



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

OFFICE OF THE CHIEF COUNSEL

June 08, 2012

Number: **2012-0040**
Release Date: 6/29/2012

CC:ITA:7
CONEX-120320-12

UIL: 167.03-00

The Honorable Patrick Leahy
United States Senate
Washington, DC 20510

Attention:

Dear Senator Leahy:

I am responding to your inquiry dated April 30, 2012, on behalf of your constituent, . wrote about the disallowance of depreciation deductions claimed on his company's federal income tax return for ski trails, reservoirs, and snowmaking ponds.

Raw land is not a depreciable asset because it has no useful life and is not subject to wear and tear, to decline or decay from natural causes, or to exhaustion or obsolescence. For the same reason, a land improvement that is inextricably associated with the land also is not a depreciable asset. However, a land improvement is a depreciable asset if it is directly related to and a necessary part of the construction of a depreciable asset and will be retired, abandoned, or replaced contemporaneously with that depreciable asset. For example, the IRS previously has ruled that "modern" golf greens are so closely associated with an underground network of depreciable drainage tiles or interconnected pipes that replacement of the tiles or pipes will require the contemporaneous physical replacement of the green. Thus, it is possible to establish a determinable useful life for the green. See Revenue Ruling 2001-60, 2001-2 C.B. 587. Whether a land improvement will be retired, abandoned, or replaced contemporaneously with the related depreciable asset depends on the facts.

did not provide the facts needed to make this determination.

inquiry involves a matter under the jurisdiction of an IRS examination office. If he wishes to discuss with us further the law as it pertains to depreciation of land improvements, he should make that request through the IRS official involved in the examination.

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I hope our response is helpful. If we can assist you further, please contact me at
, or or at .

Sincerely,

Andrew J. Keyso

Andrew J. Keyso
Associate Chief Counsel
(Income Tax & Accounting)