

## Current Status of Issue

Phase I:

Current plan is to move issue to Tier II in 2008. All guidance to handle Phase I issues has been completed.

Phase II:

A new IDD will be issued to address Phase II cases based on recent TAM. IMT met to develop strategy to address the Phase II issues. IMT plans to meet with external stakeholders on new methods.

## Issue Management Team (IMT)

**Issue Executive Owner** - Keith Jones

**Territory Manager** – James Ellis

**Appeals Officer** – Jack Ellis

**Industry Counsel** – Marc Shapiro

**Senior Technical Analyst** – Ann Vande Vanter

### Contacts:

**Technical Advisor (Utilities)** – Frank Genet (330) 253-7340; [Frank.J.Genet@irs.gov](mailto:Frank.J.Genet@irs.gov)

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## Tier I Mixed Service Costs

### Quick Reference Guide

April, 2008

### Issue Owner Executive (IOE)

**Keith Jones, Director**

**Natural Resources & Construction**

## Executing IMT Strategy for Tier I Issues

### Audit Teams Should:

- Establish the Tier I Issue on IMS using the UIL code per the ID Directive.
- Research the issue on the Tier I website.
- Communicate with the IMT early to determine the strategy and any special requirements for the issue.
- Consider the issue in the audit planning and risk assessment in accordance with the IMT strategy.
- Utilize the audit tools and techniques provided by the IMT to develop the issue.
- Resolve the issue using all resolution tools in alignment with the IMT strategy.



## Tier 1

## Tier I: Mixed Service Costs

### Issue Description

Beginning in 2000, utility companies have sought to change their method of accounting for the costs of producing self-constructed property. The IRS has identified 67 Forms 3115, Applications for Change in Accounting Method, requesting a change in method of accounting for mixed service costs from the "facts and circumstances" method provided by Treas. Reg. § 1.263A-1(f) to the Simplified Service Cost Method (SSCM) provided by § 1.263A-1(h). The taxpayers' proposed application of the SSCM of allocating mixed service costs results in the current expensing of billions of dollars of costs that should be capitalized and depreciated.

### UIL Codes and Tracking Codes

#### UIL Codes:

Phase I - Simplified Service Cost Method UIL 263A.07-00  
SAIN 707 Second Tier SAIN 190

Phase II - Facts & Circumstances UIL 263A.06-01 SAIN 707  
Second Tier SAIN 191

Accuracy-related Penalty UIL 6662.00-00 SAIN 624-01 Sec-  
ond Tier SAIN 192

**Tracking Code:** 1511

**Project Code:** 0511

#### ITA Code:

N190 - Simplified Service Costs

N191 - Facts & Circumstances

N192 - Accuracy Related Penalty

## Mandatory IDRs

There are currently no mandatory IDRs. Here are 5 model IDRs:

1. <http://www.irs.gov/businesses/corporations/article/0,,id=183240,00.html>
2. <http://www.irs.gov/businesses/corporations/article/0,,id=183244,00.html>
3. <http://www.irs.gov/businesses/corporations/article/0,,id=183251,00.html>
4. <http://www.irs.gov/businesses/corporations/article/0,,id=183252,00.html>
5. <http://www.irs.gov/businesses/corporations/article/0,,id=183253,00.html>

## Issue Specialization Team (IST)

Issue Specialization Team training to address MSC issue on Phase 1 and Phase 2 cases completed 3/07. Additional training provided in September 2007 and May 2008 on Phase II cases.

## Industry Director Directives (IDDs)

**IDD #1** published 6/06 to provide guidance to the field on this issue: <http://www.irs.gov/businesses/corporations/article/0,,id=158620,00.html>

**IDD #2** to distinguish Retail TAM from Utility TAM on MSC Issue published 5/2/07: <http://www.irs.gov/businesses/article/0,,id=169869,00.html>

**IDD #3** on Phase II Issue Specialization Teams published 5/2/07: <http://www.irs.gov/businesses/article/0,,id=169874,00.html>

A new IDD is planned for in 2008 based on Phase II cases.

## Administrative & Technical Guidance

### Routine and Repetitive defined for Type D eligible property under:

- \* Revenue Ruling 2005-53:  
[http://www.irs.gov/irb/2005-35\\_IRB/ar12.html](http://www.irs.gov/irb/2005-35_IRB/ar12.html)
- \* Treasury Reg. 1.263A-1T and 1.263A-2T

### Other Guidance:

- \* Notice 2003-59, 2003-2 C.B. 429:  
[http://www.irs.gov/irb/2003-35\\_IRB/ar08.html](http://www.irs.gov/irb/2003-35_IRB/ar08.html)
- \* ILM 200430044:  
<http://www.irs.gov/pub/irs-wd/0430044.pdf>
- \* TAM 200624067:  
<http://www.irs.gov/pub/irs-wd/0624067.pdf>
- \* TAM 200626044:  
<http://www.irs.gov/pub/irs-wd/0626044.pdf>
- \* TAM 200627025:  
<http://www.irs.gov/pub/irs-wd/0627025.pdf>
- \* TAM 200635010:  
<http://www.irs.gov/pub/irs-wd/0635010.pdf>
- \* Generic Chief Counsel Advice 2006-20350:  
<http://www.irs.gov/pub/irs-utl/am2006003.pdf>
- \* TAM 200543050:  
<http://www.irs.gov/pub/irs-wd/0543050.pdf>
- \* Notice 2003-36, 2003-1 C.B. 992:  
<http://www.unclefed.com/Tax-Bulls/2003/not03-36.pdf>
- \* Retail TAM:  
<http://www.irs.gov/pub/irs-wd/0446024.pdf>
- \* Proposed Regulations:  
[http://www.irs.gov/pub/irs-reg/td\\_9217.pdf](http://www.irs.gov/pub/irs-reg/td_9217.pdf)
- \* TAM 200811021:  
<http://www.irs.gov/pub/irs-wd/0811021.pdf>