

Office of Chief Counsel  
Internal Revenue Service

**memorandum**

CC:LM:MCT:CLE:PIT:TL-N-7121-99  
DPLeone

date:

to: Kathy J. Beck  
Manager, Group 1453

from: Associate Area Counsel CC:LM:MCT:CLE:PIT

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subject: [REDACTED] - [REDACTED]  
Form 3115, Change in Accounting Method

This memorandum responds to your request for assistance dated March 9, 2001. This memorandum should not be cited as precedent.

Please note that this memorandum is being sent to the National Office for 10-day post-review. Accordingly, the advice given herein may be modified. We recommend contacting Donna Leone after the ten day period has expired to make certain that there are no modifications to this advice.

ISSUE

Does the discovery of a significant computational error in the section 481(a) adjustments which accompanied a request for approval of a change in accounting method require submission of a request for technical advice to the National Office?

ANSWER

Since the error in the section 481(a) computation is purely a computational error, a request for technical advice to the National Office is not necessary in this particular case.

DISCUSSION

On [REDACTED], the Internal Revenue Service approved a change of accounting method ("CAM") for certain subsidiaries of [REDACTED].<sup>1</sup>

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<sup>1</sup> The taxpayer modified its original CAM request, and it was the modified request which was approved by the National Office on [REDACTED]. All discussion herein will be only as to the modified CAM request.

The taxpayer filed a CAM request to change the manner in which it depreciated its initial clearing and grading costs. Under the taxpayer's prior method of accounting, the costs for distribution lines were depreciated under the [REDACTED]% declining balance method over a [REDACTED] year useful life, while the costs for transmission lines were depreciated under the [REDACTED]% declining balance method over an [REDACTED] year useful life. The requested accounting method change was to depreciate the initial clearing and grading costs for property placed in service for the years [REDACTED] through [REDACTED] under ACRS as [REDACTED]-year property, and to depreciate the clearing and grading costs for property placed in service for the years [REDACTED] through [REDACTED] under MACRS as [REDACTED]-year property.

The CAM request, as modified, was accompanied by computations showing a net negative section 481(a) adjustment of \$[REDACTED].

The approval of the CAM was subject to review by the district director. The district director is charged with ascertaining, among other things, that the representations on which the ruling was based reflect an accurate statement of the material facts, and whether there has been a change in the material facts upon which the ruling was based. Rev. Proc. 97-27, 1997-1 C.B. 680, 690. The district director is also charged with verifying the accuracy of the section 481(a) adjustments submitted with the CAM request.

During the audit, it was determined that the negative section 481(a) adjustment calculation accompanying the modified CAM request had a significant computational error. The starting basis was incorrect.<sup>2</sup> When that error is corrected, the revised computations result in a net negative section 481(a) adjustment of \$[REDACTED]. This is a significant increase in the amount to be deducted ratably over the 4 year period ([REDACTED] - [REDACTED]).

The Examination Team does not dispute that the CAM reflects an accurate statement of the "material" facts, that the CAM was implemented as proposed, and that there has been no change in the applicable law. In short, Examination does not believe that the letter ruling allowing the change should be modified or revoked.

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<sup>2</sup> The error detected on examination was not due to a change in the characterization of any items.

However, due to the significant change in the amount of the negative section 481(a) adjustment, Examination is concerned that this *might* be considered to be a change in the material facts upon which the ruling was based, and that the Examination Team has to file a request for technical advice on this issue.

We do not believe that the change in the amount of the section 481(a) adjustment, though a significant number, is a change of a material fact that warrants submission to the National Office for technical advice.

The revenue procedure states that the Service will consider all the facts and circumstances when processing a CAM application, and specifically states that the Service will consider the tax effect of the section 481(a) adjustment when evaluating the request. Rev. Proc. 97-27, 1997-1 C.B. 680, 687 (§ 8.04(6)). Accordingly, it could be argued that a significant change in the amount of the section 481(a) adjustment, caused by discovery of a computational error in the CAM request, should be considered to be a change of a "material" fact requiring submission to the national office for technical advice.

But, section 11 of Rev. Proc. 97-27 specifically addresses when national office consideration is necessary following the review by Examination. If Examination recommends that the ruling allowing the change in the accounting method be modified or revoked, the matter must be referred to the national office in the same manner as a request for technical advice. Modifications to the *amount* of the section 481(a) adjustment, however, are specifically carved out as an exception to the modifications that have to be referred to the national office.<sup>3</sup>

Accordingly, we conclude in this particular case that the change in the amount of the section 481(a) adjustment should not be considered to be a change in a material fact that requires submission to the national office. The Examination Division does not believe that the approval in the change in the method of accounting should be revoked, or even modified. The section 481(a) adjustment number will simply be whatever it should be once the computational errors, due to underlying mistakes regarding the starting basis amounts, are corrected.

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<sup>3</sup> Section 11.02 of Rev. Proc. 97-27 reads as follows: "If the district director recommends that the ruling (other than the amount of the § 481(a) adjustment) should be modified or revoked, the district director will forward the matter to the national office for consideration before any further action is taken."

This writing may contain privileged information. Any unauthorized disclosure of this writing may have an adverse affect on privileges, such as the attorney client privilege. If disclosure becomes necessary, please contact this office for our views. Also, if you have any questions, please call Donna P. Leone at 412-644-3442.

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(Large and Mid-Size Business)

By: \_\_\_\_\_  
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