

**Office of Chief Counsel
Internal Revenue Service
memorandum**

CC:ITA:7:

UILC: 168.35-00

date: May 01, 2009

to: Industry Director
(Heavy Manufacturing & Transportation (LM:HMT))

from: Chief, Branch 7
(Office of Associate Chief Counsel (Income Tax & Accounting) (CC:ITA:7))

subject: Withdrawal of Application for Change in Method of Accounting

In accordance with section 9.12(2) of Rev. Proc. 2009-1, 2009-1 I.R.B. 1, 41, this Chief Counsel Advice advises you that a taxpayer within your division has withdrawn its Form 3115, Application for Change in Accounting Method. Pursuant to ' 6110(k)(3) of the Internal Revenue Code, this Chief Counsel Advice may not be used or cited as precedent.

LEGEND

B =

C =

D =

E =

F =

G =

H =

I =

PMTA 2009-107

This Chief Counsel Advice advises you that a Form 3115, filed on E, by B on behalf of its subsidiary C, is withdrawn. B submitted this Form 3115 to change C's method of accounting for dispositions of rotatable spare parts, beginning with the taxable year beginning I. B withdrew the Form 3115 after we advised B of our tentatively adverse position.

Under its present method of accounting, C treats the rotatable spare parts as mass assets and depreciates these parts under § 168 of the Internal Revenue Code using the same depreciation method, convention, and recovery period as the equipment to which they relate (i.e., D). C does not recognize gain or loss upon disposition of these rotatable spare parts. C made a general asset account election under § 168(i)(4) for the taxable years ending E and G.

Under its proposed method of accounting, C would continue to depreciate the rotatable spare parts as mass assets under § 168 using the same depreciation method, convention, and recovery period as the equipment to which they relate. C would also recognize gain or loss upon disposition of any rotatable spare parts placed in service in a year for which C's general asset account election does not apply. C would also identify and account for the disposition of rotatable spare parts using the specific identification method.

However, C requested to implement this change in method of accounting on a cut-off basis because C is not able to obtain the information necessary to compute a § 481(a) adjustment. As a result, the proposed method of accounting will apply to rotatable spare parts placed in service by C beginning in the taxable year beginning I.

C is requesting to change from an impermissible to a permissible method of accounting for the disposition of rotatable spare parts that are placed in service in the taxable years for which C's general asset account election does not apply. Specifically, C is requesting to change its method of identifying which rotatable spare parts have been disposed of. Such a change is a change in method of accounting. Section 1.446-1(e)(2)(ii)(d)(2)(vii) of the Income Tax Regulations.

Because C is changing from an impermissible to a permissible method of accounting, this change results in a § 481 adjustment. Section 1.446-1(e)(2)(ii)(d)(5)(iii). Further, by requesting to implement the change in method of accounting on the cut-off basis, C will continue to use an impermissible method of accounting for the dispositions of rotatable spare parts that are placed in service for the taxable years for which C's general asset account election does not apply. Accordingly, C's requested change in method of accounting cannot be implemented on a cut-off basis.

We advised B of this position and B subsequently withdrew the Form 3115.

This writing may contain privileged information. Any unauthorized disclosure of this writing may undermine our ability to protect the privileged information. If disclosure is determined to be necessary, please contact this office for our views.

If you have any questions on this matter, do not hesitate to call (202) 622-4930.

Kathleen Reed
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