Internal Revenue Service

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Department of the Treasury
Washington, DC 20224

Third Party Communication: None
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Person To Contact:
, ID No.

Telephone Number:

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Date:
March 04, 2010

TY:

Taxpayer =
State X =
Taxable Year =
Year 1 =
Type Y =

Dear :

This is in response to a letter you submitted, dated December 14, 2009, requesting a ruling that Taxpayer be permitted to change to the tax book value method of asset valuation for purposes of apportioning interest expense for the Taxable Year.

The ruling contained in this letter is based upon information and representations submitted by the taxpayer and accompanied by a penalty of perjury statement executed by an appropriate party. While this office has not verified any of the material submitted in support of the ruling request, it is subject to verification on examination.

Taxpayer is a domestic corporation organized under the laws of State X and classified as a corporation for U.S. federal income tax purposes. Taxpayer uses the accrual method as its overall method of accounting and its annual accounting period ends December 31. Taxpayer processes and distributes products for Type Y markets. Taxpayer must allocate and apportion its deductions, including its deduction for interest expense, for purposes of determining its foreign tax credit limitation under section 904.

Section 864(e) of the Internal Revenue Code provides that all allocations and apportionments of interest expense shall be made on the basis of assets rather than gross income. Temp. Treas. Reg. §1.861-9T sets forth the rules specific to the apportionment of interest expense. Temp. Treas. Reg. §1.861-9T(g)(1)(ii) provides that a taxpayer may elect to determine the value of its assets on the basis of either tax book value or the fair market value of its assets. Temp. Treas. Reg. §1.861-8T(c)(2) provides that, once a taxpayer uses the fair market value method, the taxpayer and all related persons must continue to use such method unless expressly authorized by the Commissioner to change methods.

Temp Treas. Reg. §1.861-9T(g)(1)(iii) provides that, if the taxpayer elects the fair market value method of asset valuation, the taxpayer must establish the fair market value of its assets to the satisfaction of the Commissioner. Otherwise, the Commissioner may determine the appropriate values or require the taxpayer to use the tax book value method of apportionment. Temp. Treas. Reg. §1.861-9T(h) sets forth rules for determining the fair market value of the taxpayer's assets under the fair market value method.

Taxpayer is the common parent of a group of affiliated corporations that file a consolidated U.S. federal income tax return. Starting with the tax year ending in Year 1, Taxpayer and its affiliates have determined the value of their assets on a fair market value basis, pursuant to the authority granted under Temp. Treas. Reg. §1.861-9T(g)(1)(ii). Since then, Taxpayer has continued to use the fair market value method, as required under Temp. Treas. Reg. §1.861-8T(c)(2). However, Temp Treas. Reg. §1.861-9T(g)(1)(iii) provides that, if a taxpayer elects the fair market value method of asset valuation, then the taxpayer must establish the fair market value of its assets to the satisfaction of the Commissioner. Complying with this requirement has resulted in significant costs for Taxpayer, both in terms of professional fees and indirect costs related to the time incurred by company personnel. Furthermore, the fair market value method can provide uncertain results with respect to Taxpayer's interest expense methodology.

Therefore, Taxpayer requests that it be permitted to change to the tax book value method because such method: (1) decreases complexity and avoids potential disagreements with the IRS with respect to the value of assets; (2) avoids the cost of having fair market value studies performed; and (3) provides greater certainty of results for both the taxpayer and the Service. Taxpayer requests, pursuant to Temp. Treas. Reg. §§1.861-8T(c)(2) and 1.861-9T(g)(1)(ii), that it be permitted to change to the tax book value method of asset valuation for the Taxable Year.

Based solely on the information submitted, the representations made, and the reasons given for this request, Taxpayer may change from the fair market value method to the tax book value method of asset valuation for purposes of apportioning interest expense, pursuant to Temp. Treas. Reg. §§1.861-8T(c)(2) and 1.861-9T(g)(1)(ii), for the Taxable Year.

Except as expressly provided herein, no opinion is expressed or implied concerning the tax consequences of any aspect of any transaction or item described or referenced in this letter.

This ruling is directed only to the taxpayer requesting it. Section 6110(k)(3) of the Code provides that it may not be used or cited as precedent.

A copy of this letter must be attached to any income tax return to which it is relevant. In accordance with the Power of Attorney on file with this office, a copy of this letter is being sent to your authorized representatives.

Sincerely,

Anne O'Connell Devereaux
Senior Technical Reviewer, Branch 3
(Associate Chief Counsel (International))

cc: