Section 1274A.--Special Rules for Certain Transactions Where Stated Principal Amount Does Not Exceed $2,800,000

26 CFR 1.1274A-1: Special rules for certain transactions where stated principal amount does not exceed $2,800,000.
(Also §§ 483, 1274.)

Rev. Rul. 2018-11

This revenue ruling provides the dollar amounts, increased by the 2018 adjustment for inflation, 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 nine 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 receipts and disbursements method of accounting. A cash method debt instrument is a qualified debt instrument that meets the following additional requirements: (A) in the case of a debt instrument arising out of a sale or exchange 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 the lender. Section 1.1274A-1(c)(1) of the Income Tax Regulations provides rules concerning the time for, and manner of, making this election.

For taxable years beginning on or before December 31, 2017, § 1274A(d)(2) provided 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) were increased by the inflation adjustment for the calendar year. Any increase due to the inflation adjustment was rounded to the nearest multiple of $100 (or, if the increase was a multiple of $50 and not of $100, the increase was increased to the nearest multiple of $100). The inflation adjustment for any calendar year was the percentage (if any) by which the CPI for the preceding calendar year exceeded the CPI for calendar year 1988. Section 1274A(d)(2)(B) defined 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.

For taxable years beginning after December 31, 2017, section 11002(d)(10) of An Act to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018, Pub. L. 115-97 (the Act), amended § 1274A(d)(2) to change the calculation of the adjustments for inflation. As amended by the Act, § 1274A(d)(2) provides that the dollar amounts stated in § 1274A(b) and (c)(2)(A) are each increased by an adjustment for inflation determined by multiplying the stated amount by the cost-of-living (COL) adjustment determined under § 1(f)(3) for the calendar year in which the taxable year begins, by substituting "calendar year 1988" for "calendar year 2016" in § 1(f)(3)(A)(ii). Thus, for purposes of § 1274A(d)(2), the COL adjustment for any calendar year is the percentage (if any) by which (i) the C-CPI-U for the preceding calendar year exceeds (ii) the CPI for calendar year 1988, multiplied by the amount determined in § 1(f)(3)(B). The amount determined in § 1(f)(3)(B) is the C-CPI-U for calendar year 2016 divided by the CPI for calendar year 2016. Section 1(f)(4) defines the CPI for any calendar year as the average of the Consumer Price Index for

All Urban Consumers as of the close of the 12-month period ending on August 31 of that calendar year. Section 1(f)(6)(B) defines the C-CPI-U for any calendar year as the average of the Chained Consumer Price Index for All Urban Consumers as of the close of the 12-month period ending on August 31 of such calendar year. Under § 1274A(d)(2), any increase in an adjustment for inflation is rounded to the nearest multiple of $100 (or, if such increase is a multiple of $50, such increase shall be increased to the nearest multiple of $100).

INFLATION-ADJUSTED AMOUNTS UNDER § 1274A

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

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Inflation-Adjusted Amounts Under Section 1274A

Calendar Year of Sale or Exchange	1274A(b) Amount (qualified debt instrument)	1274A(c)(2)(A) Amount (cash method debt instrument)
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
2000	$3,960,100	$2,828,700
2001	$4,085,900	$2,918,500
2002	$4,217,500	$3,012,500
2003	$4,280,800	$3,057,700

2004	$4,381,300	$3,129,500
2005	$4,483,000	$3,202,100
2006	$4,630,300	$3,307,400
2007	$4,800,800	$3,429,100
2008	$4,913,400	$3,509,600
2009	$5,131,700	$3,665,500
2010	$5,115,100	$3,653,600
2011	$5,201,300	$3,715,200
2012	$5,339,300	$3,813,800
2013	$5,468,200	$3,905,900
2014	$5,557,200	$3,969,500
2015	$5,647,300	$4,033,800
2016	$5,664,800	$4,046,300
2017	$5,717,400	$4,083,800
2018	$5,831,500[1]	$4,165,300[2]

Notes: The inflation adjustments for 1990-2017 were computed using the All-Urban, Consumer Price Index, 1982–1984 base, published by the Bureau of Labor Statistics.

For taxable years beginning after December 31, 2017, the adjustment for inflation is computed using the Chained Consumer Price Index for All Urban Consumers, 1999 base, and the All-Urban, Consumer Price Index, 1982–1984 base, both published by the Bureau of Labor Statistics.

EFFECT ON OTHER DOCUMENTS

Rev. Rul. 2016-30, 2016-52 I.R.B. 876, is supplemented and superseded.

[1] For a debt instrument arising out of a sale or exchange that occurs after December 31, 2017, and before April 30, 2018, or for a debt instrument arising out of a sale or exchange that occurs on or after April 30, 2018, pursuant to a binding written contract entered into before April 30, 2018, a taxpayer, however, may use $5,834,700 as the section 1274A(b) amount to determine whether the debt instrument is a qualified debt instrument. The methodology used prior to January 1, 2018, was used to compute the inflation-adjusted amount for a qualified debt instrument in the preceding sentence.

[2] For a debt instrument arising out of a sale or exchange that occurs after December 31, 2017, and before April 30, 2018, or for a debt instrument arising out of a sale or exchange that occurs on or after April 30, 2018, pursuant to a binding written contract entered into before April 30, 2018, a taxpayer, however, may use $4,167,600 as the section 1274A(c)(2)(A) amount to determine whether the debt instrument is a cash method debt instrument. The methodology used prior to January 1, 2018, was used to compute the inflation-adjusted amount for a cash method debt instrument in the preceding sentence.

DRAFTING INFORMATION

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