



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

OFFICE OF
CHIEF COUNSEL

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MEMORANDUM FOR ROBIN HERRELL, SPECIAL COUNSEL, CC:LM:HMT:CIN:1

FROM: Kathleen Reed
Senior Technician Reviewer, Branch 6, Office of Associate
Chief Counsel (Passthroughs and Special Industries),
CC:PSI:6

SUBJECT: Request for Supplemental Advice on "Retread" or "Recap"
Tires

This Chief Counsel Advice supplements the advice previously issued in this matter on October 31, 2002. In accordance with section 6110(k)(3) of the Internal Revenue Code, this Chief Counsel Advice should not be cited as precedent.

Our previous Chief Counsel Advice ("Advice") considered the proper accounting treatment of the cost of "retread" or "recap" tires (hereinafter, "retread tires") for taxpayers electing to account for this cost under the original tire capitalization method described in section 5 of Rev. Proc. 2002-27, 2002-17 I.R.B. 802 (the "OTC method"), as well as for taxpayers not electing to account for this cost under the OTC method. You have asked us to clarify the portion of our Advice that concerns taxpayers that did not elect to use the OTC method to account for the cost of their retread tires. It has been suggested that, in accordance with our Advice, such non-electing taxpayers generally should deduct the cost of all retread tires. As discussed below, the Advice does not support this proposition.

The Advice makes clear that taxpayers not electing to account for the cost of original tires and replacement tires for all qualifying vehicles under the OTC method may not treat retread tires used as the original or replacement set of tires on newly acquired tractors, trailers and/or trucks as part of the vehicle for depreciation purposes but, instead, must treat these tires as separate assets. As such, the cost of retread tires must be capitalized and recovered through depreciation unless the tires are consumable in less than one year. See W.H. Thompkins Co. v. Commissioner, 47 B.T.A. 292 (1942); Rev. Rul. 59-249, 1959-2 C.B. 55. The Advice makes no statement regarding the useful life of retread tires. The useful life of a particular taxpayer's retread tires is a question of fact subject to verification upon audit.

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In addition, we note that the cost of retreading tires must be capitalized if the retreading process appreciably prolongs a tire's original useful life or materially increases its value. See section 1.162-4 of the Income Tax Regulations. It is our understanding that tires are put through the retreading process when they are no longer usable because of low tread depth. Presumably, the tires have little value at this point. After the retreading process, the tires are again usable and, according to our information, are generally worth about 50% of the value of new tires. Therefore, the retreading process appears to appreciably prolong a tire's original useful life or materially increases its value. However, these conclusions can only be reached by factual inquiry.

If you have any questions on this matter, contact _____ at _____.

Kathleen Reed
Kathleen Reed

cc: