Internal Revenue Service

Department of the Treasury

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CC:DOM:IT&A:9-PLR-106108-98

Date:

SEP 17 1998

Index No. 174.05-02

Attn:

X =

Dear

This is in reference to a request filed on behalf of X (the partnership) to adopt the current expense method for research and experimental expenditures relating to self-created assets, pursuant to the provisions of § 174(a)(2)(B) of the Internal Revenue Code, for the tax year beginning January 1, 1997 (year of adoption).

It is represented that the partnership currently capitalizes experimental expenditures under § 263A and the regulations thereunder. The partnership did not make an election under § 174(a) or § 174(b) to currently deduct research and experimental expenditures for self-created assets for the first taxable year in which the partnership paid or incurred research and experimental expenditures for self-created assets. The partnership shall continue to account for expenditures already capitalized under § 263A under the method of accounting used prior to the change authorized by this ruling.

Section 174(a)(1) provides that a taxpayer may treat research and experimental expenditures which are paid or incurred by him during the taxable year in connection with his trade or business as expenses which are not chargeable to the capital account. The expenditure so treated shall be allowed as a deduction.

Section 1.174-3(b)(2) of the Income Tax Regulations provides that a taxpayer may, with the consent of the Commissioner, adopt at any time the current expense method. Further, this method shall be applicable only to expenditures paid or incurred during the taxable year for which the request is made and in subsequent taxable years. Section 1.174-3(a) provides that once the current expense method is adopted, it must be used consistently unless permission is granted to change to another method with respect to part or all of the expenditures.

Pursuant to the facts presented, consent is hereby granted the partnership to adopt the current expense method of deducting the research and experimental expenditures relating to self-created assets, paid or incurred on or after the first day of the year of adoption, to the extent that the expenditures constitute research and experimental expenditures pursuant to the provisions of § 1.174-2 provided:

(1) the partnership keeps its books and records for the year of change and for subsequent taxable years (provided they are not closed for that year on the date it receives this letter) on the method of accounting granted in this letter. This condition is considered satisfied if the partnership reconciles the results obtained under the method used in keeping its books and records and the method used for federal income tax purposes and maintains sufficient records to support such reconciliation;

(2) the partnership currently deducts all research and experimental expenditures, as defined in section 1.174-2, paid or incurred during the year of adoption and later tax years unless permission is granted to change to another method with respect to part or all of the expenditures; and

(3) the partnership deducts the balance of research and experimental expenditures capitalized prior to the first day of the year of change, in accordance with their present methods of amortizing such expenditures.

In connection with the consent granted in this letter, it should be understood that the responsibility for making determinations as to whether the expenditures paid or incurred by the partnership in connection with the partnership's trade or business constitute research or experimental expenditures within the meaning of § 174 and the regulations thereunder, is a matter to be considered by the district director upon examination of the partnership's return.

The partnership should attach a copy of this letter to its tax return for the year of adoption as evidence of its authority for adopting the current expense method.

This ruling is directed only to the partnership who requested it. Section 6110(j)(3) provides that it may not be used or cited as precedent.

Sincerely yours,

Assistant Chief Counsel
(Income Tax & Accounting)

By J. Charles Strickland
J. Charles Strickland
Chief, Branch 9