

Example 3. X, a calendar-year taxpayer, purchases and places in service for its business use on January 1, 1994, qualified clean-fuel vehicle refueling property costing \$400,000. Assume this property has a 5-year recovery period. On X's 1994 federal income tax return, X claims a deduction of \$100,000, which reduces X's gross income by \$100,000. The basis of the property is reduced to \$300,000 (\$400,000 - \$100,000) prior to any adjustments for depreciation. In 1996, more than 50 percent of the use of the property is other than in X's trade or business.

Because the property is no longer used predominantly in X's business, X must recapture three-fifths of the section 179A deduction or \$60,000 ($\$100,000 \times (5-2)/5 = \$60,000$) and include that amount in gross income on its 1996 federal income tax return. The recapture amount of \$60,000 is added to the basis of the property as of January 1, 1996, the beginning of the taxable year of recapture, and to the extent the property remains depreciable, the adjusted basis is recoverable over the remaining recovery period.

Example 4. X, a calendar-year taxpayer, purchases and places in service for business use on January 1, 1994, qualified clean-fuel vehicle refueling property costing \$350,000. Assume this property has a 5-year recovery period. On X's 1994 federal income tax return, X claims a deduction of \$100,000, which reduces X's gross income by \$100,000. The basis of the property is reduced to \$250,000 (\$350,000 - \$100,000) prior to any adjustments for depreciation. In 1995, X converts the property to store and dispense gasoline. Because the property is no longer used as qualified clean-fuel vehicle refueling property in 1995, X must recapture four-fifths of the section 179A deduction or \$80,000 ($\$100,000 \times (5-1)/5 = \$80,000$) and include that amount in gross income on its 1995 federal income tax return. The recapture amount of \$80,000 is added to the basis of the property as of January 1, 1995, the beginning of the taxable year of recapture, and to the extent the property remains depreciable, the adjusted basis is recoverable over the remaining recovery period.

Example 5. The facts are the same as in *Example 4*. In 1996, X sells the refueling property for \$351,000, recognizing a gain from this sale. Under paragraph (f) of this section, section 1245 will apply to any gain recognized on the sale of depreciable property to the extent the basis of the property was reduced by the section 179A deduction net of any basis increase from recapture of the section 179A deduction. Accordingly, the gain from the sale of the property is subject to section 1245 to the extent of the depreciation allowance for the property plus the deduction allowed under section 179A (\$100,000), less the previous recapture amount (\$80,000). Any remaining amount of gain may be subject to

other applicable provisions of the Internal Revenue Code.

(h) *Effective date.* This section is effective on October 14, 1994. If the recapture date is before the effective date of this section, a taxpayer may use any reasonable method to recapture the benefit of any deduction allowable under section 179A(a) consistent with section 179A and its legislative history. For this purpose, the recapture date is defined in paragraph (c) of this section.

[T.D.8606, 60 FR 39651, Aug. 3, 1995]

§ 1.179B-1T Deduction for capital costs incurred in complying with Environmental Protection Agency sulfur regulations (temporary).

(a) *Scope and definitions*—(1) *Scope.* This section provides the rules for determining the amount of the deduction allowable under section 179B(a) for qualified capital costs paid or incurred by a small business refiner to comply with the highway diesel fuel sulfur control requirements of the Environmental Protection Agency (EPA). This section also provides rules for making elections under section 179B.

(2) *Definitions.* For purposes of section 179B and this section, the following definitions apply:

(i) The *applicable EPA regulations* are the EPA regulations establishing the highway diesel fuel sulfur control program (40 CFR part 80, subpart I).

(ii) The *average daily domestic refinery run* for a refinery is the lesser of—

(A) The total amount of crude oil input (in barrels) to the refinery's domestic processing units during the 1-year period ending on December 31, 2002, divided by 365; or

(B) The total amount of refined petroleum product (in barrels) produced by the refinery's domestic processing units during such 1-year period divided by 365.

(iii) The *aggregate average domestic daily refinery run* for a refiner is the sum of the average daily domestic refinery runs for all refineries that were owned by the refiner or a related person on April 1, 2003.

(iv) *Cooperative owner* is a person that—

(A) Directly holds an ownership interest in a cooperative small business

refiner, as defined in paragraph (a)(2)(v) of this section; and

(B) Is a cooperative to which part 1 of subchapter T of the Internal Revenue Code (Code) applies.

(v) *Cooperative small business refiner* is a small business refiner that is a cooperative to which part 1 of subchapter T of the Code applies.

(vi) *Low sulfur diesel fuel* has the meaning prescribed in section 45H(c)(5).

(vii) *Qualified capital costs* are qualified costs as defined in section 45H(c)(2) that are properly chargeable to capital account.

(viii) *Related person* has the meaning prescribed in section 613A(d)(3) and the regulations under section 613A(d)(3).

(ix) *Small business refiner* has the meaning prescribed in section 45H(c)(1).

(b) *Section 179B deduction*—(1) *In general.* Section 179B(a) allows a deduction with respect to the qualified capital costs paid or incurred by a small business refiner (the section 179B deduction). The deduction is allowable with respect to the qualified capital costs paid or incurred during a taxable year only if the small business refiner makes an election under paragraph (d) of this section for the taxable year. The certification requirement in section 45H(e) (relating to the certification required to support a credit under section 45H) does not apply for purposes of the section 179B deduction. Accordingly, the section 179B deduction is allowable with respect to the qualified capital costs of an electing small business refiner even if the refiner never obtains a certification under section 45H(e) with respect to those costs.

(2) *Computation of section 179B deduction*—(i) *In general.* Except as provided in paragraphs (b)(2)(ii) and (c)(3) of this section, a small business refiner that makes an election under paragraph (d) of this section for a taxable year is allowed a section 179B deduction in an amount equal to 75 percent of qualified capital costs that are paid or incurred by the small business refiner during the taxable year.

(ii) *Reduced percentage.* A small business refiner's section 179B deduction is reduced if the refiner's aggregate average daily domestic refinery run is in excess of 155,000 barrels. In that case,

the number of percentage points used in computing the deduction under paragraph (b)(2)(i) of this section (75) is reduced (not below zero) by the product of 75 and the ratio of the excess barrels to 50,000 barrels.

(3) *Example.* The application of this paragraph (b) is illustrated by the following example:

Example. (i) A, an accrual method taxpayer, is a small business refiner with a taxable year ending December 31. On April 1, 2003, A owns a refinery with an average daily domestic refinery run (that is, an average daily run during calendar year 2002) of 100,000 barrels and a person related to A owns a refinery with an average daily domestic refinery run of 85,000 barrels. These are the only domestic refineries owned by A and persons related to A. A's aggregate average daily domestic refinery run for the two refineries is 185,000 barrels. A incurs qualified capital costs of \$10 million in the taxable year ended December 31, 2007. The costs are incurred with respect to property that is placed in service in year 2008. A makes the election under paragraph (d) of this section for the 2007 taxable year.

(ii) Because A's aggregate average daily domestic refinery run is 185,000 barrels, the percentage of the qualified capital costs that is deductible under section 179B(a) is reduced from 75 percent to 30 percent (75 percent reduced by 75 percent multiplied by 0.6 ((185,000 barrels minus 155,000 barrels)/50,000 barrels)). Thus, for 2007, A's deduction under section 179B(a) is \$3,000,000 (\$10,000,000 qualified capital costs multiplied by .30).

(c) *Effect on basis*—(1) *In general.* If qualified capital costs are included in the basis of property, the basis of the property is reduced by the amount of the section 179B deduction allowed with respect to such costs.

(2) *Treatment as depreciation.* If qualified capital costs are included in the basis of depreciable property, the amount of the section 179B deduction allowed with respect to such costs is treated as a depreciation deduction for purposes of section 1245.

(d) *Election to deduct qualified capital costs*—(1) *In general*—(i) *Section 179B election.* This paragraph (d) prescribes rules for the election to deduct the qualified capital costs paid or incurred by a small business refiner during a taxable year (the section 179B election). A small business refiner making the section 179B election for a taxable year consents to, and agrees to apply,

all of the provisions of section 179B and this section to qualified capital costs paid or incurred by the refiner during the taxable year. The section 179B election for a taxable year applies with respect to all qualified capital costs paid or incurred by the small business refiner during that taxable year.

(ii) *Year-by-year election.* A separate section 179B election must be made for each taxable year in which the taxpayer seeks to deduct qualified capital costs under section 179B. A small business refiner may make the section 179B election for some taxable years and not for other taxable years.

(iii) *Elections for cooperative small business refiners.* See paragraph (e) of this section for the rules applicable to the election provided under section 179B(e), relating to the election to allocate the section 179B deduction to cooperative owners of a cooperative small business refiner (the section 179B(e) election).

(2) *Time and manner for making section 179B election*—(i) *Time for making election.* Except as provided in paragraph (d)(2)(iii) of this section, a taxpayer's section 179B election for a taxable year must be made by the due date (including extensions) for filing the taxpayer's Federal income tax return for the taxable year.

(ii) *Manner of making election*—(A) *In general.* Except as provided in paragraph (d)(2)(iii) of this section, the section 179B election for a taxable year is made by claiming a section 179B deduction on the taxpayer's original Federal income tax return for the taxable year and attaching the statement described in paragraph (d)(2)(ii)(B) of this section to the return. The section 179B election with respect to qualified capital costs paid or incurred by a partnership is made by the partnership and the section 179B election with respect to qualified capital costs paid or incurred by an S corporation is made by the S corporation. In the case of qualified capital costs paid or incurred by the members of a consolidated group (within the meaning of §1.1502-1(h)), the section 179B election with respect to such costs is made for each member by the common parent of the group.

(B) *Information required in election statement.* The election statement at-

tached to the taxpayer's return must contain the following information:

(1) The name and identification number of the small business refiner.

(2) The amount of the qualified capital costs paid or incurred during the taxable year for which the election is made.

(3) The aggregate average daily domestic refinery run (as determined under paragraph (a)(2)(iii) of this section).

(4) The date by which the small business refiner must comply with the applicable EPA regulations. If this date is not June 1, 2006, the statement also must explain why compliance is not required by June 1, 2006.

(5) The calculation of the section 179B deduction for the taxable year.

(6) For each property that will have its basis reduced on account of the section 179B deduction for the taxable year, a description of the property, the amount included in the basis of the property on account of qualified capital costs paid or incurred during the taxable year, and the amount of the basis reduction to that property on account of the section 179B deduction for the taxable year.

(iii) Except as otherwise expressly provided by the Code, the regulations under the Code, or other guidance published in the Internal Revenue Bulletin, a section 179B election is valid only if made at the time and in the manner prescribed in this paragraph (d)(2). For example, except as otherwise expressly provided, the 179B election cannot be made for a taxable year to which this section applies through a request under section 446(e) to change the taxpayer's method of accounting.

(3) *Revocation of election.* An election made under this paragraph (d) may not be revoked without the prior written consent of the Commissioner of Internal Revenue. To seek the Commissioner's consent, the taxpayer must submit a request for a private letter ruling (for further guidance, see, for example, Rev. Proc. 2008-1 (2008-1 IRB 1) and §601.601(d)(2)(ii)(b) of this chapter).

(4) *Failure to make election.* If a small business refiner does not make the section 179B election for a taxable year at the time and in the manner prescribed in paragraph (d)(2) of this section, no

deduction is allowed for the qualified capital costs that the refiner paid or incurred during the year. Instead these qualified capital costs are chargeable to a capital account in that taxable year, the basis of the property to which these costs are capitalized is not reduced on account of section 179B, and the amount of depreciation allowable for the property attributable to these costs is determined by reference to these costs unreduced by section 179B.

(5) *Elections for taxable years ending before June 26, 2008.* This section does not apply to section 179B elections for taxable years ending before June 26, 2008. The rules for making the section 179B election for a taxable year ending before June 26, 2008 are provided in Notice 2006-47 (2006-20 IRB 892). See § 601.601(d)(2)(ii)(b) of this chapter.

(e) *Election under section 179B(e) to allocate section 179B deduction to cooperative owners—(1) In general.* A cooperative small business refiner may elect to allocate part or all of its cooperative owners' ratable shares of the section 179B deduction for a taxable year to the cooperative owners (the section 179B(e) election). The section 179B deduction allocated to a cooperative owner is equal to the cooperative owner's ratable share of the total section 179B deduction allocated. A cooperative owner's ratable share is determined for this purpose on the basis of the cooperative owner's ownership interest in the cooperative small business refiner during the cooperative small business refiner's taxable year. If the cooperative owners' interests vary during the year, the cooperative small business refiner shall determine the owners' ratable shares under a consistently applied method that reasonably takes into account the owners' varying interests during the taxable year.

(2) *Cooperative small business refiner denied section 1382 deduction for allocated portion.* In computing taxable income under section 1382, a cooperative small business refiner must reduce its section 179B deduction for the taxable year by an amount equal to the section 179B deduction allocated under this paragraph (e) to the refiner's cooperative owners for the taxable year.

(3) *Time and manner for making election—(1) Time for making election.* The

section 179B(e) election for a taxable year must be made by the due date (including extensions) for filing the cooperative small business refiner's Federal income tax return for the taxable year.

(ii) *Manner of making election.* The section 179B(e) election for a taxable year is made by attaching a statement to the cooperative small business refiner's Federal income tax return for the taxable year. The election statement must contain the following information:

(A) The name and identification number of the cooperative small business refiner.

(B) The amount of the section 179B deduction allowable to the cooperative small business refiner for the taxable year (determined before the application of section 179B(e) and this paragraph (e)).

(C) The name and identification number of each cooperative owner to which the cooperative small business refiner is allocating all or some of the section 179B deduction.

(D) The amount of the section 179B deduction that is allocated to each cooperative owner listed in response to paragraph (e)(3)(ii)(C) of this section.

(4) *Irrevocable election.* A section 179B(e) election for a taxable year, once made, is irrevocable for that taxable year.

(5) *Written notice to owners.* A cooperative small business refiner that makes a section 179B(e) election for a taxable year must notify each cooperative owner of the amount of the section 179B deduction that is allocated to that cooperative owner. This notification must be provided in a written notice that is mailed by the cooperative small business refiner to its cooperative owner before the due date (including extensions) of the cooperative small business refiner's Federal income tax return for the election year. In addition, the cooperative small business refiner must report the amount of the cooperative owner's section 179B deduction on Form 1099-PATR, "Taxable Distributions Received From Cooperatives," issued to the cooperative owner. If Form 1099-PATR is revised or renumbered, the amount of the cooperative owner's section 179B deduction

must be reported on the revised or re-numbered form.

(f) *Effective/applicability date*—(1) *In general.* This section applies to taxable years ending on or after June 26, 2008.

(2) *Application to taxable years ending before June 26, 2008.* A small business refiner may apply this section to a taxable year ending before June 26, 2008, provided that the small business refiner applies all provisions in this section, with the modifications described in paragraph (f)(3) of this section, to the taxable year.

(3) *Modifications applicable to taxable years ending before June 26, 2008.* The following modifications to the rules of this section apply to a small business refiner that applies those rules to a taxable year ending before June 26, 2008:

(i) *Rules relating to section 179B election.* The section 179B election for a taxable year ending before June 26, 2008 may be made under the rules provided in Notice 2006-47, rather than under the rules set forth in paragraph (d) of this section.

(ii) *Rules relating to section 179B(e) election.* A section 179B(e) election for a taxable year ending before June 26, 2008 will be treated as satisfying the requirements of paragraph (f) if the cooperative small business refiner has calculated its tax liability in a manner consistent with the election and has used any reasonable method consistent with the principles of section 179B(e) to inform the Internal Revenue Service that an election has been made under section 179B(e) and to inform cooperative owners of the amount of the section 179B deduction they have been allocated.

(4) *Expiration date.* The applicability of § 1.179C-1T expires on June 24, 2011.

[T.D. 9404, 73 FR 36422, June 27, 2008]

§ 1.179C-1T Election to expense certain refineries (temporary).

(a) *Scope and definitions*—(1) *Scope.* This section provides the rules for determining the deduction allowable under section 179C(a) for the cost of any qualified refinery property. The provisions of this section apply only to a taxpayer that elects to apply section 179C in the manner prescribed under paragraph (d) of this section.

(2) *Definitions.* For purposes of section 179C and this section, the following definitions apply:

(i) *Applicable environmental laws* are any applicable Federal, state, or local environmental laws.

(ii) *Qualified fuels* has the meaning set forth in section 45K(c).

(iii) *Cost* is the unadjusted depreciable basis (as defined in § 1.168(b)-1(a)(3), but without regard to the reduction in basis for any portion of the basis the taxpayer properly elects to treat as an expense under section 179C and this section) of the property.

(iv) *Throughput* is a volumetric rate measuring the flow of crude oil or qualified fuels processed over a given period of time, typically referenced on the basis of barrels per calendar day.

(v) *Barrels per calendar day* is the amount of fuels that a facility can process under usual operating conditions, expressed in terms of capacity during a 24-hour period and reduced to account for down time and other limitations.

(vi) *United States* has the same meaning as that term is defined in section 7701(a)(9).

(b) *Qualified refinery property*—(1) *In general.* Qualified refinery property is any property that meets the requirements set forth in paragraphs (b)(2) through (b)(7) of this section.

(2) *Description of qualified refinery property*—(i) *In general.* Property that comprises any portion of a qualified refinery may be qualified refinery property. For purposes of section 179C and this section, a qualified refinery is any refinery located in the United States that is designed to serve the primary purpose of processing crude oil or qualified fuels.

(ii) *Nonqualified refinery property.* Refinery property is not qualified refinery property for purposes of this paragraph (b)(2) if—

(A) The primary purpose of the refinery property is for use as a topping plant, asphalt plant, lube oil facility, crude or product terminal, or blending facility; or

(B) The refinery property is built solely to comply with consent decrees or projects mandated by Federal, state or local governments.