

[4830-01-p]

Published August 3, 2005

DEPARTMENT OF THE TREASURY

Internal Revenue Service

26 CFR Part 1

REG-121584-05

RIN 1545-BE57

SUBJECT: Guidance Regarding the Simplified Service Cost Method and the Simplified Production Method

AGENCY: Internal Revenue Service (IRS), Treasury.

ACTION: Notice of proposed rulemaking by cross-reference to temporary regulations.

SUMMARY: In the Rules and Regulations section of this issue of the **Federal Register**, the IRS is issuing temporary regulations relating to the capitalization of costs under the simplified service cost method and the simplified production method provided by the Income Tax Regulations. The regulations affect taxpayers that use the simplified service cost method or the simplified production method for self-constructed assets that are constructed on a routine and repetitive basis in the ordinary course of their businesses. The text of those regulations also serves as the text of these proposed regulations.

DATES: Written or electronic comments must be received by November 1, 2005.

ADDRESSES: Send submissions to: CC:PA:LPD:PR (REG-121584-05), room 5203, Internal Revenue Service, POB 7604, Ben Franklin Station, Washington, DC 20044.

Submissions may be hand delivered Monday through Friday between the hours of 8 a.m. and 4 p.m. to CC:PA:LPD:PR (REG-121584-05), Courier's Desk, Internal Revenue Service, 1111 Constitution Avenue NW., Washington, DC, or sent electronically via the

IRS Internet site at www.irs.gov/regs or the Federal eRulemaking Portal at <http://www.regulations.gov> (IRS and REG-121584-05 or RIN-1545-BE57).

FOR FURTHER INFORMATION CONTACT: Concerning the proposed regulations, Scott Rabinowitz, (202) 622-4970; concerning submission of comments and/or requests for a public hearing, LaNita VanDyke, (202) 622-7180 (not toll-free numbers).

SUPPLEMENTARY INFORMATION:

Background and Explanation of Provisions

Temporary regulations in the Rules and Regulations section of this issue of the **Federal Register** amend the Income Tax Regulations (26 CFR part 1) relating to section 263A of the Internal Revenue Code (Code). The temporary regulations provide that self-constructed property is considered produced on a routine and repetitive basis for purposes of the simplified service cost method and the simplified production method when numerous units of tangible personal property are mass-produced, *i.e.*, substantially identical assets are manufactured within a taxable year using standardized designs and assembly line techniques, and the recovery period of the assets under section 168(c) is not longer than 3 years. The text of those regulations also serves as the text of these proposed regulations. The preamble to the temporary regulations explains the amendments.

Special Analyses

It has been determined that this notice of proposed rulemaking is not a significant regulatory action as defined in Executive Order 12866. Therefore, a regulatory assessment is not required. It also has been determined that section 553(b) of the Administrative Procedure Act (5 U.S.C. chapter 5) does not apply to these regulations,

and, because the regulations do not impose a collection of information on small entities, the Regulatory Flexibility Act (5 U.S.C. chapter 6) does not apply. Pursuant to section 7805(f) of the Code, this notice of proposed rulemaking will be submitted to the Chief Counsel for Advocacy of the Small Business Administration for comment on its impact on small business.

Comments and Requests for a Public Hearing

Before these proposed regulations are adopted as final regulations, consideration will be given to any written comments (a signed original and eight (8) copies) or electronic comments that are submitted timely to the IRS. The IRS and the Treasury Department specifically request comments on the clarity of the proposed rules and how they can be made easier to understand. All comments will be available for public inspection and copying. The IRS and the Treasury Department also request comments on whether additional simplified methods should be made available to taxpayers in certain industries. A public hearing will be scheduled if requested in writing by any person that timely submits written comments. If a public hearing is scheduled, notice of the date, time and place for the hearing will be published in the **Federal Register**.

Drafting Information

The principal author of these regulations is Scott Rabinowitz of the Office of Associate Chief Counsel (Income Tax & Accounting). However other personnel from the IRS and Treasury Department participated in their development.

List of Subjects in 26 CFR Part 1

Income taxes, Reporting and recordkeeping requirements.

Proposed Amendments to the Regulations

Accordingly, 26 CFR part 1 is proposed to be amended as follows:

PART 1--INCOME TAXES

Paragraph 1. The authority citation for part 1 continues to read, in part, as follows:

Authority: 26 USC 7805 * * *

Par 2. Section 1.263A-1 is amended by revising paragraph (h)(2)(i)(D) and adding paragraphs (k) and (l) to read as follows:

§1.263A-1 Uniform capitalization of costs.

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(h) * * *

(2) * * *

(i) * * *

(D) [The text of this proposed paragraph (h)(2)(i)(D) is the same as the text of §1.263A-1T(h)(2)(i)(D) published elsewhere in this issue of the **Federal Register**.]

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(k) [The text of this proposed paragraph (k) is the same as the text of §1.263A-1T(k) published elsewhere in this issue of the **Federal Register**.]

(l) [The text of this proposed paragraph (l) is the same as the text of §1.263A-1T(l) published elsewhere in this issue of the **Federal Register**.]

Par 3. Section 1.263A-2 is amended by revising paragraph (b)(2)(i)(D) and adding paragraphs (e) and (f) to read as follows:

§1.263A-2 Rules relating to property produced by the taxpayer.

* * * * *

(b) * * *

(2) * * *

(i) * * *

(D) [The text of this proposed paragraph (b)(2)(i)(D) is the same as the text of §1.263A-2T(b)(2)(i)(D) published elsewhere in this issue of the **Federal Register**.]

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(e) The text of this proposed paragraph (e) is the same as the text of §1.263A-2T(e) published elsewhere in this issue of the **Federal Register**.]

(f) The text of this proposed paragraph (f) is the same as the text of §1.263A-2T(f) published elsewhere in this issue of the **Federal Register**.]

Deputy Commissioner for Services and Enforcement.