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LARGE AND MID-SIZE  
BUSINESS DIVISION

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MEMORANDUM FOR INDUSTRY DIRECTORS, LMSB  
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SUBJECT Field Directive on Depreciable Golf Course Land  
Improvements and the Impact of Rev. Rul. 2001-60

#### INTRODUCTION

This memorandum supersedes a memorandum dated December 28, 2001, "Field Guidance on Depreciable Golf Course Land Improvements and the Impact of Rev. Rul. 2001-60". It is intended to provide direction to effectively utilize resources in the classification and examination of taxpayers who operate golf courses in light of the publication of Rev. Rul. 2001-60, (2001 TNT 231-18), published November 29, 2001. This directive is not an official pronouncement of the law or the Service's position and cannot be used, cited or relied upon as such.

Rev. Rul. 2001-60 provides guidance on the proper tax treatment of land preparation costs in the construction or reconstruction of golf course greens. The ruling replaces Rev. Rul. 55-290, 1955-1 C.B. 320. While the ruling continues to apply the holding of Rev. Rul. 55-290 regarding the treatment of land preparation costs attributable to the construction or reconstruction of push-up or natural soil greens, the ruling reaches a different conclusion regarding the treatment of the costs of land preparation undertaken in the construction or reconstruction of modern golf course greens. This memorandum provides direction to examiners in applying the rationale of Rev. Rul. 2001-60, as applicable, to other golf course land improvements, namely, tees, bunkers, fairways and roughs.

Rev. Rul. 2001-60 considers the costs of land preparation undertaken in the construction or reconstruction of the two types of golf course greens currently in use, i.e., the "push-up" or "natural soil green" and the "modern green." The modern green is a land improvement designed to facilitate drainage. Construction or reconstruction of

the modern green begins after general earthmoving, grading, and initial shaping of the area surrounding and underneath the modern green. Modern greens are constructed with a network of subsurface drainage tiles or pipes, one or more layers of gravel and/or sand particles, a rootzone layer, and a variety of turfgrass.

Rev. Rul. 2001-60 holds that the costs of land preparation undertaken by a taxpayer in the original construction or reconstruction of modern greens that is so closely associated with depreciable assets, such as underground drainage tiles or pipes, that the land preparation will be retired, abandoned, or replaced contemporaneously with those depreciable assets, are to be capitalized and depreciated over the recovery period of the depreciable assets with which the land preparation is associated.

The ruling further holds that subsequent operating expenses for sod, seed, soil, and other sundry maintenance are ordinary and necessary business expenses that are deductible from gross income for federal income tax purposes.

However, with respect to the costs attributable to the construction or reconstruction of “push-up” or “natural soil” greens, examiners should be mindful that the Service will continue to follow the holdings in Rev. Rul. 55-290 and Edinboro Company v. United States, 224 F. Supp. 301, 63-2 USTC ¶19759 (W.D. Pa. 1963). In these cases, the land preparation costs are inextricably associated with the land and, therefore, are added to the cost basis of the land and are not depreciable.

## LAND

A basic tenet in tax law is that land is not depreciable. Examiners shall not construe Rev. Rul. 2001-60 or this directive to mean that the land acquisition cost is depreciable. That cost is clearly non-depreciable.

In addition, the costs of general earthmoving, grading, and shaping of all golf course land improvements are also not depreciable. These costs are attributable to land preparation that is inextricably associated with the land and are, thus, added to the taxpayer's cost basis in the land and not depreciable.

## BUNKERS

During the examination of a taxpayer who operates a golf course, examiners may encounter land preparation costs attributable to the construction or reconstruction of bunkers. Bunkers are hazards that contain either grass or sand. Some bunkers are nothing more than a contoured area of the fairway and the costs of land preparation attributable to the creation of these types of bunkers are not subject to depreciation because the land preparation is inextricably associated with the land.

When examining the bunker portion of a golf course, examiners should ascertain whether the bunker is constructed in a manner similar to a modern green as described

in Rev. Rul. 2001-60. If so, the land preparation costs would be capitalized and subject to depreciation, using the same recovery period as the underlying depreciable asset. Thus, if the bunker contains underlying depreciable assets that, if replaced, would result in the contemporaneous retirement, abandonment or replacement of the elements above the depreciable assets, then, the cost of the land preparation above the underlying depreciable assets is depreciable.

A sand bunker may be lined with a depreciable barrier material and/or have an underlying system of networked depreciable drain tiles or pipes. The land preparation costs of this bunker are eligible for depreciation as a land improvement. The elements of this bunker subject to depreciation would be the liner and/or drain tiles or pipes and associated land preparation lying directly above the depreciable asset.

## TEES

Examiners will find that tees generally consist of level elevated soil (also referred to as "tee-boxes") with minimal infrastructure. Similar to a push-up green, costs associated with a push-up tee are not depreciable. However, some tees may be constructed with drain tiles or pipes to control drainage onto other portions of the course. The only element of this type of tee subject to depreciation would be the drain tiles or pipes and associated land preparation lying directly above the pipes.

If an examiner determines that a tee is constructed in a manner similar to the modern green as described in Rev. Rul. 2001-60, the land preparation costs would be capitalized and subject to depreciation. Thus, if the tee contains underlying depreciable assets that, if the underlying depreciable assets were replaced, would result in the contemporaneous retirement, abandonment or replacement of the elements above the depreciable assets, then, the cost of the land preparation above the underlying depreciable assets is depreciable.

## FAIRWAYS

Examiners will find that a fairway is generally a contoured, well-maintained grass area that extends from the tee to the green. The costs of general earthmoving, grading, and shaping of fairways are not depreciable land preparation costs. Similarly, the costs of final grading, preparation, seed (including any grow-out period costs), and sod are not depreciable land preparation costs. These costs are attributable to land preparation that is inextricably associated with the land and, therefore, are added to the taxpayer's cost basis in the land.

Some fairways may have underlying depreciable irrigation and drainage pipes. The cost of land preparation (e.g., seed, sod, and fertilizer) immediately above the pipes that would be retired, abandoned, or replaced contemporaneously with the underlying asset is depreciable over the same recovery period as the underlying asset.

For example, a golf course has a 6-inch underlying drainage pipe that carries runoff to holding ponds. The removal of the drainage pipe would require a 12-inch wide ditch. The depreciable costs would be the land preparation costs of 12 inches of fairway surface times the length of pipe running through the fairway. If there were 30,000 feet of pipe being installed, 30,000 square feet of land preparation costs would be depreciable.

## ROUGHES

Roughs are generally uneven areas covered with high grass, brush, and stones bordering golf course fairways. When examining these parts of a golf course, examiners will generally conclude the land preparation costs of creating the roughs are not depreciable. The costs of creating these areas are attributable to land preparation that is so inextricably associated with the land that the costs are added to the taxpayer's cost basis in the land and are not depreciable.

However, if there are drainage or irrigation pipes underlying the rough, land preparation costs are subject to depreciation to the extent the land preparation above the pipes would be retired, abandoned, or replaced contemporaneously with the installing or reinstalling of the pipes.

## CHANGE IN METHOD OF ACCOUNTING

Examiners are reminded that any change in a taxpayer's treatment of the cost of golf course land improvements is a change in method of accounting to which the provisions of IRC Sections 446 and 481 and the regulations thereunder apply.

## EFFECT ON OTHER GUIDANCE

This directive should be applied in the context of other applicable depreciation principles regarding the depreciation of land improvements under IRC Sections 167 and 168. Examiners should apply the applicable principles in determining the depreciability of other golf course land improvements not discussed above. As in the case with any issue, examiners are encouraged to exercise their professional judgement and authority in developing and resolving factual issues.

## CONTACTS

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