

US Tax Court Rules on Depreciation Deductions for Wireless Equipment

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On July 7, in a case of first impression, the US Tax Court ([Broz v. Commissioner](#)) reviewed the class lives (depreciation periods) applicable to wireless cellular assets to establish the permissible depreciation deductions of the taxpayer. In general, the court determined that the taxpayer should have followed the rules the Internal Revenue Service applied to determine the class lives for telephone communications equipment. The decision will affect depreciation deductions for tax years prior to 2011.

The court noted that the IRS class lives are defined by reference to the FCC's Uniform System of Accounts for Class A and Class B Telephone Companies (USOA). In its review, the court applied what it describes as the plain language of the USOA to the various categories of wireless cellular assets. The taxpayer argued that the IRS rules did not apply to the wireless cellular assets because those rules ignore the physical, technological and practical differences between wireless cellular equipment and traditional landline telephone equipment. The court, however, was unconvinced and indicated that the IRS rules apply to telephone communications equipment used to provide commercial and contract telephonic services like those which the taxpayer was providing. Based on its legal conclusions and a more in-depth analysis of the specifications and use of the various assets, the court held that the applicable class life for the taxpayer's antenna support systems is fifteen years; for its cell site equipment (other than the switch which has a five year class life) is ten years; and for its leased digital equipment is ten years. The decision applies to years before 2011 as the IRS recently issued new guidance to provide updated class life guidance for the ever-changing cellular service industry and an opportunity to change accounting methods to conform to the new guidance. [[See Rev. Proc. 2011-22](#)]

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