustment to the price above which a passenger vehicle becomes subject to an excise tax for transactions occurring in calendar year 1999. (Price includes the price of installation of parts or accessories on a passenger vehicle within six months of the date after the vehicle was first placed in service.) See Rev. Proc. 98-61, page 18.

Section 4261.—Transportation by Air

The Service provides an inflation adjustment to the amount of the excise tax on passenger air transportation beginning or ending in the United States for calendar year 1999. See Rev. Proc. 98-61, page 18.

Section 6033.—Returns by Exempt Organizations

The Service provides an inflation adjustment to the amount of dues certain exempt organizations can charge and still be excepted from the reporting requirements for exempt organizations with nondeductible lobbying expenditures for taxable years beginning in 1999. See Rev. Proc. 98-61, page 18.

Section 6039F.—Notice of Large Gifts Received From Foreign Persons

The Service provides an inflation adjustment to the amount of gifts in a taxable year from certain

foreign person(s) that may trigger a reporting requirement for a United States person for taxable years beginning in 1999. See Rev. Proc. 98-61, page 18.

Section 6323.—Validity and Priority Against Certain Persons

The Service provides inflation adjustments for calendar year 1999 to the maximum amount of a casual sale of personal property below which a federal tax lien will not be valid against a purchaser of the property, and to the maximum amount of a contract for the repair or improvement of certain residential property at or below which a federal tax lien will not be valid against a mechanic's lienor. See Rev. Proc. 98-61, page 18.

Section 6601.—Interest on Underpayment, Nonpayment, or Extension of Time for Payment of Tax

The Service provides an inflation adjustment to the amount used to determine the amount of interest charged on a certain portion of the estate tax payable in installments for the estate of a decedent dying in calendar year 1999. See Rev. Proc. 98-61, page 18.

Section 6662.—Imposition of Accuracy-Related Penalty

When information shown on a return in accordance with the applicable forms and instructions will be adequate disclosure for purposes of reducing an understatement of income tax. See Rev. Proc. 98-62, page 23.

Section 7430.—Awarding of Costs and Certain Fees

The Service provides an inflation adjustment to the hourly limit on attorney fees that may be awarded in a judgment or settlement of an administrative or judicial proceeding concerning the determination, collection, or refund of tax, interest, or penalty for calendar year 1999. See Rev. Proc. 98-61, page 18.

Section 7702B.—Treatment of Qualified Long-Term Care Insurance

The Service provides an inflation adjustment to the stated dollar amount of the per diem limitation regarding periodic payments received under a qualified long-term care insurance contract or periodic payments received under a life insurance contract that are treated as paid by reason of the death of a

chronically ill individual for calendar year 1999. See Rev. Proc. 98-61, page 18.
