IRS provides capitalization guidance for telecommunications industry

The Internal Revenue Service on April 4 issued three revenue procedures under its Industry Issue Resolution Program intended to resolve disputes involving the capitalization and depreciation of network assets for taxpayers in the telecommunications industry.

Depreciation recovery periods

Rev. Proc. 2011-22 provides a safe harbor method for determining the recovery periods for depreciation of certain tangible assets used primarily to provide wireless telecommunication or broadband services by mobile phones (for example, cell phones or smartphones). The revenue procedure includes a list of the specific assets for which the Service will not challenge the taxpayer’s classification for depreciation purposes.


Capitalization

Rev. Proc. 2011-27 and Rev. Proc. 2011-28 provide two alternative safe harbors for determining whether expenditures to maintain, replace, or improve assets used primarily to provide telecommunications or broadband services must be capitalized under section 263(a). The safe harbors are a network asset maintenance allowance method or units of property method. Rev. Proc. 2011-27 is applicable to wireline network assets and Rev. Proc. 2011-28 is applicable to wireless network assets.


The network asset maintenance allowance method in both revenue procedures requires the taxpayer to determine the amount of its asset expenditures that are not required to be capitalized under the revenue procedures (network asset maintenance allowance) and the amount of network asset expenditures that are treated as section 263(a) capital expenditures under of the revenue procedures. Taxpayers that use the network asset maintenance allowance method described in the revenue procedures must use that method for all of their wireline or wireless network asset expenditures.

Wireline network assets – For wireline network assets, Rev. Proc. 2011-27 provides that the Service will not challenge any of the following unit of property determinations for purposes of the application of section 263(a):

- All the towers and poles, and all the structures and fittings mounted on towers and poles, (“fully-dressed poles”) in a wire center constitute a single unit of property;
- All the copper wire and any associated devices, whether overhead or underground, in a wire center constitute a single unit of property;
- All the fiber optic cable and any associated devices, whether overhead or underground, in a wire center constitute a single unit of property;
- All the underground conduit and ducts, as well as controlled environmental vaults (CEVs), manholes, and handholes, in a wire center constitute a single unit of property;
- Each central office building (including its structural components) constitutes a single unit of property;
- All central office equipment associated with a central office building constitutes a single unit of property;
- All service area interface boxes in a wire center constitute a single unit of property; and
- All remote and network terminals in a wire center constitute a single unit of property.

Wireless network assets – For wireless networks assets, Rev. Proc. 2011-28 provides that the Service will not challenge any of the following unit of property determinations:

- The mobile telephone switching office (MTSO) building (including its structural components) constitutes a single unit of property;
- All of the MTSO equipment constitutes a single unit of property;
- All cell site transmission equipment at a cell site constitutes a single unit of property;
- All cell site radio equipment at a cell site constitutes a single unit of property;
- All cell site support equipment at a cell site constitutes a single unit of property;
• The antenna support structure (also known as a tower) affixed to a foundation (for example, a concrete foundation, a building rooftop, or a building wall) at a cell site constitutes a single unit of property;
• The concrete foundation upon which the antenna support structure is installed, including the bolts embedded therein and other depreciable assets associated with the platform or other forms of anchoring to affix a tower to a foundation, constitutes a single unit of property;
• The cell site enclosure (hut) and the cement slab or foundation upon which the hut is installed constitute a single unit of property; and
• All depreciable land improvements at a cell site constitute a single unit of property.

Accounting method changes


Effective date

The revenue procedures are effective for taxable years ending on or after December 31, 2010. The determination of whether a taxpayer is eligible for the safe harbors provided in the revenue procedures is made by each member of a consolidated group, by a partnership, or by an S corporation. The revenue procedures do not apply to cable operators.

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