Current Status of Issue

Phase I:

Phase I is currently in Tier I monitoring status. All guidance to handle Phase I issues has been completed.

Phase II:

IDD #5 was issued September 2009 providing direction to the field in resolving Phase II cases. It also communicates to External Stakeholders those methods for allocating MSC for which LB&I will not expend significant resources and those for which LB&I will expend significant resources.

Executing IMT Strategy for Tier I Issues

Audit Teams Should:

- ❑ Establish the Tier I Issue on IMS using the UIL code per the ID Directive.
- ❑ Research the issue on the Tier I website.
- ❑ Communicate with the IMT early to determine the strategy and any special requirements for the issue.
- ❑ Consider the issue in the audit planning. Have the Issue Specialization Team for your industry complete the risk assessment in accordance with the IMT strategy.
- ❑ Utilize the audit tools and techniques provided by the IMT to develop the issue.
- ❑ Resolve the issue using all resolution tools in alignment with the IMT strategy.

Issue Management Team (IMT)

Issue Executive Owner - Keith Jones

Territory Manager – James Ellis

Industry Counsel – John Duncan

Senior Technical Analyst – Susan Idleman

Revenue Agent—Ann Vande Vanter

Technical Advisor (Inventory) - Dave Bulger

Contact:

Technical Advisor (Utilities)— Doug Toney 972-308-1166; douglas.e.toney@irs.gov

Technical Advisor (Utilities) – Marge Lopez (619) 228– 7939; Marge.M.Lopez@irs.gov

Tier 1

IRS LARGE BUSINESS AND INTERNATIONAL DIVISION

Tier I

▪

Mixed Service Costs

Quick Reference Guide

October, 2010

Issue Owner Executive (IOE)

Keith Jones, Director

Natural Resources & Construction

Tier I: Mixed Service Costs

Issue Description

Beginning in 2000, utility companies have sought to change their method of accounting for the costs of producing self-constructed property. The IRS has identified 67 Forms 3115, Applications for Change in Accounting Method, requesting a change in method of accounting for mixed service costs from the “facts and circumstances” method provided by Treas. Reg. § 1.263A-1(f) to the Simplified Service Cost Method (SSCM) provided by § 1.263A-1(h). The taxpayers' proposed application of the SSCM of allocating mixed service costs results in the current expensing of billions of dollars of costs that should be capitalized and depreciated.

Rev. Rul. 2005-53 issued August 29, 2005 effectively precluded utilities from using the SSCM to allocate MSC. Also see Treas. Regs.1.263A-1T(l) and 1.263A-2T(f). As a result, taxpayers which had adopted SSCM were required to adopt another accounting method to allocate MSC beginning in 2005.

Also see Treas. Regs. 1.263A-1(h)(2)(i)(D); 1.263(A)-1(k); 1.263A-1(l).

UIL Codes and Tracking Codes

UIL Codes:
Phase II - Facts & Circumstances UIL 263A.06-01 SAIN 707 Second Tier SAIN 191

Accuracy-related Penalty UIL 6662.00-00 SAIN 624-01 Second Tier SAIN 192

Tracking Code: 1511

Project Code: 0511

ITA Code:

N190 - Simplified Service Costs

N191 - Facts & Circumstances

N192 - Accuracy Related Penalty

Mandatory IDRs

There are currently no mandatory IDRs. Here are 5 model IDRs:

1. http://www.irs.gov/businesses/corporations/article/0,,id=183240,00.html
2. http://www.irs.gov/businesses/corporations/article/0,,id=183244,00.html
3. http://www.irs.gov/businesses/corporations/article/0,,id=183251,00.html
4. http://www.irs.gov/businesses/corporations/article/0,,id=183252,00.html
5. http://www.irs.gov/businesses/corporations/article/0,,id=183253,00.html

Issue Specialization Team (IST)

The Issue Specialization Team has been trained on IDD #5.

Industry Director Directives (IDDs)

IDD #1 published 6/06 to provide guidance to the field on this issue: http://www.irs.gov/businesses/corporations/article/0,,id=158620,00.html

IDD #2 to distinguish Retail TAM from Utility TAM on MSC Issue published 5/2/07: http://www.irs.gov/businesses/article/0,,id=169869,00.html

IDD #3 on Phase II Issue Specialization Teams published 5/2/07: http://www.irs.gov/businesses/article/0,,id=169874,00.html

IDD #4 published 6/19/09 to move Phase I to monitoring: http://www.irs.gov/businesses/article/0,,id=210400,00.html

IDD #5 published 9/15/09 to provide guidance to readers on Phase II cases: http://www.irs.gov/businesses/article/0,,id=213400,00.html

Administrative & Technical Guidance

Routine and Repetitive defined for Type D eligible property under:

* Revenue Ruling 2005-53: http://www.irs.gov/irb/2005-35_IRB/ar12.html
* Final & Temporary Regulations: http://www.irs.gov/pub/irs-regs/td_9217.pdf

Other Guidance:

* Notice 2003-59, 2003-2 C.B. 429: http://www.irs.gov/irb/2003-35_IRB/ar08.html
* ILM 200430044: http://www.irs.gov/pub/irs-wd/0430044.pdf
* TAM 200624067: http://www.irs.gov/pub/irs-wd/0624067.pdf
* TAM 200626044: http://www.irs.gov/pub/irs-wd/0626044.pdf
* TAM 200627025: http://www.irs.gov/pub/irs-wd/0627025.pdf
* TAM 200635010: http://www.irs.gov/pub/irs-wd/0635010.pdf
* Generic Chief Counsel Advice 2006-20350: http://www.irs.gov/pub/irs-utl/am2006003.pdf
* TAM 200543050: http://www.irs.gov/pub/irs-wd/0543050.pdf
* Notice 2003-36, 2003-1 C.B. 992: http://www.unclefed.com/Tax-Bulls/2003/not03-36.pdf
* Retail TAM: http://www.irs.gov/pub/irs-wd/0446024.pdf
* Final & Temporary Regulations: http://www.irs.gov/pub/irs-regs/td_9217.pdf
* TAM 200811021: http://www.irs.gov/pub/irs-wd/0811021.pdf