

INTERNAL REVENUE SERVICE

December 16, 2003

Number: **INFO 2004-0067**
Release Date: 3/31/04
CONEX-165630-03/CC:ITA:B2
UIL: 451.13-01

Dear _____ :

I apologize for the delay in responding to your inquiries about the proposed revenue procedure (Notice 2002-79) that will modify and supersede Rev. Proc. 71-21, 1971-2 C.B. 249. Rev. Proc. 71-21 allows taxpayers to defer certain prepaid income for services until the year that the taxpayer performs the services, and the proposed revenue procedure is designed to provide the deferral features of Rev. Proc. 71-21 to a wider variety of taxpayers. You are interested in the effect the proposed revenue procedure would have on tour operators.

In general, tour operators arrange for transportation services, hotel accommodations, and other items provided to their customers by third parties. For purposes of Rev. Proc. 71-21, generally the services of tour operators are performed (and the income is earned) when the tour is booked, not when the tour occurs, and therefore income cannot be deferred to the tour date under current IRS rules. The proposed revenue procedure would change the outcome here, as it looks to the financial reporting method of the taxpayer to determine whether income deferral is appropriate. If the taxpayer properly defers service income for financial reporting purposes, and the other requirements of the revenue procedure are met, then the taxpayer may defer the income inclusion for tax purposes (again, assuming the proposed revenue procedure is finalized as it is currently drafted). To help clarify this outcome, we are considering your suggestion of adding an example involving tour operators.

I hope this information is helpful. I am sending a similar letter to

_____. Please call me at

_____, if you have any questions.

Sincerely,
Robert M. Brown
Associate Chief Counsel
(Income Tax & Accounting)