Exhibit 2
Description of Transaction

By this application, Media General Communications, Inc. and its indirect wholly owned subsidiary Media General Broadcasting of South Carolina Holdings, Inc. (collectively "Media General") seek consent for the assignment of the licenses for four Media General full service television broadcast stations and three satellite television broadcast stations (the "MG Stations") from the licensee companies identified below to MG Broadcasting, LLC ("Assignee"), as an "exchange accommodation titleholder" ("EAT") under the rules and policies of the Internal Revenue Service.

	Station	Licensee
1.	WIAT(TV), Birmingham, Alabama (FCC Id. No. 5360)	Media General Communications, Inc.
2.	WDEF-TV, Chattanooga, Tennessee (FCC Id. No. 54385)	Media General Communications, Inc.
3.	KIMT(TV), Mason City, Iowa (FCC Id. No. 66402)	Media General Broadcasting of South Carolina Holdings, Inc.
4.	KWCH-TV, Hutchison, Kansas (FCC Id. No. 66413)	Media General Broadcasting of South Carolina Holdings, Inc.
	Satellites of KWCH-TV:	
	KBSD-TV, Ensign, Kansas (FCC Id. No. 66414)	Media General Broadcasting of South Carolina Holdings, Inc.
	KBSH-TV, Hays, Kansas (FCC Id. No. 66415)	Media General Broadcasting of South Carolina Holdings, Inc.
	KBSL-TV, Goodland, Kansas (FCC Id. No. 66416)	Media General Broadcasting of South Carolina Holdings, Inc.

The proposed *pro forma* assignment of the MG Stations' licenses from Media General to MG Broadcasting, LLC, as EAT, qualifies as a *pro forma* assignment of licenses because (1) Media General will remain in *de facto* control of all aspects of the operation of the MG Stations, including finances, programming, and personnel; (2) except for tax purposes, Media General will retain the entirety of the beneficial ownership interest in the MG Stations; and, (3) Assignee as EAT will be legally bound to take no action regarding the business or operations of the MG Stations except at the express direction of Media General as Media General's agent.

Approval of the *pro forma* assignment of the licenses for the MG Stations to Assignee as EAT will permit the use of a structure which the Treasury Department created and prescribed to facilitate like-kind exchanges. In a like-kind exchange, the taxpayer effectively replaces one property with a property of similar type and use, and the tax laws provide special tax treatment for those exchanges. The proposed *pro forma* assignment follows the structure prescribed by the Internal Revenue Service in IRS Revenue Procedure 2000-37 which permits the Assignee as EAT to act as the agent of Media General, fully subject to Media General's direction, and also expressly permits Media General to remain fully in control of the assets and licenses of the MG Stations, including the operation of the business of the MG Stations and the ultimate disposition of the assets and licenses held in the name of the Assignee as EAT. These express provisions in Revenue Procedure 2000-37, which is the basis for this transaction, thus provide additional assurance that *de facto* control and operation of the MG Stations will remain firmly under Media General.

As described more fully below, for a limited time the EAT will hold legal title to the MG Stations' assets and licenses – but no beneficial ownership interest, except for tax purposes – as the agent of Media General, subject to Media General's control and direction in all matters. The Assignee as EAT will hold the MG Stations' licenses and assets solely for the benefit of Media General and will have no economic or proprietary interest in the MG Stations' assets and licenses, aside from a fee unrelated to station performance that Media General will pay to the Assignee for serving as EAT. There will be no changes in the programming or personnel of the MG Stations except as Media General may direct, and Media General will have full control of the MG Stations' finances. All of the economic risks and benefits of the MG Stations' operations will remain with Media General.

In sum, although the Assignee will possess all the legal qualifications required for a Commission licensee,[1] all of the benefits, burdens, and responsibilities of the ownership and operation of the MG Stations (except for the holding of title) will remain continuously with Media General. Because Media General unquestionably will retain *de facto* control of the MG Stations and the MG Stations' licenses, *pro forma* approval of the assignment to the EAT as a *pro forma* assignment is consistent with *Metromedia, Inc.*[2] and subsequent Commission decisions holding that a change in *de jure* control with no substantial change in *de facto* control is a *pro forma* ownership change that may be approved on FCC Form 316. Media General's continued control of the MG Stations, however, will not solely be through the practical ability to control them, but also through the legal obligation of the EAT to act only at Media General's direction. Thus, although the structure through which Media General will exercise control will change, Media General will retain *de jure* control of the MG Stations as well.

[1] MG Broadcasting, LLC is a single-member limited liability company created to serve as exchange accommodation titleholder for this transaction. The sole member of MG Broadcasting, LLC is TVPX Acquisitions, Inc. TVPX Acquisitions, Inc., in turn, is a wholly owned subsidiary of Time Value Management Services, Inc., a privately held corporation in the business of arranging and equipping entities to serve as titleholders in EAT transactions and similar tax-driven transactions. As described above, MG Broadcasting, LLC will neither exercise *de facto* control of the MG Stations nor have the legal right to do more than hold title. Nevertheless, party information has been provided for MG Broadcasting, LLC and its parent entities and the responses in this application include pertinent information for MG Broadcasting, LLC.

[2] Metromedia, Inc., 98 F.C.C.2d 300, *reconsideration denied*, 56 R.R.2d 1198 (1984), *appeal dismissed sub nom.* California Association for the Physically Handicapped v. FCC, 778 F.2d 823 (D.C. Cir. 1985).

"Exchange Accommodation Titleholder" Transactions Under IRS Rules

Section 1031 of the Internal Revenue Code generally permits a broadcaster to defer some recognition of gain for tax purposes on the disposition of the assets of a broadcasting station to the extent the broadcaster thereafter acquires like assets of another station of equal or greater value. Such a transaction is known as a "like-kind exchange." If a broadcaster that desires to dispose of a station (the "relinquished station") and acquire another station (the "replacement station") has entered into a contract to acquire the replacement station but has not yet contracted for the disposition of the relinquished station, the Internal Revenue Service ("IRS") will permit the broadcaster to transfer the relinquished station to an "exchange accommodation titleholder (or "EAT") to facilitate the like-kind exchange. The broadcaster then acquires the replacement station to complete the tax-deferred like-kind exchange. Thereafter, the broadcaster negotiates for the sale of the relinquished station to an independent third party through the EAT.

If the relationship between the broadcaster and the EAT is structured pursuant to a safe harbor established by the Internal Revenue Service in IRS Revenue Procedure 2000-37, the EAT will not be treated as an agent of the broadcaster for federal income tax purposes, and the broadcaster will be permitted like-kind exchange treatment. This favorable treatment will apply even though the EAT is treated as an agent of the broadcaster for accounting, regulatory, and other non-tax related purposes.

Media General desires to dispose of the MG Stations and acquire certain television broadcast stations from NBC in a like-kind exchange structured through an EAT. Set forth below is an outline of the steps Media General will take to effectuate the exchange, consistent with the rules and regulations of the Commission.

Summary of Transaction Steps

1. Media General and NBC entered into a Purchase Contract for four NBC Stations on April 6, 2006. Long-form applications for Commission consent to those assignments were filed with the Commission on April 10, 2006, and are pending before the Commission under the following file numbers:

    WCMH-TV, Columbus, Ohio
    File No. BALCT-20060410AEB

    WNCN(TV), Goldsboro, North Carolina
    File No. BALCT-20060410AEH

    WVTM-TV, Birmingham, Alabama
    File No. BALCT-20060410AEK

    WJAR(TV), Providence, Rhode Island
    File No. BALCT-2060410ADY

2. Prior to the closing of the Purchase Contract, Media General and the EAT will enter into the EAT Sale Contract, providing for the assignment of the MG Stations to the EAT, subject to FCC consent to the assignment of the FCC licenses.

3. Also prior to the closing of the Purchase Contract, Media General and the EAT will enter into the EAT Agency Contract, which will contain the following provisions:

   (a) Media General will loan the EAT the purchase price for the MG Stations on a nonrecourse basis. The loan will be evidenced by an EAT Note that will require the EAT to pay interest, with principal due as one or more of the MG Stations are sold.

   (b) Media General intends to undertake to find one or more buyers for the MG Stations and to negotiate a sale contract for the sale of the MG Stations to one or more third parties (the "Sale Contract"). The EAT will agree to sell the MG Stations pursuant to the terms of the Sale Contract. A sale of the MG Stations through the EAT to a third party would follow standard "long form" procedures.

   (c) Under the EAT Sale Contract, Media General and the EAT will agree that if the sale price for the MG Stations pursuant to the Sale Contract is less than the purchase price under the EAT Sale Contract, then Media General will cancel principal on the EAT Note equal to the amount by which the purchase price, under the EAT Sale Contract exceeds the sale price under the Sale Contract, and such debt cancellation will be reflected as a reduction in the purchase price paid by the EAT to Media General for the MG Stations.

   (d) Media General and the EAT also will agree that if the sale price for the MG Stations pursuant to the Sale Contract is more than the purchase price under the EAT Sale Contract, the EAT will pay the difference to Media General as an increase in the purchase price paid by the EAT to Media General for the MG Stations.

   (e) Media General and the EAT will agree that if the EAT has not closed on the sale of one or more of the MG Stations within 180 days after Media General's transfer of the MG Stations to the EAT, then the EAT has the right (which, under IRS regulations, must be exercised within 185 days after the assignment of the MG Stations to the EAT) to require Media General to accept the reassignment of any such MG Stations and Media General has the right (which also must be exercised within 185 days after the transfer of the MG Stations to the EAT) to require the EAT to reassign any such MG Stations to Media General. The closing of the put and call rights will be subject to receipt of FCC consent to the assignment of the FCC licenses to Media General. The price to be paid upon the exercise of the put or call will be the unpaid balance of the amounts due under the EAT Note.

(f) Media General will agree to pay the EAT all expenses incurred by the EAT during the time that it holds the MG Stations. Further, Media General will agree to indemnify the EAT and hold it harmless against all losses that may be incurred by the EAT while it holds the MG Stations.

(g) Media General and the EAT will agree that until the MG Stations are sold, Media General will operate the MG Stations and will be entitled to the cash flow of the MG Stations. The EAT will be prohibited from selling the MG Stations, borrowing funds, or undertaking any other transaction without the express direction of Media General.

(h) The EAT and Media General will agree that the EAT is accepting assignment of the MG Stations from Media General and is holding the MG Stations for the benefit of Media General to effect the section 1031 like-kind exchange pursuant to the safe harbor established by the Internal Revenue Service in IRS Revenue Procedure 2000-37. As required by IRS Revenue Procedure 2000-37, Media General and the EAT will agree to treat the EAT as the beneficial owner of the MG Stations for tax purposes, with the MG Stations nevertheless remaining subject to the control and direction of Media General.

(i) The EAT Agency Contract will further specify that the EAT will act in the capacity as Media General's agent for all purposes other than federal income tax purposes.

Benefits and Burdens of Ownership of MG Stations

While the EAT holds legal title to the MG Stations, Media General will bear all the risks, and will be entitled to all the benefits of ownership of the MG Stations. Thus,

1. Media General will continue to operate the MG Stations and will have sole right to the cash flow therefrom, subject only to a specified amount that will be paid to the EAT to cover its accommodation fee. Media General will program the MG Stations and retain all revenue from commercial time sold during the programming provided by Media General.

2. Media General will be required to pay all costs of operating the MG Stations, and must fully indemnify the EAT against any losses arising out of the operation of the MG Stations. All risk of loss (tort claims, fire and storm damage, etc.) will remain with Media General.

3. The EAT will be required to sell the MG Stations to Buyer(s), subject to FCC consent, pursuant to the Sale Contract. The EAT will have no ability to reject the Sale Contract.

4. Media General will be entitled to receive the amount by which the price payable under the Sale Contract exceeds the EAT Note; the EAT will not be entitled to any such excess. Correspondingly, Media General will bear the loss if the MG Stations are sold for less

than the EAT Note, through a reduction in the amount of the EAT Note. (*See* paragraphs 3(c) and 3(d) on page 4.)

5. The Buyer(s) will look solely to Media General for remedies under the Sale Contract, such as a breach of representations or warranties.

6. If a sale of one or more of the MG Stations to a third party is not closed within 180 days, Media General will have the right and obligation to re-acquire title to the MG Stations for the outstanding balance under the EAT Note, regardless of the value of the MG Stations at that time, subject only to the Commission's consent and compliance with applicable governmental laws and orders.

Pro Forma Status of the Assignment to the Assignee as EAT

The Commission has long held that a change from *de jure* and *de facto* control to *de facto* control is a *pro forma* change.[3] In the proposed assignment, Media General unequivocally would retain *de facto* control of the MG Stations and, as *de jure* control has been defined under the Communications Act, *de jure* control as well.

The Commission has defined "*de jure* control" as "control as a matter of law, such as a 51 percent or greater shareholder of a corporation. . . . "[4] Here, as a matter of law, Media General will remain in full and lawful control of the MG Stations while the Assignee as EAT will hold title to the MG Stations' assets and licenses, but no other indicia of ownership. IRS Revenue Procedure 2000-37, the foundation for the transaction, permits the Assignee as EAT to, as a matter of law, act at Media General's direction. The EAT Sale Contract and the EAT Agency Agreement will spell out this obligation as a matter of law. Media General thus will have more than just the actual power to dominate the operation and management of the MG Stations. Media General in fact will have full legal authority to deal with the MG Stations as its owned stations, which in fact they are and will continue to be in the hands of the Assignee as EAT. The Internal Revenue Service will regard the EAT as owner of the MG Stations only for federal income tax purposes, for the limited objective of extending the benefits of like-kind exchange treatment to the ultimate disposition of the MG Stations. Although the Internal Revenue Service's treatment of the EAT as owner of the stations solely for tax purposes is in effect a legal fiction, the assignment is in no respect a circumvention of Internal Revenue Service requirements. Rather, the transaction follows specific requirements laid down by the Internal Revenue Service, which expressly permit the EAT to remain subject to Media General's control in all matters relating to the assigned assets. Thus, to the extent that *de jure* control rests on rights specifically provided by law and by agreement, Media General will retain *de jure* control of the MG Stations in the hands of the Assignee as EAT.

[3] *See Metromedia, Inc., supra*.

[4] Benjamin L. Dubb, 15 F.C.C. 274, 289 (1951).

Media General indisputably will retain *de facto* control of the MG Stations. In the EAT structure, no entity competes with Media General for *de facto* control. The Assignee as EAT itself is an agent of Media General, selected by Media General and contractually bound to a passive role in which the EAT follows only Media General's instructions regarding the operation and ultimate disposition of the MG Stations. The Assignee as EAT has no economic interest or expectation in the MG Stations beyond the fee it will receive for its services as titleholder. Under the EAT Agency Contract, that fee is independent of the operating income of the MG Stations, and the Assignee as EAT will have no responsibilities for operation of the MG Stations. The EAT acts solely as a titleholder and will have no beneficial ownership or interest in the MG Stations or the MG Stations' assets, other than for tax purposes, and no discretion in dealing with them. Media General will continue to bear the responsibility for the conduct of the MG Stations' operations and, in particular, for compliance with Commission requirements and service to the MG Stations' communities of license.

In sum, the assignment of the MG Stations' licenses and assets to Assignee as EAT is, insofar as the Commission's rules are implicated, effectively a transaction wholly internal to Media General and thus plainly *pro forma*. Media General originated the transaction and the Assignee as EAT is Media General's retained agent for this purpose. Under the transaction documents and under the provisions of IRS Revenue Procedure 2000-37 that govern this transaction, the Assignee as EAT only holds title to the assets without other indicia of ownership or control, and only does so for the purpose of permitting Media General to obtain like-kind exchange federal tax treatment for the ultimate disposition of the MG Stations, all in accordance with a structure prescribed by the IRS.

For the reasons set forth above, *pro forma* treatment of this assignment accords fully with the Commission's policies and rules. Moreover, the Commission has a standing policy to "seek to implement procedures which fully accommodate, whenever feasible, other federal and state laws concerning the governance of corporations."[5] As the Commission has stated:

> While we recognize that our primary mission is to implement the Communications Act, we believe that, in doing so, it is both necessary and appropriate for us to harmonize our actions with other federal policies and objectives.[6]

Because of the time frames involved in a like-kind exchange using an EAT, any treatment other than *pro forma* treatment for the assignment to the Assignee as EAT would frustrate the application of IRS Revenue Procedure 2000-37 to corporations controlling broadcast stations and deny to those entities a tax treatment that the Internal Revenue Service has taken great pains to make available. Thus, although the Commission may not previously have been presented with an assignment to an EAT under IRS Revenue Procedure 2000-37, the Commission has both a

[5] Tender Offer and Proxy Contest Policy Statement, 59 R.R.2d 1536 (1986), at ¶ 7.

[6] *Id. citing* Storer Communications, Inc. v. FCC, 763 F.2d 436, 443 (D.C. Cir. 1986), and LaRose v. FCC, 494 F.2d 1145, 1146 (D.C. Cir. 1974).

standing policy and a duty to accommodate that Internal Revenue Service policy and objective in its transfer to the extent it can do so consistent with the Communications Act.

Attachment – Revenue Procedure 2000-37

Internal Revenue
cumulative
bulletin
2000-2
July-December

Department of the Treasury
Internal Revenue Service

26 CFR 1.1031(a)–1: Property held for productive use in trade or business or for investment; 1.1031(k)–1: Treatment of deferred exchanges.

Rev. Proc. 2000–37

SECTION 1. PURPOSE

This revenue procedure provides a safe harbor under which the Internal Revenue Service will not challenge (a) the qualification of property as either "replacement property" or "relinquished property" (as defined in § 1.1031(k)–1(a) of the Income Tax Regulations) for purposes of § 1031 of the Internal Revenue Code and the regulations thereunder or (b) the treatment of the "exchange accommodation titleholder" as the beneficial owner of such property for federal income tax purposes, if the property is held in a "qualified exchange accommodation arrangement" (QEAA), as defined in section 4.02 of this revenue procedure.

SECTION 2. BACKGROUND

.01 Section 1031(a)(1) provides that no gain or loss is recognized on the exchange of property held for productive use in a trade or business or for investment if the property is exchanged solely for property of like kind that is to be held either for productive use in a trade or business or for investment.

.02 Section 1031(a)(3) provides that property received by the taxpayer is not treated as like-kind property if it: (a) is not identified as property to be received in the exchange on or before the day that is 45 days after the date on which the taxpayer transfers the relinquished property; or (b) is received after the earlier of the date that is 180 days after the date on which the taxpayer transfers the relinquished property, or the due date (determined with regard to extension) for the transferor's federal income tax return for the year in which the transfer of the relinquished property occurs.

.03 Determining the owner of property for federal income tax purposes requires an analysis of all of the facts and circumstances. As a general rule, the party that bears the economic burdens and benefits of ownership will be considered the owner of property for federal income tax purposes. *See* Rev. Rul. 82–144, 1982–2 C.B. 34.

.04 On April 25, 1991, the Treasury Department and the Service promulgated final regulations under § 1.1031(k)–1 providing rules for deferred like-kind exchanges under § 1031(a)(3). The preamble to the final regulations states that the deferred exchange rules under § 1031(a)(3) do not apply to reverse-*Starker* exchanges (*i.e.*, exchanges where the replacement property is acquired before the relinquished property is transferred) and consequently that the final regulations do not apply to such exchanges. T.D. 8346, 1991–1 C.B. 150, 151; *see Starker v. United States*, 602 F.2d 1341 (9th Cir. 1979). However, the preamble indicates that Treasury and the Service will continue to study the applicability of the general rule of § 1031(a)(1) to these transactions. T.D. 8346, 1991–1 C.B. 150, 151.

.05 Since the promulgation of the final regulations under § 1.1031(k)–1, taxpayers have engaged in a wide variety of transactions, including so-called "parking" transactions, to facilitate reverse like-kind exchanges. Parking transactions typically are designed to "park" the desired replacement property with an accommodation party until such time as the taxpayer arranges for the transfer of the relinquished property to the ultimate transferee in a simultaneous or deferred exchange. Once such a transfer is arranged, the taxpayer transfers the relinquished property to the accommodation party in exchange for the replacement property, and the accommodation party then transfers the relinquished property to the ultimate transferee. In other situations, an accommodation party may acquire the desired replacement property on behalf of the taxpayer and immediately exchange such property with the taxpayer for the relinquished property, thereafter holding the relinquished property until the taxpayer arranges for a transfer of such property to the ultimate transferee. In the parking arrangements, taxpayers attempt to arrange the transaction so that the accommodation party has enough of the benefits and burdens relating to the property so that the accommodation party will be treated as the owner for federal income tax purposes.

.06 Treasury and the Service have determined that it is in the best interest of sound tax administration to provide taxpayers with a workable means of qualifying their transactions under § 1031 in situations where the taxpayer has a genuine intent to accomplish a like-kind exchange at the time that it arranges for the acquisition of the replacement property and actually accomplishes the exchange within a short time thereafter. Accordingly, this revenue procedure provides a safe harbor that allows a taxpayer to treat the accommodation party as the owner of the property for federal income tax purposes, thereby enabling the taxpayer to accomplish a qualifying like-kind exchange.

SECTION 3. SCOPE

.01 *Exclusivity*. This revenue procedure provides a safe harbor for the qualification under § 1031 of certain arrangements between taxpayers and exchange accommodation titleholders and provides for the treatment of the exchange accommodation titleholder as the beneficial owner of the property for federal income tax purposes. These provisions apply only in the limited context described in this revenue procedure. The principles set forth in this revenue procedure have no application to any federal income tax determinations other than determinations that involve arrangements qualifying for the safe harbor.

.02 *No inference*. No inference is intended with respect to the federal income tax treatment of arrangements similar to those described in this revenue procedure that were entered into prior to the effective date of this revenue procedure. Further, the Service recognizes that "parking" transactions can be accomplished outside of the safe harbor provided in this revenue procedure. Accordingly, no inference is intended with respect to the federal income tax treatment of "parking" transactions that do not satisfy the terms of the safe harbor provided in this revenue procedure, whether entered into prior to or after the effective date of this revenue procedure.

.03 *Other issues*. Services for the taxpayer in connection with a person's role as the exchange accommodation titleholder in a QEAA shall not be taken into account in determining whether that person or a related person is a disqualified person (as defined in § 1.1031(k)–1(k)). Even though property will not fail to be treated as being held in a QEAA as a result of one or more arrangements described in section 4.03 of this revenue procedure, the Service still may recast an amount paid pursuant to such an arrangement as a fee paid to the exchange accommodation titleholder for acting as an exchange accommodation titleholder to the extent necessary to reflect the true economic substance of the arrangement. Other federal income tax issues implicated, but not addressed, in this revenue procedure include the treatment, for federal income tax purposes, of payments described in section 4.03(7) and whether an exchange accommodation titleholder may be precluded from claiming depreciation deductions (*e.g.*, as a dealer) with respect to the relinquished property or the replacement property.

.04 *Effect of Noncompliance.* If the requirements of this revenue procedure are not satisfied (for example, the property subject to a QEAA is not transferred within the time period provided), then this revenue procedure does not apply. Accordingly, the determination of whether the taxpayer or the exchange accommodation titleholder is the owner of the property for federal income tax purposes, and the proper treatment of any transactions entered into by or between the parties, will be made without regard to the provisions of this revenue procedure.

SECTION 4. QUALIFIED EXCHANGE ACCOMMODATION ARRANGEMENTS

.01 *Generally.* The Service will not challenge the qualification of property as either "replacement property" or "relinquished property" (as defined in § 1.1031(k)–1(a)) for purposes of § 1031 and the regulations thereunder, or the treatment of the exchange accommodation titleholder as the beneficial owner of such property for federal income tax purposes, if the property is held in a QEAA.

.02 *Qualified Exchange Accommodation Arrangements.* For purposes of this revenue procedure, property is held in a QEAA if all of the following requirements are met:

(1) Qualified indicia of ownership of the property is held by a person (the "exchange accommodation titleholder") who is not the taxpayer or a disqualified person and either such person is subject to federal income tax or, if such person is treated as a partnership or S corporation for federal income tax purposes, more than 90 percent of its interests or stock are owned by partners or shareholders who are subject to federal income tax. Such qualified indicia of ownership must be held by the exchange accommodation titleholder at all times from the date of acquisition by the exchange accommodation titleholder until the property is transferred as described in section 4.02(5) of this revenue procedure. For this purpose, "qualified indicia of ownership" means legal title to the property, other indicia of ownership of the property that are treated as beneficial ownership of the property under applicable principles of commercial law (*e.g.*, a contract for deed), or interests in an entity that is disregarded as an entity separate from its owner for federal income tax purposes (*e.g.*, a single member limited liability company) and that holds either legal title to the property or such other indicia of ownership;

(2) At the time the qualified indicia of ownership of the property is transferred to the exchange accommodation titleholder, it is the taxpayer's bona fide intent that the property held by the exchange accommodation titleholder represent either replacement property or relinquished property in an exchange that is intended to qualify for nonrecognition of gain (in whole or in part) or loss under § 1031;

(3) No later than five business days after the transfer of qualified indicia of ownership of the property to the exchange accommodation titleholder, the taxpayer and the exchange accommodation titleholder enter into a written agreement (the "qualified exchange accommodation agreement") that provides that the exchange accommodation titleholder is holding the property for the benefit of the taxpayer in order to facilitate an exchange under § 1031 and this revenue procedure and that the taxpayer and the exchange accommodation titleholder agree to report the acquisition, holding, and disposition of the property as provided in this revenue procedure. The agreement must specify that the exchange accommodation titleholder will be treated as the beneficial owner of the property for all federal income tax purposes. Both parties must report the federal income tax attributes of the property on their federal income tax returns in a manner consistent with this agreement;

(4) No later than 45 days after the transfer of qualified indicia of ownership of the replacement property to the exchange accommodation titleholder, the relinquished property is properly identified. Identification must be made in a manner consistent with the principles described in § 1.1031(k)–1(c). For purposes of this section, the taxpayer may properly identify alternative and multiple properties, as described in § 1.1031(k)–1(c)(4);

(5) No later than 180 days after the transfer of qualified indicia of ownership of the property to the exchange accommodation titleholder, (a) the property is transferred (either directly or indirectly through a qualified intermediary (as defined in § 1.1031(k)–1(g)(4))) to the taxpayer as replacement property; or (b) the property is transferred to a person who is not the taxpayer or a disqualified person as relinquished property; and

(6) The combined time period that the relinquished property and the replacement property are held in a QEAA does not exceed 180 days.

.03 *Permissible Agreements.* Property will not fail to be treated as being held in a QEAA as a result of any one or more of the following legal or contractual arrangements, regardless of whether such arrangements contain terms that typically would result from arm's length bargaining between unrelated parties with respect to such arrangements:

(1) An exchange accommodation titleholder that satisfies the requirements of the qualified intermediary safe harbor set forth in §1.1031(k)–1(g)(4) may enter into an exchange agreement with the taxpayer to serve as the qualified intermediary in a simultaneous or deferred exchange of the property under § 1031;

(2) The taxpayer or a disqualified person guarantees some or all of the obligations of the exchange accommodation titleholder, including secured or unsecured debt incurred to acquire the property, or indemnifies the exchange accommodation titleholder against costs and expenses;

(3) The taxpayer or a disqualified person loans or advances funds to the exchange accommodation titleholder or guarantees a loan or advance to the exchange accommodation titleholder;

(4) The property is leased by the exchange accommodation titleholder to the taxpayer or a disqualified person;

(5) The taxpayer or a disqualified person manages the property, supervises improvement of the property, acts as a contractor, or otherwise provides services to the exchange accommodation titleholder with respect to the property;

(6) The taxpayer and the exchange accommodation titleholder enter into agreements or arrangements relating to the purchase or sale of the property, including puts and calls at fixed or formula prices, effective for a period not in excess of 185 days from the date the property is acquired by the exchange accommodation titleholder; and

(7) The taxpayer and the exchange accommodation titleholder enter into agreements or arrangements providing that any variation in the value of a relinquished property from the estimated value on the date of the exchange accommodation titleholder's receipt of the property be taken into account upon the exchange accommodation titleholder's disposition of the relinquished property through the taxpayer's advance of funds to, or receipt of funds from, the exchange accommodation titleholder.

.04 *Permissible Treatment*. Property will not fail to be treated as being held in a QEAA merely because the accounting, regulatory, or state, local, or foreign tax treatment of the arrangement between the taxpayer and the exchange accommodation titleholder is different from the treatment required by section 4.02(3) of this revenue procedure.

SECTION 5. EFFECTIVE DATE

This revenue procedure is effective for QEAAs entered into with respect to an exchange accommodation titleholder that acquires qualified indicia of ownership of property on or after September 15, 2000.

SECTION 6. PAPERWORK REDUCTION ACT

The collections of information contained in this revenue procedure have been reviewed and approved by the Office of Management and Budget in accordance with the Paperwork Reduction Act (44 U.S.C. 3507) under control number 1545-1701. An agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless the collection of information displays a valid control number.

The collections of information are contained in section 4.02 of this revenue procedure, which requires taxpayers and exchange accommodation titleholders to enter into a written agreement that the exchange accommodation titleholder will be treated as the beneficial owner of the property for all federal income tax purposes. This information is required to ensure that both parties to a QEAA treat the transaction consistently for federal tax purposes. The likely respondents are businesses and other for-profit institutions, and individuals.

The estimated average annual burden to prepare the agreement and certification is two hours. The estimated number of respondents is 1,600, and the estimated total annual reporting burden is 3,200 hours.

The estimated annual frequency of responses is on occasion.

Books and records relating to a collection of information must be retained as long as their contents may become material in the administration of any internal revenue law. Generally, tax returns and tax return information are confidential, as required by 26 U.S.C. 6103.

DRAFTING INFORMATION

The principal author of this revenue procedure is J. Peter Baumgarten of the Office of Associate Chief Counsel (Income Tax and Accounting). For further information regarding this revenue procedure, contact Mr. Baumgarten at (202) 622-4950 (not a toll-free call).

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26 CFR 601.204: Changes in accounting periods and in methods of accounting.
(Also Part I, §§ 446, 481; 1.446–1, 1.481–1.)

Rev. Proc. 2000–38

SECTION 1. PURPOSE

This revenue procedure provides three permissible methods of accounting for distributor commissions (as defined in § 2 below). A taxpayer may change to or adopt any of the three methods. This revenue procedure provides procedures for a taxpayer to obtain consent from the Commissioner of Internal Revenue to change to any of the three methods of accounting for distributor commissions, including rules relating to the limitations, terms, and conditions the Commissioner deems necessary to make the change.

SECTION 2. DEFINITIONS

Under Rule 12b–1 (17 C.F.R. § 270. 12b–1), an open-end regulated investment company ("mutual fund") may adopt, for one or more classes of its shares, a plan that permits it to use fund assets to pay a fee to cover distribution costs of fund shares ("distribution fee"). For purposes of this revenue procedure, the term "distributor commissions" means commissions paid or incurred by a distributor of a mutual fund on the sale of mutual fund shares for which the distributor is to receive a distribution fee from the mutual fund and, in some cases, a contingent deferred sales charge from the investor in future taxable year(s) (typically referred to in the mutual fund industry as "B shares"). Distributor commissions do not include commissions paid or incurred on the sale of mutual fund shares for which the distributor is to receive a distribution fee and, in some cases, a contingent deferred sales charge in future taxable years and will make commission payments to the selling broker in an amount equal to the amount it receives each year that the shares remain outstanding (typically referred to in the mutual fund industry as "C shares").

SECTION 3. BACKGROUND

.01 Mutual funds generally distribute new shares to the public through a distributor. If an investor purchases mutual fund shares through a broker, either the investor or the distributor pays the brokerage commissions. If the distributor pays the brokerage commissions (i.e., distributor commissions), the distributor typically recovers this cost by collecting from the mutual fund a distribution fee in accordance with Rule 12b–1 and, in some cases, by receiving a sales charge from the investor if the shares are redeemed within a specified period of time.

.02 Under § 446, the Commissioner has broad authority to determine whether a method of accounting clearly reflects income. Under § 446(b), if a taxpayer's method of accounting does not clearly reflect income, the computation of taxable income must be made under a method