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DEPARTMENT OF THE TREASURY

Internal Revenue Service

[REG-113910-98]

RIN 1545-AW54

Special Rules Regarding the Simplified Production and Simplified Resale Methods with Historic Absorption Ratio Election

AGENCY: Internal Revenue Service (IRS), Treasury.

ACTION: Withdrawal of notice of proposed rulemaking.

SUMMARY: This document withdraws the notice of proposed rulemaking requiring that a historic absorption ratio used with either the simplified production or simplified resale methods be recalculated when the ratio becomes materially inaccurate that was published in the **FEDERAL REGISTER** on May 24, 1999. The withdrawal is in response to written comments received, oral comments presented at a public hearing and an internal IRS survey.

FOR FURTHER INFORMATION CONTACT: Cheryl Oseekey, (202) 622-4970 (not a toll-free number).

SUPPLEMENTARY INFORMATION:

**Background**

On May 24, 1999, the IRS issued proposed regulations (REG-113910-98) in the **FEDERAL REGISTER** (64 FR 27936) under section 263A, that required that the historic absorption ratio used with either the simplified production or simplified resale methods be reviewed for accuracy. If the historic absorption ratio is found to be

materially inaccurate, the ratio could no longer be used. The proposed regulations defined an historic absorption ratio as being materially inaccurate when (1) the taxpayer's actual absorption ratio deviates by more than 50 percent from the taxpayer's historic absorption ratio, (2) the taxpayer's actual absorption ratio deviates by more than one-half of one percentage point from the taxpayer's historic absorption ratio, and (3) the amount of additional section 263A costs capitalizable to items on hand at year-end using the actual absorption ratio deviates by more than \$100,000 from the amount of additional section 263A costs capitalizable to items on hand at year-end using the historic absorption ratio. In response to the written comments received and the oral comments presented at a public hearing held on September 1, 1999, and based on an internal IRS survey, it has been determined that the potential for abuse using the current regulations' rule of reviewing a historic absorption ratio every six years is small. Further, this potential for abuse is outweighed by the burden that would be placed on taxpayers by requiring an annual review of the accuracy of their ratios. Accordingly, these proposed regulations are being withdrawn.

**List of Subjects in 26 CFR Part 1**

Income taxes, Reporting and recordkeeping requirements.

## **Withdrawal of Notice of Proposed Rulemaking**

Accordingly, under the authority of **26 U.S.C. 7805**, the notice of proposed rulemaking (REG-113910-98) that was published in the **Federal Register** on May 24, 1999 (64 FR 27936) is withdrawn.

Deputy Commissioner of Internal Revenue Service