

revision of the Code of Federal Regulations.

■ In Title 26 of the Code of Federal Regulations, Part 1 (§§ 1.641 to 1.850), revised as of April 1, 2021, in section 1.642(h)–2, revise paragraphs (a), (b), and (c) to read as follows:

§ 1.642(h)–2 Excess deductions on termination of an estate or trust.

(a) *Excess deductions*—(1) *In general.* If, on the termination of an estate or trust, the estate or trust has for its last taxable year deductions (other than the deductions allowed under section 642(b) (relating to the personal exemption) or section 642(c) (relating to charitable contributions)) in excess of gross income, the excess deductions as determined under paragraph (b) of this section are allowed under section 642(h)(2) as items of deduction to the beneficiaries succeeding to the property of the estate or trust.

(2) *Treatment by beneficiary.* A beneficiary may claim all or part of the amount of the deductions provided for in paragraph (a) of this section, as determined after application of paragraph (b) of this section, before, after, or together with the same character of deductions separately allowable to the beneficiary under the Internal Revenue Code for the beneficiary's taxable year during which the estate or trust terminated as provided in paragraph (c) of this section.

(b) *Character and amount of excess deductions*—(1) *Character.* The character and amount of the excess deductions on termination of an estate or trust will be determined as provided in this paragraph (b). Each deduction comprising the excess deductions under section 642(h)(2) retains, in the hands of the beneficiary, its character (specifically, as allowable in arriving at adjusted gross income, as a non-miscellaneous itemized deduction, or as a miscellaneous itemized deduction) while in the estate or trust. An item of deduction succeeded to by a beneficiary remains subject to any additional applicable limitation under the Internal Revenue Code and must be separately stated if it could be so limited, as provided in the instructions to Form 1041, *U.S. Income Tax Return for Estates and Trusts*, and the Schedule K–1 (Form 1041), *Beneficiary's Share of Income, Deductions, Credit, etc.*, or successor forms.

(2) *Amount.* The amount of the excess deductions in the final year is determined as follows:

(i) Each deduction directly attributable to a class of income is

allocated in accordance with the provisions in § 1.652(b)–(a);

(ii) To the extent of any remaining income after application of paragraph (b)(2)(i) of this section, deductions are allocated in accordance with the provisions in § 1.652(b)–3(b) and (d); and

(iii) Deductions remaining after the application of paragraph (b)(2)(i) and (ii) of this section comprise the excess deductions on termination of the estate or trust. These deductions are allocated to the beneficiaries succeeding to the property of the estate of or trust in accordance with § 1.642(h)–4.

(c) *Year of termination*—(1) *In general.* The deductions provided for in paragraph (a) of this section are allowable only in the taxable year of the beneficiary in which or with which the estate or trust terminates, whether the year of termination of the estate or trust is of normal duration or is a short taxable year.

(2) *Example.* Assume that a trust distributes all its assets to B and terminates on December 31, Year X. As of that date, it has excess deductions of \$18,000, all characterized as allowable in arriving at adjusted gross income under section 67(e). B, who reports on the calendar year basis, could claim the \$18,000 as a deduction allowable in arriving at B's adjusted gross income for Year X. However, if the deduction (when added to other allowable deductions that B claims for the year) exceeds B's gross income, the excess may not be carried over to any year subsequent to Year X.

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DEPARTMENT OF THE TREASURY

Internal Revenue Service

26 CFR Part 1

Income Taxes

CFR Correction

This rule is being published by the Office of the Federal Register to correct an editorial or technical error that appeared in the most recent annual revision of the Code of Federal Regulations.

In Title 26 of the Code of Federal Regulations, Part 1 (§§ 1.641 to 1.850), revised as of April 1, 2021, make the following corrections:

■ 1. In section 1.817A–1, add paragraph (c) to read as follows:

§ 1.817A–1 Certain modified guaranteed contracts.

* * * * *

(c) *Applicability dates.* Paragraph (b) of this section applies to taxable years beginning after *October 13, 2020*. However, a taxpayer may choose to apply the rules of paragraph (b) of this section for a taxable year beginning after December 31, 2017, the effective date of the revision of section 807 by Public Law 115–97, and on or before *October 13, 2020*, provided the taxpayer consistently applies the rules of paragraph (b) of this section to that taxable year and all subsequent taxable years. See section 7805(b)(7). For taxable years beginning on or before *October 13, 2020*, see paragraph (b) of this section as contained in 26 CFR part 1 revised as of April 1, 2020.

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1.818–2 [Amended]

■ 2. In section 1.818–2, remove paragraph (c).

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DEPARTMENT OF HOMELAND SECURITY

Coast Guard

33 CFR Part 165

[Docket Number USCG–2022–0234]

RIN 1625–AA87

Security Zone; San Diego Bay, San Diego, CA

AGENCY: Coast Guard, Department of Homeland Security (DHS).

ACTION: Temporary final rule.

SUMMARY: The Coast Guard is establishing a temporary security zone for all navigable waters within a 200-yard radius of the U.S. Coast Guard Cutter (USCGC) KIMBALL while berthed at 10th Avenue Marine Terminal in San Diego, CA. The security zone is needed to protect the military vessel, personnel in and around the military vessel, navigable waterways, and waterfront facilities. Entry of vessels or persons into this zone is prohibited unless specifically authorized by the Captain of the Port San Diego.

DATES: This rule is effective from 7 a.m. until 8 p.m. on March 31, 2022.

ADDRESSES: To view documents mentioned in this preamble as being available in the docket, go to <https://www.regulations.gov>, type USCG–2022–