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Internal Revenue Service

Index No. 174.05-02

Department of the Treasury

Washington, DC 20224

Person to Contact:

Identifying Number:

Telephone Number:

Refer Reply To:
CC:DOM:IT&A:09-PLR-121800-98
Date:

MAR 23 1999

X =

Y =

Z =

Dear

This is in reference to a request filed on behalf of X (the taxpayer) for permission to change to the current expense method of deducting the research and experimental expenditures relating to Z, pursuant to the provisions of § 174(b)(2) of the Internal Revenue Code, for the taxable year beginning January 1, 1998 (year of change).

It is represented that the taxpayer has been deferring research and experimental expenditures which are being amortized over a period of 60 months. The change in accounting method will apply only to research and experimental expenditures paid or incurred by the taxpayer on or after the first day of the year of change in accordance with § 1.174-4(a)(5) of the Income Tax Regulations. As of the first day of the year of change, the total amount of unamortized research and experimental expenditures was Y. This amount shall continue to be amortized over the remaining months in the amortization period.

Permission is hereby granted the taxpayer pursuant to the facts presented, to change to the current expense method for deducting research and experimental expenditures paid or incurred on or after the first day of the year of change to the extent that such expenditures qualify under the provisions of § 1.174-2, beginning with the year of change, provided:

(1) the taxpayer 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.

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This condition is considered satisfied if the taxpayer 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) that the taxpayer uses the method granted in this letter for the year of change and for all later tax years unless the taxpayer secures permission to change to another recognized method;

(3) that the taxpayer deducts the unamortized balance of research and experimental expenditures, treated as deferred expenses prior to the first day of the year of change, in accordance with its present method of amortizing such expenditures; and

(4) that the taxpayer attaches a copy of this letter to its tax return for the year of change as evidence of its authority for making the change.

In connection with the permission granted herein, it should be understood that the responsibility for making determinations as to whether the expenditures paid or incurred by the taxpayer in connection with the taxpayer's trade or business, are research and experimental expenditures within the meaning of § 174, is a matter to be considered by the district director upon examination of the taxpayer's returns.

This ruling is directed only to the taxpayer who requested it. Section 6110(j)(3) of the Code 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
I.D. # 50-07044