

IRS News Release

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IRS Issues Guidance on Telecommunication Network Assets; Industry Issue Resolution Program Resolves Disputes

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WASHINGTON — The Internal Revenue Service announced today that it has published guidance for taxpayers in the telecommunications industry with the aim of resolving disputes involving the capitalization and depreciation of network assets.

The three revenue procedures issued today resulted from two Industry Issue Resolution (IIR) Program projects that were recently completed. The IIR Program resolves business tax issues common to significant numbers of taxpayers, usually within a specific industry, through new and improved guidance.

“This program strives to find the best way to resolve outstanding tax disputes affecting industries,” said IRS Commissioner Doug Shulman. “Through guidance, we seek to eliminate confusion and minimize conflict while providing taxpayers greater certainty.”

Differences regarding the appropriate manner to capitalize network asset repair and replacement costs have led to \$3.6 billion in accounting method disputes between taxpayers and the IRS affecting 80 percent of the telecom industry. The capitalization project is designed to minimize these disputes. A related wireless depreciation project aims to minimize depreciation disputes involving the recovery period of assets in the wireless telecom sector. In 2007 alone, the wireless sector placed in service \$8 billion of new fixed assets.

The guidance released today includes the following:

- A revenue procedure (RP-11-28) for the wireless telecom sector providing two alternative safe-harbor methods for determining the amount of network asset repair and replacement expenditures that must be capitalized.
- A revenue procedure (RP-11-27) that provides similar safe harbors for ‘wireline’ telecom carriers, firms with ‘landline’ networks.
- A revenue procedure (RP-11-22) that provides a safe-harbor method for determining the recovery period for depreciation of certain tangible assets used by wireless telecommunications carriers.

This published guidance results from a combined effort involving representatives of the telecommunications industry and IRS and Treasury Department officials to resolve areas of

long-standing tax controversy in a manner that provides consistency, efficient use of government and taxpayer resources, along with greater certainty.

Project selections are based on the criteria set forth in Revenue Procedure 2003-36. For each issue selected, a multi-functional team of IRS, Chief Counsel and Treasury personnel is assembled. The teams gather and analyze the relevant facts from industry groups and taxpayers for each issue and recommend guidance.

Requests for guidance on tax issues under this program can be submitted at any time to IIR@irs.gov. Submissions received are reviewed semi-annually.