under § 170(f)(12)(D), O must report the information contained in the acknowledgment on Copy A of Form 1098–C and file the report with the Service by February 28, 2008. But if O files electronically, the report is due on March 31, 2008.

The filing of Form 1098–C does not relieve the donee organization of its obligation under § 6050L to report information about dispositions of charitable deduction property on Form 8282, *Donee Information Return*.

SECTION 4. INTERIM GUIDANCE FOR REPORTING A CONTEMPORANEOUS WRITTEN ACKNOWLEDGMENT FURNISHED TO A DONOR IN 2005

For any contemporaneous written acknowledgment furnished to a donor on or before December 31, 2005, a donee organization may report to the Service the information contained in such acknowledgment by filing either Copy A of Form 1098–C or a copy of the acknowledgment. Electronic/magnetic media filing of Form 1098–C is permitted, but not required.

Reports filed on paper should be transmitted with Form 1096 and sent to the Internal Revenue Service Center, Ogden, UT 84201–0027, by February 28, 2006. Even though it files a copy of an acknowledgment instead of a Form 1098–C, the donee organization should check the box on the transmittal Form 1096 that indicates a Form 1098–C is being filed. But if a donee organization already filed a report with the Service in a reasonable manner before January 6, 2006, it need not resubmit such report.

The guidance in this section supersedes any instruction to the contrary in the 2005 Instructions for Form 1098–C.

SECTION 5. SPECIAL TRANSITION RULE CONCERNING CONTENT OF CONTEMPORANEOUS WRITTEN ACKNOWLEDGMENT

Form 1098–C will be revised to reflect the information described in clauses (v) and (vi) of § 170(f)(12)(B) as added by the GO Zone Act. Until Form 1098–C is revised, a contemporaneous written acknowledgment will be treated as meeting the requirements of § 170(f)(12)(B) even if it does not contain the information described in clauses (v) and (vi) of § 170(f)(12)(B).

SECTION 6. SECTION 6720 PENALTY

Section 6720 imposes penalties on any donee organization required under § 170(f)(12)(A) to furnish an acknowledgment to a donor that knowingly furnishes a false or fraudulent acknowledgment, or knowingly fails to furnish an acknowledgment in the manner, at the time, and showing the information required under § 170(f)(12) or regulations thereunder. The Service and the Treasury Department intend to issue regulations under § 6720 clarifying that the donee organization information report described in section 3 of this notice is an integral part of the acknowledgment requirement. The regulations will clarify the application of the § 6720 penalties to a donee organization that knowingly files a false or fraudulent information report with the Service, or that knowingly fails to file such information report with the Service in the manner, at the time, and showing the information required under § 170(f)(12) or the regulations prescribed thereunder and this notice. The regulations will be effective as of the date of publication of this notice.

SECTION 7. PAPERWORK REDUCTION ACT

The collections of information in this notice have been reviewed and approved by the Office of Management and Budget (OMB) in accordance with the Paperwork Reduction Act (44 U.S.C. 3507) under control number 1545–1980.

An agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless the collection of information displays a valid OMB control number.

The collections of information in section 3 of this notice are required from donee organizations to satisfy the donee reporting requirements of § 170(f)(12)(D). The collections of information are mandatory. The likely respondents are tax-exempt charitable organizations.

The estimated total annual reporting burden is 21,500 hours for donee organizations.

The estimated annual burden per donee organization varies from 30 minutes to 16 hours, depending on individual circumstances. The estimated average annual burdens are 5 hours for donee organizations. The estimated number of donee organizations is 4,300.

The estimated annual frequency of responses (used for reporting requirements only) is annually.

Books or records relating to a collection of information must be retained as long as their contents may become material in the administration of any internal revenue law. Generally, tax returns and return information are confidential, as required by § 6103.

SECTION 8. DRAFTING INFORMATION

The principal author of this notice is Sean Barnett of the Exempt Organizations, Tax Exempt and Government Entities Division. For further information regarding this notice, contact Mr. Barnett at (202) 283–8912 (not a toll-free call).

Waiver for Reasonable Cause for Failure to Report Loan Origination Fees and Capitalized Interest on Qualified Education Loans

Notice 2006–5

PURPOSE

This notice provides information for payees/filers who receive payments of interest on qualified education loans to request a waiver of penalties for failure to report payments of loan origination fees and capitalized interest received in 2005 for qualified education loans made on or after September 1, 2004.

BACKGROUND

Section 6050S requires certain payees who receive payments of interest on one or more qualified education loans, as defined in section 221(d)(1), to file information returns with the Internal Revenue Service (Service) and to furnish information statements to borrowers. In the case of interest payments received or collected by a person on behalf of a payee, the information reporting requirements are generally imposed on that other person (filer) and not the payee. See section 1.6050S–3(e)(3)(i) of the Income Tax Regulations. For qual-

ified education loans made on or after September 1, 2004, payees/filers are required to report on Form 1098–E, "*Student Loan Interest Statement*," payments of interest received on qualified education loans, including payments of loan origination fees and capitalized interest. See section 1.6050S–3(e)(1)(ii) of the regulations (T.D. 9125, 2004–1 C.B. 1012), published on May 7, 2004. 67 Fed. Reg. 25,489. A prior version of these regulations (T.D. 8992, 2002–1 C.B. 981), published on April 29, 2002, provided that, for calendar year 2003 returns and later years, payees/filers were not required to report payments of loan origination fees and capitalized interest for qualified education loans made before January 1, 2004. 67 Fed. Reg. 20,901.

After publication of the amended final section 1.6050S–3 regulations on May 7, 2004, the Treasury Department and Service received comments that additional time was required to make the programming changes necessary to comply with the reporting requirements for loan origination fees and capitalized interest under those regulations. In response, the Treasury Department and Service issued Notice 2004–63, 2004–2 C.B. 597, which provides that the Service will not assert penalties under section 6721 or section 6722 for the failure to report on Form 1098–E returns payments attributable to loan origination fees and capitalized interest received in calendar year 2004 on a qualified education loan made on or after September 1, 2004. The notice explained that the penalty relief was limited to calendar year 2004 returns and would provide payees/filers additional time to make the necessary programming changes to capture information on and report payments of loan origination fees and capitalized interest received in 2005 and future calendar years, consistent with the reporting requirements of the section 6050S regulations.

Some payees/filers have taken steps to comply with the reporting requirements for loan origination fees and capitalized interest for calendar year 2005 returns. However, some commentators have requested additional relief to provide more time to comply with the reporting requirements for calendar year 2005 returns.

REQUEST FOR WAIVER FOR REASONABLE CAUSE

A payee/filer who is not able to comply with the reporting requirements under section 1.6050S–3 for loan origination fees and capitalized interest for calendar year 2005 returns may request that the Service waive, under section 6724 and the regulations thereunder, any penalty that might otherwise be imposed under section 6721 or section 6722 for failure to report these amounts. Section 6724 authorizes the Service to waive the penalties under section 6721 (failure to file correct information returns) or section 6722 (failure to furnish correct payee statements) if the failure was due to reasonable cause and not due to willful neglect. Under section 301.6724–1(a)(2) of the Regulations on Procedure and Administration, a payee/filer may establish reasonable cause if there are significant mitigating factors with respect to the failure, or if the failure arose from events beyond the payee/filer's control. In addition, a payee/filer must show that it acted in a responsible manner both before and after the failure occurred.

A payee/filer seeking a waiver under this notice should send its request in the text of an e-mail to: *1098ewaiver@irs.gov* on or before the due date of the information returns. The Service will acknowledge receipt of a waiver request under this notice. The waiver request must include the following information:

(1) a notation at the top of the request in large letters stating, "Form 1098–E Waiver Request under Notice 2006–5";

(2) the payee/filer's name, taxpayer identification number, and mailing address;

(3) a statement that describes:

(a) the steps the payee/filer has taken in an attempt to report loan origination fees and capitalized interest, including the date on which the payee/filer first took steps to attempt to implement systems to comply with the reporting requirements and the amount of time and resources devoted to efforts to comply; and

(b) the undue hardship that would result by complying with the obligation to report loan origination fees and capitalized interest, including an indication of the size of the payee/filer's student loan portfolio and the revenue derived from the loan portfolio;

(4) a statement that the payee/filer is in compliance with the Additional Rules set forth in this notice; and

(5) a statement, made under penalty of perjury, that the information contained in the waiver request is true, correct, and complete to the best of the payee/filer's knowledge and belief. The perjury statement must be signed by a person who is authorized to sign federal tax returns on behalf of the payee/filer by entering his or her name and date of birth.

The Service currently anticipates that it will decide, within six months after receipt of a complete request for a waiver, whether to grant a waiver of penalties for failure to report information required by section 6050S and the regulations thereunder based on each payee/filer's particular facts and circumstances as described in the waiver request. For purposes of this notice, the Service generally will waive penalties if the payee/filer's request demonstrates that: (1) the payee/filer acted in a responsible manner because it took reasonable efforts sufficiently before the due date of the information return to attempt to implement necessary programming changes to enable the payee/filer to capture information on and report payments of loan origination fees and capitalized interest; and (2) there are significant mitigating factors or the failure arose from events beyond the payee/filer's control, including hardship resulting from incremental costs to the payee/filer.

ADDITIONAL RULES

A payee/filer who is not able to comply with the reporting requirements for loan origination fees and capitalized interest received in calendar year 2005 on a qualified education loan made on or after September 1, 2004, and who seeks a penalty waiver under this notice, must:

(1) file and furnish in a timely manner a Form 1098–E (or other appropriate information statement) that (i) includes the amount of interest (except for any loan origination fees or capitalized interest) received in 2005 in Box 1, (ii) does not include a check mark in Box 2, and (iii) includes all other required information; and

(2) furnish a statement to the borrower indicating that the amount of interest reported in Box 1 of Form 1098–E for calendar year 2005 does not include payments

attributable to either loan origination fees or capitalized interest received on qualified education loans made on or after September 1, 2004, and that the borrower may be able to deduct amounts in addition to the amounts reported in Box 1.

Notwithstanding sections 1.163–7(a) and 1.1275–2(a), a borrower who receives a Form 1098–E (or other appropriate information statement) indicating that it does not include payments of loan origination fees may use any reasonable method to allocate the loan origination fees over the term of the loan for purposes of the deduction allowable under section 221. A method that results in the double deduction of the same portion of a loan origination fee would not be reasonable.

PAPERWORK REDUCTION ACT

The collection of information contained in this notice has been reviewed and approved by the Office of Management and Budget in accordance with the Paperwork Reduction Act (44 U.S.C. 3507) under control number 1545–1996.

An agency may not conduct or sponsor, and a person is not required to respond to a collection of information unless the collection of information displays a valid OMB control number.

The collection of information in this notice is required in order for a payee/filer to receive a waiver of penalties for failure to report loan origination fees and capitalized interest. The collection of information is required to obtain benefits. The likely respondents are for profit organizations as well as not for profit organizations.

The estimated total annual recordkeeping and reporting burden is 5,000. The estimated annual recordkeeping and reporting burden per respondent is 10 hours. The estimated number of respondents is 500.

Books or records relating to a collection of information must be retained so long as their contents may become material in administration of any internal revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

CONTACT INFORMATION

For further information regarding a waiver of penalties, contact Kelli Winegardner (Office of Penalties and Interest Administration) at (202) 283–0454 (not a toll-free call). For further information regarding this notice, contact Donna Welch (Office of Associate Chief Counsel (Procedure and Administration)) at (202) 622–4910 (not a toll-free call).

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26 CFR 601.204: Changes in accounting periods and in methods of accounting.
(Also Part I, §§ 446, 471, 472, 481; 1.446–1, 1.471–3(d), 1.472–8, 1.481–1.)

Rev. Proc. 2006–14

SECTION 1. PURPOSE

This revenue procedure provides heavy equipment dealers (as defined in section 4.05 of this revenue procedure) with a safe harbor method of accounting for their heavy equipment parts inventory (as defined in section 4.06 of this revenue procedure). This safe harbor method permits heavy equipment dealers to approximate the cost of their heavy equipment parts inventory using the replacement cost of the heavy equipment parts pursuant to the replacement cost method described in section 4 of this revenue procedure. This revenue procedure also provides procedures for heavy equipment dealers to obtain the automatic consent of the Commissioner to change to the replacement cost method.

SECTION 2. BACKGROUND

.01 Section 471 of the Internal Revenue Code provides that inventories must be taken on such basis as the Secretary may prescribe as conforming as nearly as may be to the best accounting practice in the trade or business and as most clearly reflecting income.

.02 Section 1.471–3(d) of the Income Tax Regulations provides that in any industry in which the usual rules for computation of cost are inapplicable, cost may be approximated upon such basis as may be reasonable and in conformity with established trade practice in the particular industry.

.03 Section 472(a) provides that a taxpayer may use the last-in, first-out (LIFO) inventory method. Under the LIFO inventory method, a taxpayer treats those goods remaining on hand at the close of the taxable year as being: First, those included in the opening inventory of the taxable year (in the order of acquisition) to the extent thereof, and second, those acquired in the taxable year. The change to, and use of, the LIFO inventory method must be in accordance with such regulations as the Secretary may prescribe as necessary in order that the use of such method may clearly reflect income.

.04 Section 472(b)(2) provides that a taxpayer using the LIFO inventory method must inventory its goods at cost.

.05 Section 1.472–8(a) provides that a taxpayer may elect to determine the cost of its LIFO inventories under the dollar-value LIFO method, provided such method is used consistently and clearly reflects the income of the taxpayer in accordance with the rules of that section.

.06 Section 1.472–8(e)(2)(ii) provides that the total current-year cost of items making up a dollar-value LIFO pool may be determined: (a) by reference to the actual cost of the goods most recently purchased or produced; (b) by reference to the actual cost of the goods purchased or produced during the taxable year in the order of acquisition; (c) by application of an average unit cost equal to the aggregate cost of all the goods purchased or produced throughout the taxable year divided by the total number of units so purchased or produced; or (d) pursuant to any other proper method which, in the opinion of the Commissioner, clearly reflects income.

.07 Section 263A generally requires direct costs and an allocable portion of indirect costs of certain property produced or acquired for resale by a taxpayer to be included in inventory costs, in the case of property that is inventory, or to be capitalized, in the case of other property. Section 1.263A–1(e)(2)(ii) provides that resellers must capitalize the acquisition costs of property acquired for resale. In addition, resellers must capitalize the indirect costs described in § 1.263A–1(e)(3), which are properly allocable to property acquired for resale. These indirect costs often include purchasing, handling, and storage costs. See § 1.263A–3(c)(1).

.08 In *Mountain State Ford v. Commissioner*, 112 T.C. 58 (1999), the Tax Court held that a taxpayer that sold heavy truck parts and used the dollar-value LIFO method to account for its parts inventory was not entitled to determine the current-year cost of the parts in its ending inventory by reference to their