IRS close to depreciation ruling

By ANDREW OVERBECK

WASHINGTON — The Internal Revenue Service (IRS) is close to releasing a preliminary decision on the National Golf Course Owners Association's initiative to update the tax code to allow golf course owners to depreciate greens, sand bunkers and tees.

The NGCOA, working with national accounting firm KPMG, provided additional technical and factual information to an IRS panel during a two-day meeting in late July.

"It does appear that an administrative resolution may be attainable if specific golf course land improvements can be distinguishable from other land improvements as a matter of their construction and content and if a useful life can be demonstrated," said Bill Ellis, a KPMG partner handling the action.

In light of this criteria, fairways were removed from the industry's request for resolution.

"What we had to recognize was that the question, 'Can you depreciate land?' is a very touchy subject with the IRS because other groups are trying to depreciate land," said Ellis. "We can distinguish golf course improvements such as greens, tees and bunkers as being constructed because those include multiple layers of materials, drainage, and so on. It is harder to argue that the cost of putting in topsoil and turf should be eligible for depreciation because it still represents land." Drainage and irrigation systems underneath fairways may be depreciated under current law.

Although many of the IRS officials are not golfers, Ellis is hopeful that the presentations brought them up to speed on the construction processes and the nature of golf course components. "They understand and appreciate factually our positions," he said. "Before, they would just look at a golf course and see land."

The current tax code made sense prior to 1960, according to Ellis, because at that time most courses were nothing but push up greens or natural soil. However, as the industry has changed so have the construction methods, and that is what brought expanded depreciation into play. Currently, only cart paths, drainage and irrigation are eligible for depreciation.

The potential financial benefit to golf course owners if the rules are changed is huge. "We are talking about no depreciation versus a tax benefit," said Ellis. "Over the 15-year depreciable life of the asset, the tax benefits will have a value of five to 10 percent of the total construction cost of a golf course."

Ellis also pointed out that since this a factual change, not a change in law, the expanded depreciation rules would apply to courses new and old. "Courses that have not claimed depreciation should be able to start claiming depreciation," he said.

By the end of the month Ellis expects a preliminary response from the IRS. The industry will have the opportunity to review and discuss it before the ruling becomes public.

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DORAL GOLF

Doral Golf, an affiliate of Meristar Hotels & Resorts, was inadvertently omitted from the management company chart that appeared in the June 2000 issue of Golf Course News .

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