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apportions interest expense pursuant to the fair market value asset valuation method as set forth in Temp. Treas. Reg. § 1.861-9T(h).

Section 864(e) of the Internal Revenue Code provides that all allocations and apportionments of interest expense shall be made on the basis of assets rather than gross income.

Temp. Treas. Reg. §1.861-9T sets forth the rules specific to the apportionment of interest expense. Temp. Treas. Reg. §1.861-9T(g)(1)(ii) provides that a taxpayer may elect to determine the value of its assets on the basis of either tax book value or the fair market value of its assets. Temp. Treas. Reg. §1.861-8T(c)(2) provides that once a taxpayer uses the fair market value method, the taxpayer and all related persons must continue to use such method unless expressly authorized by the Commissioner to change methods.

Temp. Treas. Reg. §1.861-9T(g)(1)(iii) provides that if the taxpayer elects the fair market value method of asset valuation, the taxpayer must establish the fair market value of its assets to the satisfaction of the Commissioner. Otherwise, the Commissioner may determine the appropriate values or require the taxpayer to use the tax book value method of apportionment. Temp. Treas. Reg. §1.861-9T(h) sets forth rules for determining the fair market value of the taxpayer's assets under the fair market value method.

Corp A requests, pursuant to Temp. Treas. Reg. §§1.861-8T(c)(2) and 1.861-9T(g)(1)(ii), that it be permitted to change to the tax book value method of asset valuation for its taxable year beginning on January 1, 2003 and for all subsequent taxable years. Corp A's ruling request states that it desires to use the tax book value method because that method: (1) decreases complexity and avoids potential disagreements with the Service with respect to the fair market value of assets; (2) avoids the cost of having fair market value studies performed; and (3) provides greater certainty of results for both the taxpayer and the Service.

Based solely on the information submitted, the representations made, and the reasons given for this request, Corp A may change from the fair market value method to the tax book value method of asset valuation for purposes of apportioning interest expense, pursuant to Temp. Treas. Reg. §§1.861-8T(c)(2) and 1.861-9T(g)(1)(ii), for the taxable year beginning on January 1, 2003 and for subsequent taxable years.

Except as expressly provided herein, no opinion is expressed or implied concerning the tax consequences of any aspect of any transaction or item described or referenced in this letter.

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

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

In accordance with the Power of Attorney on file with this office, a copy of this letter is being sent to your authorized representative.

Sincerely,

Anne O'Connell Devereaux
Senior Technical Reviewer, Branch 3
Office of the Associate Chief Counsel
(International)

cc: