

Internal Revenue Service

Department of the Treasury

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[REDACTED]

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Person to Contact:

[REDACTED]

Telephone Number:

[REDACTED]

Refer Reply To:

CC:DOM:P&SI:7
General Information Letter

Date:

June 19, 2000

Dear [REDACTED]:

This responds to your December 22, 1999, letter submitted on behalf of a Christmas tree farm, requesting certain rulings relating to the election to treat the sale of timber as capital gains under § 631(a) and the revocation of the election to amortize reforestation expenses. This letter also confirms our telephone conversation with you on February 11, 2000.

It is the practice of the Service, in the interest of sound tax administration, to answer inquiries of individuals and organizations regarding the tax effects of their acts or transactions. However, a private letter ruling is issued only if certain preliminary requirements, among which are a power of attorney, user fee, and privacy deletion statement, are satisfied. Please see Rev. Proc. 2000-1, 2000-1 I.R.B. 11. Under § 2.04 of the revenue procedure an information letter may be issued if the taxpayer's inquiry indicates a need for general information or if the taxpayer's request does not meet the requirements for private letter ruling issuance and the Service thinks general information will help the taxpayer. Accordingly, we are providing some general information regarding your request.

A taxpayer who wishes to elect that the sale of timber at its Christmas tree farm be treated as capital in nature under § 631(a) makes the choice on its return for the year in which the cutting takes place by including in income the gain or loss on the cutting and including a computation of the gain or loss. A taxpayer does not have to make the choice in the first year timber is cut. One may make it in any year to which the choice would apply. If the timber is partnership property, the choice is made on the partnership return. The choice cannot be made on an amended return. Once made, the choice is in effect for all later years unless taxpayer cancels it, generally with prior approval of the Secretary of the Treasury.

A taxpayer who chooses to amortize reforestation expenditures must make an election to amortize those expenditures on Part VI of Form 4562 of his Federal Income Tax Return for the year in which reforestation expenditures are incurred. Those expenditures are then amortized over 84 months. The election to amortize reforestation expenditures only applies to the reforestation expenditures incurred in the tax year the election is made. A taxpayer must make a new election to amortize reforestation expenditures for each succeeding year in which the taxpayer has reforestation expenses he wishes to amortize.

A taxpayer may not amortize reforestation expenditures incurred in connection with a Christmas tree farm. A taxpayer who has erroneously amortized reforestation expenditures and who wishes to correctly account for those expenses should file a Form 3115, Application for Change in Accounting Method in accordance with Rev. Proc. 97-27 and take a § 481 adjustment spread over 48 months.

We hope the above information proves helpful. As indicated in our phone conversation, we are enclosing a copies of Rev. Proc. 2000-1 and Rev. Proc. 97-27, should you wish to resubmit your ruling request. We are also providing excerpts from IRS Publications 535 and 544.

Sincerely,

James C. Gibbons
Assistant to the Chief, Branch 7
Office of the Assistant Chief Counsel
(Passthroughs and Special Industries)

Enclosures: As Stated