



LARGE AND MID-SIZE
BUSINESS DIVISION

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

February 25, 2002

MEMORANDUM FOR INDUSTRY DIRECTORS, LMSB
DIRECTOR, FIELD SPECIALISTS, LMSB
DIRECTOR, PREFILING AND TECHNICAL GUIDANCE, LMSB
DIVISION COUNSEL, LMSB
AREA DIRECTORS, SBSE

FROM: Thomas W. Wilson, Jr. /s/ Thomas W. Wilson, Jr.
Industry Director, Communications, Technology & Media
Thomas R. Hull /s/ Thomas R. Hull
Deputy Director – Compliance (SBSE)

SUBJECT: Audit Procedures for Golf Course Land Improvements – Change
In Accounting Method

With the release of Rev. Rul. 2001-60, 2001-51 I.R.B. 587, examiners should expect taxpayers to file Forms 3115, Application for Change in Accounting Method, to conform their treatment of the costs of modern golf course greens to that of the ruling. The ruling allows for depreciation under IRC Sections 167 and 168 of certain land preparation costs in the original construction or reconstruction of modern golf course greens. The ruling represents a substantial change in the treatment of such costs. In the past, the Service relied on Rev. Rul. 55-290, 1955-1 C.B. 320. Rev. Rul. 55-290 provided that expenditures incurred by a taxpayer in the original construction of golf course greens are capital expenditures that should be added to the original cost of the land and are not subject to an allowance for depreciation. Although Rev. Rul. 2001-60 reaches a different conclusion than that of Rev. Rul. 55-290 with respect to the construction of the modern golf course green, Rev. Rul. 2001-60 will continue to apply the holding of Rev. Rul. 55-290 to the construction of the push-up or natural soil green.

On February 7, 2002 the Industry Director, Communications, Technology and Media, and the Deputy Director – Compliance (SBSE) issued a memorandum that provides direction to examiners on applying the concepts of Rev. Rul. 2001-60 to other golf course land components. These components include tee boxes, sand bunkers, fairways and roughs.

The following items should be considered during examinations of taxpayers who changed their method of accounting for modern greens to follow Rev. Rul. 2001-60, or taxpayers who are otherwise depreciating golf course land improvements.

1. Determine the type of green or other land improvement being depreciated. Modern greens and other modern golf course improvements have depreciable components, such

as underground drainage tiles or pipes, that are included in Rev. Proc. 87-56, Asset Class 00.3, Land improvements. Land preparation costs so closely associated with these depreciable components that they will be retired, abandoned, or replaced contemporaneously with those assets are also depreciable pursuant to Rev. Rul. 2001-60.

In contrast, land preparation costs in the construction or reconstruction of push-up or natural soil greens are associated with the land and are not subject to depreciation. They are still governed by the rationale of Rev. Rul. 55-290. Similarly, land preparation costs for general grading and shaping, constructing or reconstructing push-up tees, or in contouring fairways to construct or reconstruct bunkers, are not subject to depreciation.

2. If the examiner determines that the taxpayer has capitalized and is depreciating costs associated with the construction of modern golf course land improvements such as greens, the examiner should identify the components associated with the land improvements. This can be accomplished by requesting the following information:
 - A copy of the depreciation schedule listing components and costs being depreciated.
 - A copy of the architectural plans with a breakdown of the components, if available.
3. Examiners should determine if the taxpayer is using the proper recovery period. Qualifying land preparation costs associated with modern greens and other golf course components have a recovery period of 15 years.
4. If the land preparation costs being depreciated include the cost for sod, seed or soil, examiners should determine whether these items were previously deducted as operating expenses. If such expenses were previously deducted, they should not be included as part of the assets being depreciated.
5. Examiners should review the books and records to determine if expenses for general earthmoving, grading, and initial shaping of the area surrounding and underneath the modern green and other golf course components that occurred before the construction of the land improvements have been included in the taxpayer's non-depreciable cost basis in land or if they have been included with depreciable land improvements. If they have been allocated to the cost of the depreciable land improvements, examiners should reallocate the costs to the taxpayer's non-depreciable basis in the land.

6. Examiners should read and follow the above referenced memorandum, dated February 7, 2002, to determine whether the taxpayer is allowed cost recovery for other golf course land improvements associated with tees, bunkers, fairways and roughs.
7. Examiners should be aware of the provisions of Rev. Proc. 2002-9, 2002-3 I.R.B. 327, regarding a taxpayer's change in method of accounting to conform treatment of the costs of modern golf course greens to that of Rev. Rul. 2001-60.
8. Examiners are reminded that any change in a taxpayer's treatment of the cost of golf course land improvements is a change in method of accounting to which the provisions of IRC Sections 446 and 481 and the regulations thereunder apply.

This memorandum is not an official pronouncement of the law or the Service's position and cannot be used, cited, or relied upon as such.

If you have any questions, please contact Eric Kashdin, Sports Industry Technical Advisor, at (954) 423-7325 (eric.kashdin@irs.gov); Fred Lichtenberg, Sports Industry Technical Advisor, at (954) 423-7056 (fred.lichtenberg@irs.gov) or Kelly Myers, Sr. Program Analyst (SBSE) at (256) 539-3456 (kelly.h.myers@irs.gov).

cc: Commissioner and Deputy Commissioner, LMSB
Director, Performance, Quality and Innovation