

**INTERNAL REVENUE SERVICE**  
**NATIONAL OFFICE TECHNICAL ADVICE MEMORANDUM**

October 9, 2001

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Index (UIL) No.: 7805.05-00; 42.04-00  
CASE MIS No.: TAM-132026-01/CC:PSI:b5

Industry Director

Taxpayer's Name:  
Taxpayer's Address:

Taxpayer's Identification No:  
Years Involved:  
Date of Conference:

LEGEND:

Taxpayer =

Project =

City =

State =

Agency =

a =

b =

c =

d =

e =

f =

ISSUE:

Whether Taxpayer's requested relief under § 7805(b)(8) of the Internal Revenue Code should be granted and TAM 200043016 (July 14, 2000) (TAM) be applied without retroactive effect.

CONCLUSION:

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Taxpayer's requested § 7805(b)(8) relief for land preparation and construction loan costs in the TAM is denied. Advice in the TAM as it relates to local impact fees is suspended pending consideration of the local impact fee issue in two Internal Revenue Service initiatives. Consequently, we decline to rule on Taxpayer's § 7805(b)(8) request as it relates to local impact fees.

FACTS:

Taxpayer is a State limited partnership that was formed for the sole purpose of constructing, owning, and operating the Project, a low-income housing project in City consisting of a buildings with a total of b units. In c, Taxpayer received a carryover allocation from the Agency in the amount of \$d in low-income housing credits under § 42. In e, Taxpayer received a second carryover allocation in the amount of \$f. Taxpayer included local impact fees and certain land preparation and construction loan costs in the buildings' eligible bases under § 42(d)(1). Technical advice was requested on whether these costs were includable in eligible basis for the low-income housing credit.

The TAM concludes that—

A cost incurred in the construction of a low-income housing building is includable in eligible basis under § 42(d)(1) if the cost is:

- (1) included in the adjusted basis of depreciable property subject to § 168 and the property qualifies as residential rental property under § 103, or
- (2) included in the adjusted basis of depreciable property subject to § 168 that is used in a common area or provided as a comparable amenity to all residential rental units in the building.

With respect to specific local impact fees and land preparation construction loan costs considered, the TAM concludes that—

- (1) local impact fees incurred by the Taxpayer to develop the Project constitute intangible property to the Taxpayer. The local impact fees incurred by the Taxpayer to develop the property do not constitute depreciable property to the Taxpayer because the fees are intangible property that do not have determinable useful lives. Accordingly, the fees are not includable in the Project's eligible basis under § 42(d)(1);
- (2) for the cost of a land preparation to be includable in the Project's eligible basis under § 42(d)(1), the cost must be for property of a character subject to the allowance for depreciation under § 168. The cost of a land preparation is a depreciable property if the land preparation is so closely associated with a particular depreciable asset that the land preparation will be retired, abandoned, or replaced contemporaneously with that

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depreciable asset. Whether the land preparation will be retired, abandoned, or replaced contemporaneously with the depreciable asset is a question of fact. If it is determined, upon further factual development, that a land preparation cost is depreciable, such cost may be included in eligible basis if it is also determined as part of the adjusted basis of § 168 property that qualifies as residential rental property under § 103, or § 168 property used in a common area or provided as a comparable amenity to all residential rental units in the building; and

- (3) Taxpayer's third-party costs and fees incurred in obtaining a construction loan are capitalized and amortized over the life of the loan. The Taxpayer's construction loan intangible is not subject to § 168 and therefore not includable in the Project's eligible basis. Section 263A requires the amortization deductions relating to the construction loan intangible be capitalized to the produced property during the construction period. The deductions must be reasonably allocated to all property produced. To the extent the amortization deductions are allocable under § 263A to the adjusted bases of § 168 property that qualifies as residential rental property under § 103 or § 168 property used in a common area or provided as a comparable amenity to all residential units in the building, the amortization deductions are includable in the Project's eligible basis under § 42(d)(1).

Taxpayer has requested that relief under § 7805(b)(8) be extended to it and that the TAM be applied without retroactive effect. Taxpayer asserts that it should be granted § 7805(b)(8) relief because it relied upon Agency's award of credits pursuant to § 42(h) that included the costs at issue. Taxpayer states that it and its partners relied on the Agency's credit allocation, based upon an analysis of the financial feasibility of the Project, to proceed with development and investment in the Project. Taxpayer states that it followed the past practices of the developer and others in the industry in treating the costs, which treatment was certified by an international accounting firm. Retroactive application the TAM would cause irreparable damage and jeopardize the viability of the Project.

In addition, Taxpayer alleges that the conclusions in the TAM are the equivalent of regulatory rules, and because rules issued under the rule-making procedures normally apply prospectively, the TAM should also be prospective.

#### LAW AND ANALYSIS:

Section 7805(b)(8) provides an administrative procedure for prescribing the extent to which any ruling or regulation relating to the internal revenue laws shall be applied without retroactive effect.

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Section 18.01 of Revenue Procedure 2001-2, 2001-1 I.R.B. 79, 105, permits a § 7805(b)(8) request on a technical advice memorandum subsequent to its issuance. A request to limit the retroactive effect of a technical advice memorandum must explain the reasons and arguments in support of the relief sought and include a discussion of the five items enumerated in § 17.06 of Rev. Proc. 2001-2 as they relate to the taxpayer's situation. Section 18.03(3) of Rev. Proc. 2001-2, at 106. These five items are the conditions for nonretroactive application of a technical advice memorandum that modifies or revokes a letter ruling or another technical advice memorandum.

Taxpayer contends that each state housing credit agency determines what costs are includable in eligible basis when determining the financial feasibility of a project under § 42(m)(2)(A). Consequently, Taxpayer concludes that once the Agency has verified and accepted Taxpayer's costs, the Service is bound by the Agency's determination.

Section 42(m)(2)(A) provides, in part, that the housing credit dollar amount allocated to a project shall not exceed the amount the housing credit agency determines is necessary for the financial feasibility of the project and its viability as a qualified low-income housing project through the credit period. A state housing credit agency's responsibility under § 42(m)(2)(A) to determine the financial feasibility and viability of a project in no way abrogates the Service's authority and responsibility to administer the low-income housing tax credit and its various provisions.

Taxpayer asserts that the conclusions in the TAM are equivalent to interpretative rules, and in keeping with the procedures on rule-making, the TAM should be applied prospectively. Technical advice is advice or guidance furnished, upon request, in response to any technical or procedural question that develops during any proceeding, such as the examination of a taxpayer's return, on the interpretation and proper application of the tax law, tax treaties, or regulations, revenue rulings, notices, or other precedents published by the national office to a specific set of facts. Technical advice helps Service personnel close cases and also helps establish and maintain consistent holdings throughout the Service. Section 2 of Rev. Proc. 2001-2, 2001-1 I.R.B. at 84. The TAM is not to be used for precedential purposes in other cases under § 6110(k)(3). The position of the Service is not established by a technical advice memorandum, rather, it is restricted to those interpretations that have been adopted as position of the Service by publication in the Internal Revenue Bulletin. Chief Counsel's Directive Manual (39)1.5.1; also see 2001-1 I.R.B. Introduction.

In the present case, Taxpayer did not rely on any income tax regulation, revenue ruling, notice, or revenue procedure explicitly addressing whether the costs under the facts presented in the TAM are includable in eligible basis under § 42(d). Taxpayer did not rely on a previously issued private letter ruling or technical advice memorandum covering the issues which might form a basis for § 7805(b)(8) relief. See § 17 of Rev. Proc. 2001-2, 2001-1 I.R.B. 79, 104. Taxpayer relied on its own interpretation of the law in determining its eligible basis. A taxpayer's erroneous interpretation of the law is not a basis for relief under § 7805(b)(8).

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Accordingly, Taxpayer's arguments do not support nonretroactive application of the TAM under § 7805(b)(8) for land preparation and construction loan costs.

Whether local impact fees are includable in the eligible basis of a low-income housing project under § 42 is an issue under consideration in two Service initiatives; a business plan guidance project and an industry issue resolution program. Accordingly, we are suspending the conclusion in the TAM and decline to consider § 7805(b)(8) relief on this issue at this time.

#### CAVEATS

A copy of this technical advice memorandum is to be given to the taxpayer. Section 6110(k)(3) provides that it may not be used or cited as precedent.