



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

OFFICE OF
CHIEF COUNSEL

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INTERNAL REVENUE SERVICE NATIONAL OFFICE FIELD SERVICE ADVICE

MEMORANDUM FOR ALL AREA COUNSEL (LARGE AND MID-SIZE BUSINESS)
AND AREA COUNSEL (SMALL BUSINESS/SELF
EMPLOYED)

FROM: Linda Burke
Division Counsel (Large and Mid-Size Business) CC:LM

SUBJECT: Golf Course Land Improvements

This is to alert all Area Counsel about the attached guidance for examiners issued February 8, 2001 by the Industry Director, Communications, Technology and Media regarding the proper treatment of golf course improvements.

Please contact Kelly H. Myers, Senior Program Analyst, (S:C:CP:RC:M) at (256)539-3456 or kelly.myers@irs.gov or Melvin Louie, Senior Program Analyst, (LM:CMT) at (510)637-2311 or melvin.louie@irs.gov if you have any further questions.

Attachment
As stated



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
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LARGE AND MID-SIZE
BUSINESS DIVISION

MEMORANDUM

DATE: February 8, 2001

TO: Industry Directors (LMSB)
Director, Compliance (SB/SE)
Deputy Commissioner (TE/GE)

FROM: Industry Director /s/ Thomas W. Wilson, Jr.
Communications, Technology & Media (LMSB)

SUBJECT: Golf Course Land Improvements

This memorandum serves as interim guidance for Examination employees in the classification and examination of golf courses. This guidance reflects the decision by Compliance management to balance resources with workload priorities.

The Examination function has been discussing the proper treatment of golf course improvements with industry representatives. Chief Counsel personnel have also participated in these discussions. The issue is whether certain costs incurred in the construction and reconstruction of golf courses qualify as land improvements eligible for depreciation.

The Service's historical position is that the improvements constitute land and, as such, are not subject to depreciation. The leading legal support for this position is contained in Revenue Ruling 55-290, 1955-1 C.B. 320 and Edinboro Company v. United States, 224 F.Supp. 30, 63-2 USTC ¶ 9759 (W.D. Pa. 1963). This position was established during a time when golf course construction did not contain current technologies such as sprinkler systems, engineered drainage systems, and genetically engineered grasses. These innovations may create a new factual situation not accurately addressed by the existing Revenue Ruling and court decision. This has caused a need for the Service to re-evaluate the depreciation issue.

The Office of Chief Counsel has opened a project and is committed to trying to update the Service's position with formal guidance via a new, revised, or amplified revenue ruling during calendar year 2001. Until formal guidance is issued, it is recommended that examination resources be concentrated on situations in which taxpayers have taken extreme positions. For example:

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- Cases in which taxpayers incurred reconstruction costs for greens, tees, and sand bunkers on an existing course and the taxpayers expensed the costs as operating costs;
- Cases involving “push-up” or natural soil greens and tees in which taxpayers claimed depreciation;
- Cases in which taxpayers expensed or depreciated construction or reconstruction costs of fairways and roughs; and,
- Cases in which taxpayers allocated golf course construction costs to residential building lots.

Questions relating to this issue and industry can be directed to Kelly H. Myers, SB/SE Sr. Program Analyst (S:C:CP:RC:M) or Melvin Louie, LMSB Sr. Program Analyst, (LM:CTM). Kelly can be reached at (256) 539-3456 or via email at kelly.myers@irs.gov. Melvin can be reached at (510) 637-2311 or via email at melvin.louie@irs.gov.