INDUSTRY ISSUE RESOLUTION PILOT APPLICATIONS

<table>
<tr><th colspan="2">ISSUES SELECTED FOR IIR PILOT</th></tr>
<tr><td colspan="2">Communications, Technology, & Media</td></tr>
<tr><td>Submitter's Issue Description: Golf Course Depreciation
New guidance on depreciation of golf course land improvements that takes into account modern golf course construction and operations. Whether an allowance for depreciation should be available for golf course improvements (golf course greens, tees, and sand bunkers).

Selected with Modification: Guidance is limited to modern golf course greens.

Contact:
John Petrella
Director, Field Operations
401-826-4775 or 401-826-4774 E-mail John.Petrella@IRS.gov</td><td>Submitted by:
KPMG on behalf of National Golf Course Owners Association</td></tr>
<tr><td colspan="2">Financial Services</td></tr>
<tr><td>Submitter's Issue Description: Clarification of Bad Debt Charge-Offs And Conformity Election
(1) Banks may claim a deduction for financial purposes without discharging the borrower's obligation. What is the appropriate standard for determining worthlessness of the loan for tax purposes?
(2) The bad debt conformity election regulations provide elective procedures for banks to claim deductions based on their regulatory charge-offs. Clarification is requested regarding requiring loans to be charged to a "loss asset" account prior to charging off the debt.

Selected with Modification: Guidance is limited to the application of conformity election by banks for bad debts.

Contact:
Mary Tapley
Director, Field Operations
949-389-4922 E-mail Mary.D.Tapley@IRS.gov</td><td>Submitted by
1. American Bankers Association
2. KPMG
3. American Bar Association</td></tr>
<tr><td colspan="2">Heavy Manufacturing and Transportation</td></tr>
<tr><td>Submitter's Issue Description: Taxability Of Demonstrator Automobiles Provided To Salespersons.
Clarification of such items as (1) substantiation requirements (2) mileage limitation and (3) proper treatment of demonstrator vehicles provided to non-salespersons. Automobile dealers who provide demonstration automobiles (demos) for the use of their employees currently must comply with several regulatory provisions, which set forth only general standards of compliance. There needs to be developed more precise regulatory standards and safe harbors for the use of demos.

Selected with Modification: Guidance is limited to demonstrator vehicles provided for use by employees.

Contact:
Joseph Brimacombe
Director, Field Operations
949-389-4922 E-mail Joseph.Brimacombe@IRS.gov</td><td>Submitted by
1. Crowe Chizek & Co. LLP on behalf of Auto Team America
2. O’Conner & Drew PC
3. National Automobile Dealers Association</td></tr>
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<tr><th colspan="2">Natural Resources and Construction</th></tr>
<tr><td>Submitter's Issue Description: Rental Of Rigs And Other Equipment
Whether amounts paid by an employer to an employee for the rental of rigs and other equipment should be treated as wages and reported on Form W-2; as employee expense reimbursements subject to the accountable plan rules under Section 62(c) of the Internal Revenue Code; or as rental payments for equipment and reported on Form 1099.

Selected with Modification: Guidance expanded to reporting of payments to employees who own heavy equipment used by their employers.

Contact:
Jack Schroeder
Director, Field Operations
313-628-3660 E-mail Jack.L.Schroeder@IRS.gov</td><td>Submitted by
Akin, Gump, Strauss, Hauer & Feld on behalf of the Pipe Line Contractors Association</td></tr>
<tr><td>Submitter's Issue Description: Impact Fees and Similar Costs
Whether the costs of local impact fees, publicly dedicated infrastructure Improvements, and similar costs, incurred during the development and construction of depreciable real estate should be included in the adjusted basis of the depreciable property or whether they constitute separate intangible property?

Selected with Modification: Guidance is limited to local impact fees associated with low income housing tax credit property and the treatment with respect to eligible basis.

Contact:
Walter Harris
Director, Field Operations
212-912-3033 E-mail Walter.Harris@IRS.gov</td><td>Submitted by
Real Estate Roundtable</td></tr>
<tr><td>Submitter's Issue Description: Determination of Recoverable Reserves of Oil and Gas for Cost Depletion Purposes
In the computation of cost depletion for oil and gas wells under Treasury Regulation 1.611-2, how do taxpayers determine the quantity of "probable" or "prospective" reserves?

Contact:
Paul Cordova
Director, Field Operations
713-209-3705 E-mail Paul.Cordova@IRS.gov</td><td>Submitted by
American Petroleum Institute</td></tr>
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<tr><th colspan="2">ISSUES SELECTED FOR IIR PILOT</th></tr>
<tr><th colspan="2">Retail, Food and Pharmaceuticals</th></tr>
<tr><td>Submitter's Issue Description: Treatment of Restaurant Smallware Packages - Proper Allocation Between Allowable Expenses (IRC 162) and Capitalization (IRC 263)
The depreciable time period must be addressed under IRC 167. The smallwares package is typically comprised of numerous assets (serving utensils, plates, cooking utensils, tabletop items, etc.) involving small dollar amounts.

Contact:
Kathy Petronchak
Director, Field Operations
949-389-4922 E-mail Kathy.K.Petronchak@IRS.gov</td><td>Submitted by
Power & Power</td></tr>
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ISSUES NOT SELECTED FOR IIR PILOT BUT INCLUDED ON THE 2001 PRIORITY GUIDANCE PLAN	
Financial Services	
Submitter's Issue Description: Whether Loan Origination Costs Are "Ordinary And Necessary" Business Expenses Banking institutions incur a variety of expenses associated with origination of loans, including appraisal fees, property and credit evaluations, recording payments and overhead payments. Should the costs to originate loans be capitalized under IRC §263(a)?	**Submitted by** 1. American Bankers Association 2. American Bar Association
Heavy Manufacturing and Transportation	
Submitter's Issue Description: Capital Cost Reduction -Taxability Of Down Payments And/Or Trade-Ins On Lease Vehicles Whether down payments and/or trade-ins of the customer's used vehicle at the time the parties enter into a vehicle lease agreement are income to a bank, finance company or leasing company that subsequently purchases the vehicle?	**Submitted by** Skadden, Arps, Slate, Meagher & Flom LLP

ISSUES NOT SELECTED FOR IIR PILOT	
Communications, Technology, & Media	
Submitter's Issue Description: Floating Gaming Facilities Depreciation There are approximately 75 floating gaming facilities that have been separately designed and constructed to conform to various State gaming laws and regulations, the capital budget of the gaming operator, and the local geography where the floating facility is located. What is the appropriate depreciation treatment of the various (75 or so) types of floating gaming facilities?	**Submitted by** American Gaming Association
Financial Services	
Submitter's Issue Description: Failure to Deposit Penalty Whether the failure to deposit taxes because of the taxpayer's observance of Good Friday is due to reasonable cause. Should the failure to deposit penalty be assessed for failure to comply with the deposit requirement, due to an Industry-wide custom of closing on Good Friday?	**Submitted by** Merrill Lynch
Submitter's Issue Description: Interest Deduction Under Treas. Reg. 1.882-5 For Non-US Banks Under Section 1.882-5, non-U.S. Banks must determine deductible interest expense under a three-step formula. Guidance on the three step formula is needed in regard to (1) computation of the "actual ratio" of worldwide liabilities to worldwide assets, (2) circumstances in which financial instruments should be netted and (3) easing the burden of determining an interest rate on "excess U.S. -connected liabilities.	**Submitted by** Institute of International Bankers
Submitter's Issue Description: Deductibility Of Bad Debt Reserves Established By International Banks Whether specific bad debt reserves recorded on the books of U.S. branches of international banks should be treated as charge-offs under IRC 166, and whether similar treatment should be given to such reserves identified on the worldwide balance sheet for purposes of computing the "actual ratio" under regulation 1.882-5.	**Submitted by** Institute of International Bankers

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ISSUES NOT SELECTED FOR IIR PILOT	
Submitter's Issue Description: Application Of Section 382 To U.S. Branches Of Acquired International Banks Guidance on how to value the U.S. Branch operations of international banks for purposes of IRC 382, Limitation on Net Operating Loss Carryforwards, including (1) how to identify and value the goodwill of the U.S. operations and (2) how to determine whether and to what extent any goodwill premium paid for the shares of the bank is attributable to U.S. operations	**Submitted by** Institute of International Bankers
Submitter's Issue Description: Acceptance of Mark To Market Valuation Methodologies For Section 475 Purposes Acceptance of Mark To Market Accounting (MTM) methodologies for book as clearly reflective of income for dealers in securities. MTM method of accounting adjusts the carrying value of certain assets for changes in market prices. Gains and losses that are reported as a result of the "mark" result in basis adjustment.	**Submitted by** Institute of International Bankers
Submitter's Issue Description: Method For Determining When Should An Accrual Basis Financial Services Company Stop Accruing Interest On Nonperforming Loans Accrual of interest income with respect to delinquent debt is a determination that must be made based on the facts and circumstances of each individual loan. Uniform, administrable rules are needed for the accrual of interest that are consistent with financial and regulatory accounting methods.	**Submitted by** 1. American Bankers Association 2. KPMG 3. American Bar Association
Submitter's Issue Description: Minimum Capitalization Threshold Whether items costing less than a given minimum dollar amount (to be determined) should be expensed where the same items are expensed for significant non-tax purposes (Financial, SEC and Regulatory Reporting).	**Submitted by** Wells Fargo
Heavy Manufacturing and Transportation	
Submitter's Issue Description: Re-Manufacturer' s Inventory Of Cores Determination of the value of non-re-manufactured core inventory. APRA members are engaged in the business of re-manufacturing motor vehicle parts. The distributor or retailer, upon sale of the rebuilt part, accepts the old part, or "core", as a trade-in from the customer giving the customer a credit or rebate. The cores are then returned to the re-manufacturer who credits the account of the distributor or retailer	**Submitted by** Price Waterhouse Coopers on behalf of Automobile Parts Rebuilders Association (APRA)
Natural Resources and Construction	
Submitter's Issue Description: Capital vs. Expense in Generic Utility Industry Situations Taxpayers that own electric generation, transmission and distribution assets incur significant costs both to maintain them and for capital improvements. Guidance is needed as to which costs are currently deductible and which costs are capitalized.	**Submitted by** Edison Electric Institute
Retail, Food and Pharmaceuticals	
Submitter's Issue Description: Closed Chain Restaurants In the chain segment of the restaurant industry, a standard operation is the periodic review and evaluation of individual units. This is completed within geographic markets and determines return on investment ratios based on initial capital contributed. Based on this analysis, the corporate headquarters may permanently or temporally close a unit. Is the loss under IRC 165 allowed when the restaurant is closed or when assets are sold?	**Submitted by** Power & Power
Submitter's Issue Description: Depreciation Classification (1245/1250) of Various Assets Each year thousands of restaurants are remodeled or initially constructed. Identical businesses are receiving inconsistent answers regarding classification of assets for depreciation purposes.	**Submitted by** Power & Power

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ISSUES NOT SELECTED FOR IIR PILOT	
Submitter's Issue Description: **Treatment Of Up-Front Payments Pursuant To Supplier Agreements** Members of the restaurant industry enter into agreements with suppliers to purchase products over a period of years. In return for the purchase commitment and other obligations pursuant to the contract the taxpayers are often paid a bonus up front. Are these up-front payments from vendors income or adjustments to the cost of inventory?	**Submitted by** Power & Power
Submitter's Issue Description: Medicaid Rebates Whether the legal mandated rebate payments paid by pharmaceutical manufacturers as Medicaid rebates in connection with the ultimate sale of their products to Medicaid patients are excluded from the amount realized on the sale of these products, and hence excluded from gross income as defined under Code section 61(a)(3).	**Submitted by** Skadden, Arps, Slate, Meagher & Flom LLP on behalf of PhRMA
Submitter's Issue Description: Tenant Allowance A retail store operator receives cash from the landlord to be used for converting leased retail space into business producing property. Should the payment be included in gross income per IRC 61?	**Submitted by** National Retail Federation