

Internal Revenue Service

Department of the Treasury

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Person to Contact:

Telephone Number:

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Date:

December 15, 2000

Legend

Taxpayer =

Partnership =

Accountant A =

X =

Accountant B =

Accountant C =

\$x =

Dear

This is in reply to your private letter ruling request in which you request an extension of time to make an election under section 108(c) of the Internal Revenue Code. Specifically, you have requested an extension of time to make an election under section 108(c) and § 1.108(c)-1 of the Income Tax Regulations to reduce the basis of depreciable property and to exclude income resulting from the discharge of qualified real property business indebtedness.

Facts

Partnership is a limited liability company which is treated as a partnership for federal income tax purposes. Taxpayer is a partner in Partnership. Partnership was allocated \$x cancellation of indebtedness income. Accountant A was responsible for preparing Partnership's Federal income tax return. Accountant A properly informed X regarding the cancellation of indebtedness income, and the necessity for each partner to make an election to exclude the income. Accountant A also delivered Taxpayer's K-1 with an attachment that described the necessity of filing Form 982 to elect to exclude the cancellation of indebtedness income. However, X misunderstood the information and believed it was not necessary to file Form 982 if the taxpayer had sufficient basis in Partnership to fully reduce the excluded COD income. X transmitted the K-1

information to Accountant B, who was responsible for filing Taxpayer's return. However, Accountant B underwent a medical emergency 3 days prior to the deadline for filing Taxpayer's return, and was unable to complete the return. Accountant C prepared the return in Accountant B's absence, and Accountant C relied on X's erroneous information. Therefore, Accountant C prepared the Taxpayer's return and excluded the COD income, consistent with having made the election, but did not properly attach Form 982 to Taxpayer's income tax return. If the late election is granted, then the only change to Taxpayer's return will be the attachment of Form 982.

Taxpayer, X and Accountant B have submitted affidavits consistent with the above stated facts.

Applicable Law

Section 108(a)(1)(D) of the Code provides that gross income does not include any amount includible in gross income by reason of the discharge of indebtedness if, in the case of a taxpayer other than a C corporation, the indebtedness discharged is qualified real property business indebtedness. Section 108(c)(3) provides that the taxpayer must make an election in order to take advantage of the exclusion provided by § 108(a).

Section 108(d)(6) of the Code provides that in the case of a partnership, §§ 108(a) and 108(c) shall be applied at the partner level.

Section 1.108(c)-1(b) of the Income Tax Regulations provides that the election available under § 108(c)(3)(C) must be made on the timely-filed (including extensions) Federal income tax return for the taxable year in which the taxpayer has discharge of indebtedness income that is excludible from gross income under § 108(a). The election is to be made on a completed Form 982.

Section 301.9100-3 of the regulations provides that requests for extensions of time for regulatory elections (other than automatic changes covered in § 301.9100-2) will be granted when the taxpayer provides evidence (including affidavits) to establish that the taxpayer acted reasonably and in good faith, and granting relief will not prejudice the interests of the government.

Section 301.9100-3(b)(1) states that a taxpayer will be deemed to have acted reasonably and in good faith if the taxpayer--

- (i) requests relief before the failure to make the regulatory election is discovered by the Service;
- (ii) inadvertently failed to make the election because of intervening events beyond the taxpayer's control;
- (iii) failed to make the election because, after exercising due diligence, the taxpayer was unaware of the necessity for the election;
- (iv) reasonably relied on the written advice of the Service; or
- (v) reasonably relied on a qualified tax professional, and the tax

professional failed to make, or advise the taxpayer to make the election.

Under § 301.9100-3(b)(3), a taxpayer will not be considered to have acted reasonably and in good faith if the taxpayer--

- (i) seeks to alter a return position for which an accuracy-related penalty could be imposed under § 6662 at the time the taxpayer requests relief and the new position requires a regulatory election for which relief is requested;
- (ii) was fully informed of the required election and related tax consequences, but chose not to file the election; or
- (iii) uses hindsight in requesting relief. If specific facts have changed since the original deadline that make the election advantageous to a taxpayer, the Service will not ordinarily grant relief.

Section 301.9100-3(c) states that the Commissioner will grant a reasonable extension of time only when the interests of the Government will not be prejudiced by the granting of relief. Under paragraph (i), the interests of the government are prejudiced if granting relief would result in a taxpayer having a lower tax liability in the aggregate for all taxable years affected by the election than the taxpayer would have had if the election had been timely made (taking into account the time value of money).

Analysis

Taxpayer requested relief before the failure to make the election was discovered by the Service. In addition, under the facts as represented, taxpayer reasonably relied upon the advice of a qualified tax professional, Accountant B who failed to advise the taxpayer to make the election. Therefore Taxpayer is deemed to have acted reasonably and in good faith under § 301.9100-3(b)(1). In addition, based on the facts as represented, we have determined that § 301.9100-3(b)(3) does not apply. Under § 301.9100-3(b)(3), a taxpayer will not be considered to have acted reasonably and in good faith if the taxpayer--

- (i) seeks to alter a return position for which an accuracy-related penalty could be imposed under § 6662 at the time the taxpayer requests relief and the new position requires a regulatory election for which relief is requested.

In this case, Taxpayer filed the return consistent with making a timely election under section 1.108-5(b) of the regulations by excluding the COD income on Taxpayer's income tax return. However, Taxpayer did not make the proper election with the return because Form 982 was not attached to the return. Therefore, Taxpayer is not requesting permission to make a late election that will "alter" a return position. The only difference between the tax return as filed and the tax return if the elections are granted is the attachment of Form 982. Therefore, the return position will not be altered if a late election is permitted. Therefore, section 301.9100-3(b)(3)(i) does not apply to

Taxpayer.

Furthermore, based on the facts as represented, we have determined that the interests of the Government will not be prejudiced by the granting of relief.

Conclusion

Based solely on the facts as represented and the applicable law, we conclude that the request for relief under § 301.9100-3 of the regulations should be granted.

Accordingly, Taxpayer is granted an extension of time of 45 days from the date of this letter to file an amended return making the election under § 108(c)(3) of the Code. The election is to be made on Form 982.

The rulings contained in this letter are based upon information and representations submitted by the taxpayer and accompanied by a penalty of perjury statement executed by an appropriate party.

While this office has not verified any of the material submitted or facts assumed in support of the request for rulings, it is subject to verification on examination.

Except as expressly provided herein, no opinion is expressed or implied concerning the tax consequences of any aspect of any transaction or item discussed or referenced in this letter. This letter does not rule on whether the income at issue is properly treated as cancellation of indebtedness income. This letter also does not rule on whether the income can be excluded from gross income under § 108 of the Code.

A copy of this letter must be attached to any income tax return to which it is relevant.

This ruling is directly only to the taxpayer requesting it. Section 6110(j)(3) of the Code provides that it may not be used or cited as precedent.

Sincerely,
Assistant Chief Counsel
(Income Tax & Accounting)
By Christopher F. Kane
Assistant to the Chief, Branch 3

Enclosure:

Copy for § 6110 purposes