

**Internal Revenue Service**

Department of the Treasury  
Washington, DC 20224

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SSN:

TY:

Legend:

Taxpayer =

Year =

Accountant =

State =

Date1 =

Date2 =

Dear :

This ruling letter is in response to your letter dated . In your letter, you requested an extension of time to make an election to treat net capital gains from the disposition of property held for investment as investment income under §§ 163(d)(1) and 163(d)(4)(B) of the Internal Revenue Code for Year. The request is based on §§ 301.9100-1 and 301.9100-3 of the Procedure and Administration Regulations.

**FACTS**

Taxpayer is a husband and wife. Taxpayer hired Accountant to advise them on all of their business and individual tax matters. Taxpayer has been a client of Accountant for approximately 7 years. Taxpayer has been satisfied with Accountant's reputation, competence, and ability.

For Year, Accountant filed an original return by the required due date. Taxpayer had investment interest expense and net capital gains from the disposition of property held for investment during Year. Accountant did not elect on Form 4952, Investment Interest Expense Deduction, to include any part of Taxpayer's net capital gain in investment income on their original return for Year. Accountant did not advise Taxpayer to make the election under § 163(d)(4)(B) at that time.

Taxpayer instructed Accountant to prepare and file amended tax returns for Year unrelated to the election under § 163(d)(4)(B). At that time, Accountant realized that Taxpayer qualified for the election under § 163(d)(4)(B) and prepared the amended tax return with the election. The amended federal and State tax returns were filed on Date1. Accountant represented that Accountant inadvertently overlooked that the election under § 163(d)(4)(B) could not be made on an amended tax return. The failure of Taxpayer to make the election under § 163(d)(4)(B) on an original tax return was not discovered until the end of the audit of the State income tax return for Year on Date2.

#### LAW

Section 163(d)(1) provides that in the case of a taxpayer other than a corporation, the amount allowed as a deduction for investment interest for any taxable year shall not exceed the net investment income of the taxpayer for the taxable year.

Section 163(d)(4)(B) of the Code provides, in part, that investment income means the sum of –

(i) gross income from property held for investment (other than any gain taken into account under clause (ii)(I)),

(ii) the excess (if any) of –

(I) the net gain attributable to the disposition of property held for investment, over

(II) the net capital gain determined solely by taking into account gains and losses from dispositions of property held for investment, plus

(III) so much of the net capital gain referred to in clause (ii) (II) (or, if lesser, the net gain referred to in clause (ii)(I)) as the taxpayer elects to take into account under this clause.

Section 1.163(d)-1(b) of the Income Tax Regulations provides that the election under § 163(d)(4)(B)(iii) must be made on or before the due date (including extensions) of the income tax return for the taxable year in which the net capital gain is recognized.

The election is made on Form 4952 in accordance with the form and its instructions. The net capital gain taken into account as investment income under this election is not eligible to be taxed at capital gain rates. Section 1.163(d)-1(a). Section 1.163(d)-1(c) provides that the election under § 163(d)(4)(B) is revocable with the consent of the Commissioner.

Sections 301.9100-1 through 301.9100-3 provide the standards the Commissioner uses to determine whether to grant an extension of time to make a regulatory election. Section 301.9100-2 provides automatic extensions of time for making certain elections. Section 301.9100-3 provides extensions of time for making elections that do not meet the requirements of § 301.9100-2.

Section 301.9100-1(b) defines the term “regulatory election” as an election whose due date is prescribed by a regulation published in the Federal Register, or a revenue ruling, procedure, notice or announcement published in the Internal Revenue Bulletin.

Section 301.9100-1(c) provides that the Commissioner may grant a reasonable extension of time to make a regulatory election, or a statutory election (but no more than 6 months except in the case of a taxpayer who is abroad) under all subtitles of the Internal Revenue Code except subtitles E, G, H and I.

Section 301.9100-3 provides extensions of time to make a regulatory election for requests that do not meet the requirements of § 301.9100-2. Requests for extensions of time for regulatory elections will be granted when the taxpayer provides evidence (including affidavits described in the regulations) to establish to the satisfaction of the Commissioner 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) provides that a taxpayer is 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) 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, including a tax professional employed by the taxpayer, and the tax professional failed to make, or advise the taxpayer to make, the election.

Section 301.9100-3(b)(2) provides that a taxpayer will not be considered to have reasonably relied on a qualified tax professional if the taxpayer knew or should have

known that the professional was not (i) competent to render advice on the regulatory election; or (ii) aware of all relevant facts.

When the taxpayer relied on a qualified tax professional for advice, the taxpayer must provide a detailed affidavit describing the engagement and responsibilities of the professional as well as the extent to which the taxpayer relied on the professional. Section 301.9100-3(e)(2). Further, the regulations require that the taxpayer submit a detailed affidavit from, as relevant here, the taxpayer's return preparer describing the engagement and responsibilities of the return preparer and advice that was provided to the taxpayer. Section 301.9100-3(e)(3). Taxpayer provided the required affidavits.

Section 301.9100-3(c)(1)(i) provides, in part, that the interests of the government are prejudiced if granting relief would result in the 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). Section 301.9100-3(c)(1)(ii) provides, in part, that the interests of the government are ordinarily prejudiced if the taxable year in which the regulatory election should have been made, or any taxable years that would have been affected by the election had it been timely made, are closed by the period of limitations on assessment under § 6501(a) before the taxpayer's receipt of a ruling granting relief under this section.

#### CONCLUSION

Taxpayer's election is a regulatory election, as defined under § 301.9100-1(b), because the due date of the election is prescribed in the regulations under § 1.163(d)-1(b). Further, the requirements of § 301.9100-3 are satisfied. The information and representations made by Taxpayer and Accountant establish that the taxpayer acted reasonably and in good faith. Furthermore, granting an extension will not prejudice the interests of the Government. The taxpayer has represented that granting relief would not result in 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). Also, the taxable year in which the regulatory election should have been made is not closed by the period of assessment.

Accordingly, Taxpayer is granted an extension of time for making the election until 60 days following the date of this ruling. The election should be made by filing a revised Form 4952 and Schedule D, and by including a copy of this ruling letter with an amended return for Year1.

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 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.

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

A copy of this letter must be attached to any income tax return to which it is relevant. Alternatively, taxpayers filing their returns electronically may satisfy this requirement by attaching a statement to their return that provides the date and control number of the letter ruling.

The ruling contained in this letter is based upon information and representations submitted and accompanied by a penalty of perjury statement executed by an appropriate party. While this office has not verified any of the material submitted in support of the request for rulings, it is subject to verification on examination.

Sincerely,

Thomas D. Moffitt  
Chief, Branch 2  
(Income Tax & Accounting)

cc: