

SECTION 1. PURPOSE

This revenue procedure provides a safe harbor under section 118(a) of the Internal Revenue Code for the treatment of certain grants to corporations from the National Energy Technology Laboratory of the Department of Energy (DOE) under the Electric Drive Vehicle Battery and Component Manufacturing Initiative (the Initiative) as authorized by Division A, Title IV of the American Recovery and Reinvestment Act of 2009 (Pub. L. 111-5) (ARRA).

SECTION 2. BACKGROUND

Section 118(a) of the Code provides that in the case of a corporation, gross income does not include a contribution to the capital of the taxpayer.

Section 1.118-1 of the Income Tax Regulations provides that section 118 applies to contributions to capital made by a person other than a shareholder, for example, property contributed to a corporation by a governmental unit for the purpose of enabling the corporation to expand its operating facilities.

Section 362(c)(2) of the Code requires a basis reduction in a corporation's property when the corporation receives money from a nonshareholder as a contribution to its capital.

Division A, Title IV of ARRA requires the Secretary of Energy to provide facility funding awards to manufacturers of advanced battery systems and vehicle batteries that are produced in the United States, including advanced lithium ion batteries, hybrid

electrical systems, component manufacturers, and software designers. \$2 billion was made available for grants for the manufacturing of advanced batteries and components.

The Initiative provides grants for seven Areas of Interest: (1) Cell and Battery Manufacturing Facilities; (2) Advanced Battery Supplier Manufacturing Facilities; (3) Combined Applications for Areas of Interest 1 and 2; (4) Advanced Lithium ion Battery Recycling Facilities; (5) Electric Drive Component Manufacturing Facilities; (6) Electric Drive Subcomponent Manufacturing Facilities; and (7) Combined Applications for Areas of Interest 5 and 6. See Funding Opportunity Number DE-FOA-0000026 (March 19, 2009). This guidance may be accessed electronically at: <http://www.netl.doe.gov/business/solicitations/archive/main-FY09.html#00026>

SECTION 3. SCOPE

This revenue procedure applies to corporate taxpayers that receive a grant from DOE under the Initiative for Areas of Interest 1 through 7. This revenue procedure does not apply to the portion of any grant paid or incurred for travel or training expenses or paid to reimburse pre-application expenses. For this purpose, pre-application expenses only include those costs incurred in preparing and submitting an application to receive a grant. This revenue procedure does not apply to noncorporate taxpayers.

SECTION 4. PROCEDURE

The Internal Revenue Service will not challenge a corporation's treatment of a grant to the corporation from DOE under the Initiative for Areas of Interest 1 through 7 within the scope of section 3 of this revenue procedure as a nonshareholder contribution to the capital of the corporation under section 118(a) of the Code if the

corporation properly reduces the basis of its property under section 362(c)(2) and the regulations thereunder.

SECTION 5. EFFECTIVE DATE

This revenue procedure is effective November 12, 2010.

SECTION 6. DRAFTING INFORMATION

The principal author of this revenue procedure is David McDonnell of the Office of Associate Chief Counsel (Passthroughs & Special Industries). For further information regarding this revenue procedure contact Mr. McDonnell at (202) 622-3040 (not a toll free call).