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## 26 CFR 601.204: Changes in accounting periods and in methods of accounting.

(Also Part I, §§ 56, 61, 77, 118, 162, 163, 166, 167, 168, 171, 174, 179D, 181, 194, 195, 197, 248, 263, 263A, 267, 280F, 404, 446, 447, 448, 451, 454, 455, 460, 461, 467, 471, 472, 475, 481, 585, 709, 807, 816, 832, 833, 846, 860A-860G, 861, 904, 953, 985, 1272, 1273, 1278, 1281, 1363, 1400I, 1400L, 1400N; 1.61-1, 1.61-4, 1.61-8, 1.77-1, 1.77-2, 1.118-2, 1.162-1, 1.162-3, 1.162-4, 1.162-11, 1.162-12, 1.166-1, 1.166-2, 1.166-4, 1.167(a)-2, 1.167(a)-3(b), 1.167(a)-4, 1.167(a)-7, 1.167(a)-8, 1.167(a)-11, 1.167(a)-14, 1.167(e)-1, 1.168(d)-1, 1.168(i)-1, 1.168(i)-4, 1.168(i)-6, 1.168(i)-7, 1.168(i)-8, 1.168(k)-1, 1.168(k)-2, 1.171-4, 1.174-1, 1.174-3, 1.174-4, 1.179-5, 1.181-2, 1.194-1, 1.195-1, 1.197-2, 1.248-1, 1.263(a)-1, 1.263(a)-2, 1.263(a)-3, 1.263(a)-4, 1.263(a)-5, 1.263A-1, 1.263A-2, 1.263A-3, 1.263A-4, 1.263A-7, 1.267(a)-1, 1.280F-6, 1.404(b)-1T, 1.446-1, 1.446-1T, 1.446-2, 1.446-5, 1.446-6, 1.446-7, 1.448-1, 1.448-2, 1.451-1, 1.451-3, 1.451-8, 1.454-1, 1.455-6, 1.460-1, 1.460-3, 1.460-4, 1.461-1, 1.461-4, 1.461-5, 1.467-1, 1.471-1, 1.471-2, 1.471-3, 1.471-4, 1.471-5, 1.471-8, 1.472-1, 1.472-2, 1.472-6, 1.472-8, 1.481-1, 1.481-4, 1.709-1, 1.709-2, 1.832-4, 1.832-5, 1.860A-6, 1.861-18, 1.985-5, 1.985-8, 1.1016-3, 1.1245-3, 1.1272-1, 1.1273-1, 1.1273-2, 1.1275-2, 1.1363-2, 1.1374-4, 1.1400L(b)-1, 1.1502-68.)

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This revenue procedure provides the List of Automatic Changes to which the automatic change procedures in Rev. Proc. 2015-13, 2015-5 I.R.B. 419, as clarified and modified by Rev. Proc. 2015-33, 2015-24 I.R.B. 1067, and as modified by Rev. Proc. 2021-34, 2021-35 I.R.B. 337, by Rev. Proc. 2021-26, 2021-22 I.R.B. 1163, by Rev. Proc. 2017-59, 2017-48 I.R.B. 543, and by section 17.02(b) and (c) of Rev. Proc. 2016-1, 2016-1 I.R.B. 1, apply. The definitions in section 3 of Rev. Proc. 2015-13 apply to this revenue procedure.

## LIST OF AUTOMATIC CHANGES

### SECTION 1. GROSS INCOME (§ 61)

#### .01 Up-front Payments for Network Upgrades received by Utilities.

(1) Description of change. This change applies to a Utility that wants to change its method of accounting for Up-front Payments to the safe harbor method described in Rev. Proc. 2005-35, 2005-2 C.B. 76. In general, this change applies to a Utility that receives an Up-front Payment from a Generator to finance Network Upgrades to the Utility's Transmission System. For federal income tax purposes, if an Up-front Payment is made pursuant to an Interconnection Agreement that satisfies all of the conditions of section 5.02 of Rev. Proc. 2005-35, a Utility may treat that Up-front Payment as not being taxable income under § 61 when received (the safe harbor method). In addition, a Utility that uses the safe harbor method is not entitled to any

deduction for its reimbursements of the Up-front Payment. To the extent that Federal Energy Regulatory Commission (FERC) interest is deductible, it must be properly allocated to the periods in which it accrues. A Utility using the safe harbor method must comply with all other applicable provisions of Rev. Proc. 2005-35. See Rev. Proc. 2005-35 for the definitions of certain terms for purposes of this change.

(2) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 1.01 is "91."

(3) Contact information. For further information regarding a change under this section, contact William E. Blanchard at (202) 317-3900 (not a toll-free number).

## SECTION 2. COMMODITY CREDIT LOANS (§ 77)

### .01 Treating amounts received as loans.

(1) Description of change. This change applies to a taxpayer that wants to change its method of accounting for loans received from the Commodity Credit Corporation from including the loan amount in gross income for the taxable year in which each loan is received to treating each loan amount as a loan.

(2) Certain eligibility rule inapplicable. The eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, does not apply to this change.

(3) Manner of making change. This change is made on a cut-off basis and applies only to loans received from the Commodity Credit Corporation on or after the beginning of the year of change. Accordingly, a § 481(a) adjustment is neither permitted nor required.



(4) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 2.01 is “1.”

(5) Contact information. For further information regarding a change under this section, contact Michael Finn at (202) 317-4718 (not a toll-free number).

### SECTION 3. TRADE OR BUSINESS EXPENSES (§ 162)

#### .01 Advances made by a lawyer on behalf of clients.

(1) Description of change. This change applies to a lawyer who advances money to pay for costs of litigation or for other expenses on behalf of clients, and who wants to change the method of accounting for such advances from treating them as deductible business expenses to treating them as loans to clients. This change applies to cases handled either on a non-contingent or a contingent fee basis. See Pelton & Gunther, P.C. v. Commissioner, T.C. Memo. 1999-339 (non-contingent fee); Canelo v. Commissioner, 53 T.C. 217 (1969), aff'd per curiam, 447 F.2d 484 (9<sup>th</sup> Cir. 1971) (contingent fee).

(2) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 3.01 is “2.”

(3) Contact information. For further information regarding a change under this section, contact Alicia Lee-Won at (202) 317-7003 (not a toll-free number).

#### .02 ISO 9000 costs.

(1) Description of change. This change applies to a taxpayer that wants to change its method of accounting for costs incurred to obtain, maintain, and renew ISO

9000 certification to conform with Rev. Rul. 2000-4, 2000-1 C.B. 331, as modified by this revenue procedure.

(2) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 3.02 is “3.”

(3) Contact information. For further information regarding a change under this section, contact Alicia Lee-Won at (202) 317-7003 (not a toll-free number).

.03 Restaurant or tavern smallwares packages.

(1) Description of change. This change applies to a taxpayer engaged in the trade or business of operating a restaurant or tavern (within the meaning of section 4.01 of Rev. Proc. 2002-12, 2002-1 C.B. 374) that wants to change its method of accounting for the costs of smallwares to the smallwares method described in Rev. Proc. 2002-12, as modified by this revenue procedure.

(2) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 3.03 is “4.”

(3) Contact information. For further information regarding a change under this section, contact Renay France at (202) 317-7003 (not a toll-free number).

.04 Timber grower fertilization costs.

(1) Description of change. This change applies to a timber grower that wants to change its method of accounting to treat post-establishment fertilization costs of an established timber stand as ordinary and necessary business expenses deductible under § 162. See Rev. Rul. 2004-62, 2004-1 C.B. 1072, as modified by this revenue procedure.

(2) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 3.04 is “86.”

(3) Contact information. For further information regarding a change under this section, contact Maria Castillo Valle at (202) 317-7003 (not a toll-free number).

.05 Materials and supplies. See section 11.08 of this revenue procedure.

.06 Repair and maintenance costs. See section 11.08 of this revenue procedure.

.07 Wireline network asset maintenance allowance and units of property methods of accounting under Rev. Proc. 2011-27.

(1) Description of change. This change applies to a wireline telecommunications carrier that is within the scope of Rev. Proc. 2011-27, 2011-18 I.R.B. 740, and wants to change its treatment of wireline network asset expenditures to use either (a) the wireline network asset maintenance allowance method of accounting, or (b) all or some of the units of property described in Rev. Proc. 2011-27.

(2) Section 481(a) adjustment. In general, a change to the wireline network asset maintenance allowance method of accounting or to use all or some of the units of property specified in Rev. Proc. 2011-27 requires an adjustment under § 481(a). The § 481(a) adjustment shall not include any amount attributable to property for which the taxpayer elected to apply the repair allowance under § 1.167(a)-11(d)(2).

(3) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 3.07 is “158.”

(4) Contact information. For further information regarding a change under this section, contact Ian Heminsley at (202) 317-5100 (not a toll-free number).

.08 Wireless network asset maintenance allowance and units of property methods of accounting under Rev. Proc. 2011-28.

(1) Description of change. This change applies to a wireless telecommunications carrier that is within the scope of Rev. Proc. 2011-28, 2011-18 I.R.B. 743, and wants to change its treatment of wireless network asset expenditures to use either (a) the wireless network asset maintenance allowance method of accounting, or (b) all or some of the units of property described in Rev. Proc. 2011-28.

(2) Section 481(a) adjustment. In general, a change to the wireless network asset maintenance allowance method of accounting or to use all or some of the units of property specified in Rev. Proc. 2011-28 requires an adjustment under § 481(a). The § 481(a) adjustment does not include any amount attributable to property for which the taxpayer elected to apply the repair allowance under § 1.167(a)-11(d)(2).

(3) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 3.08 is “159.”

(4) Contact information. For further information regarding a change under this section, contact Samuel Terhaar at (202) 317-5100 (not a toll-free number).

.09 Method of accounting under Rev. Proc. 2011-43 for taxpayers in the business of transporting, delivering, or selling electricity.

(1) Description of change. This change applies to a taxpayer that is within the scope of Rev. Proc. 2011-43, 2011-37 I.R.B. 326, and wants to change its treatment of transmission and distribution property expenditures to use the method of accounting described in Rev. Proc. 2011-43.

(2) Section 481(a) adjustment. A taxpayer must take the entire net § 481(a) adjustment into account (whether positive or negative) in computing taxable income for the year of change. The § 481(a) adjustment does not include any amount attributable to property for which the taxpayer elected to apply the repair allowance under § 1.167(a)-11(d)(2) for any taxable year in which the election was made. For guidance regarding permissible § 481(a) calculation methodologies, see section 7.02 and Appendix A of Rev. Proc. 2011-43.

(3) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 3.09 is “160.”

(4) Contact information. For further information regarding a change under this section, contact Nathaniel Kupferman at (202) 317-5100 (not a toll-free number).

.10 Method of accounting under Rev. Proc. 2013-24 for taxpayers in the business of generating steam or electric power.

(1) Description of change. This change applies to a taxpayer that is within the scope of Rev. Proc. 2013-24, 2013-22 I.R.B. 1142, and wants to change its treatment of generation property expenditures to use all or some of the unit of property definitions and the corresponding major component definitions described in Rev. Proc. 2013-24.

(2) Section 481(a) adjustment.

(a) A taxpayer must take the entire net § 481(a) adjustment into account (whether positive or negative) in computing taxable income for the year of change. For guidance regarding the use of extrapolation in computing a § 481(a) adjustment, see sections 6.02 and Appendix B of Rev. Proc. 2013-24.

(b) A taxpayer changing to this method of accounting must not include in the § 481(a) adjustment any amount attributable to property for which the taxpayer elected to apply the repair allowance under § 1.167(a)–11(d)(2) for any taxable year in which the repair allowance election was made.

(3) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 3.10 is “182.”

(4) Contact information. For further information regarding a change under this section, contact Morgan Lawrence at (202) 317-7011 (not a toll-free number).

.11 Cable network asset capitalization methods of accounting under Rev. Proc. 2015-12.

(1) Description of change. This change applies to a cable system operator that is within the scope of Rev. Proc. 2015-12, 2015-2 I.R.B. 266, and wants to make one or more of the following changes in method of accounting:

(a) Change its treatment of cable network asset expenditures to the cable network asset maintenance allowance method of accounting provided in section 5 of Rev. Proc. 2015-12;

(b) Change to use any of the unit of property definitions provided in section 6 of Rev. Proc. 2015-12;

(c) Change to use the specific identification method for installations and customer drop costs described in section 7.01(1) of Rev. Proc. 2015-12;

(d) Change to use the safe harbor allocation method for installations and customer drop costs described in section 7.01(2) of Rev. Proc. 2015-12; or

(e) Change to deduct the labor costs associated with installing customer premises equipment under section 7.02 of Rev. Proc. 2015-12.

(2) Concurrent automatic change. A taxpayer that wants to make one or more changes in method of accounting pursuant to this section 3.11 and a change to a UNICAP method under section 12 of this revenue procedure for the same year of change should file a single Form 3115 that includes all of these changes and must enter the designated automatic accounting method change numbers for all of these changes on the appropriate line on the Form 3115. See section 6.03(1)(b) of Rev. Proc. 2015-13 for information on making concurrent changes.

(3) Section 481(a) adjustment.

(a) In general, a change to one or more of the changes in method of accounting described in section 3.11(1) of this revenue procedure requires an adjustment under § 481(a). The § 481(a) adjustment shall not include any amount attributable to property for which the taxpayer elected to apply the repair allowance under § 1.167(a)-11(d)(2).

(b) Itemized listing on Form 3115. The taxpayer must include on Form 3115 (Rev. December 2022), Part IV, line 26, the total § 481(a) adjustment for all changes in methods of accounting being made. If the taxpayer is making more than one change in method of accounting under Rev. Proc. 2015-12, the taxpayer must include on an attachment to Form 3115:

(i) the information required by Part IV, line 26 for each change in method of accounting (including the amount of the § 481(a) adjustment for each change in method of accounting, which includes the portion of the § 481(a) adjustment attributable to UNICAP);

(ii) the information required by Part II, line 14 of Form 3115 that is associated with each change; and

(iii) the citation to the paragraph of Rev. Proc. 2015-12 that provides for each proposed method of accounting.

(4) Designated automatic accounting method change number. The designated automatic accounting method change number for a change to a method of accounting provided in section 5 or 6 of Rev. Proc. 2015-12 is “208.” The designated automatic accounting method change number for a change to a method of accounting provided in section 7 of Rev. Proc. 2015-12 is “209.”

(5) Contact information. For further information regarding a change under this section, contact Elizabeth Boone at (202) 317-5100 (not a toll-free number).

.12 Natural gas transmission and distribution property method of accounting under Rev. Proc. 2023-15.

(1) Description of change.

(a) Applicability. This change applies to a taxpayer that is within the scope of Rev. Proc. 2023-15 and wants to change its treatment of natural gas transmission and distribution property costs to use the natural gas transmission and distribution property safe harbor method of accounting (NGSH Method) described in Rev. Proc. 2023-15. Specifically, this change applies to a taxpayer that wants to change to “the safe harbor method for linear property” or “the safe harbor method for non-linear property” and other applicable rules in accordance with Rev. Proc. 2023-15, including the making of a late general asset account election as required under section 5.08(2) of Rev. Proc. 2023-15. This change also applies to a taxpayer that previously



changed to the safe harbor method for linear property and wants to change to the safe harbor method for non-linear property for a subsequent taxable year.

(b) Inapplicability. This change does not apply to the making of a late general asset account election other than in accordance with section 5.08(2) of Rev. Proc. 2023-15.

(2) Certain eligibility rules temporarily inapplicable.

(a) In general. The eligibility rules in section 5.01(1)(d) and (f) of Rev. Proc. 2015-13 do not apply to a taxpayer that changes to the NGSH Method provided in Rev. Proc. 2015-13 for its first, second, or third taxable year ending after May 1, 2023.

(b) Concurrent automatic change.

(i) If a taxpayer makes both a change under this section 3.12 and a change under section 6.12(3)(b) and/or section 6.15 of this revenue procedure for linear property and/or non-linear property for its first, second, or third taxable year ending after May 1, 2023, on a single Form 3115 for the same asset for the same year of change in accordance with section 3.12(6)(b) of this revenue procedure, the eligibility rules in section 5.01(1)(d) and (f) of Rev. Proc. 2015-13 do not apply to the taxpayer for these changes.

(ii) If a taxpayer makes both a change under this section 3.12 and a change under section 11.08, 12.01, 12.02, 12.08, and/or 12.12 of this revenue procedure, as applicable, for its linear property or non-linear property costs in its first, second, or third taxable year ending after May 1, 2023, on a single Form 3115 for the same year of change in accordance with section 3.12(6)(c) of this revenue procedure, the eligibility rules in section 5.01(1)(d) and (f) of Rev. Proc. 2015-13 do not apply to the taxpayer for these changes.

(3) Manner of making change.

(a) Late general asset account election.

(i) The late general asset account election change described in section 5.08(2) of Rev. Proc. 2023-15 is made using a modified cut-off method under which the unadjusted depreciable basis and the depreciation reserve of the asset as of the beginning of the year of change are accounted for using the proposed method of accounting. The late general asset account election change requires each general asset account to include a beginning balance for both the unadjusted depreciable basis and the depreciation reserve. The beginning balance for the unadjusted depreciable basis of each general asset account is equal to the sum of the unadjusted depreciable bases as of the beginning of the year of change for all assets included in that general asset account. The beginning balance of the depreciation reserve of each general asset account is equal to the sum of the greater of the depreciation allowed or allowable as of the beginning of the year of change for all assets included in that general asset account.

(ii) For the late general asset account election change described in section 5.08(2) of Rev. Proc. 2023-15, the taxpayer must attach to its Form 3115 a statement providing that the taxpayer agrees to the following additional terms and conditions:

(A) The taxpayer consents to, and agrees to apply, all the provisions of § 1.168(i)-1 to the assets that are subject to the election specified in section 5.08(2) of Rev. Proc. 2023-15; and

(B) Except as provided in § 1.168(i)-1(c)(1)(ii)(A), (e)(3), (g), or (h), the election made by the taxpayer under section 5.08(2) of Rev. Proc. 2023-15 is

irrevocable and will be binding on the taxpayer for computing taxable income for the year of change and for all subsequent taxable years with respect to the assets that are subject to this election.

(b) Cut-off basis for certain changes. Except for changes to make a late general asset account election described in section 3.12(3)(a) of this revenue procedure, a change to the NGSH Method described in Rev. Proc. 2023-15 is made on a cut-off basis and applies only to natural gas transmission and distribution property costs paid or incurred beginning in or after the year of change if-

(i) Sections 5.08(2)(a)(ii) and 6.04 of Rev. Proc. 2023-15 apply (the taxpayer changes to the NGSH Method described in Rev. Proc. 2023-15 for the first, second, or third taxable year ending after May 1, 2023, on a cut-off basis); or

(ii) Section 5.08(2)(a)(iii) of Rev. Proc. 2023-15 applies (the taxpayer changes to the NGSH Method described in Rev. Proc. 2023-15 for the fourth taxable year ending after May 1, 2023, or for any subsequent taxable year).

(c) Public Utility Property. If the taxpayer's change to the NGSH Method described in Rev. Proc. 2023-15 applies to any asset that is public utility property within the meaning of § 168(i)(10), the taxpayer must attach a statement to its Form 3115 agreeing to the following additional terms and conditions:

(i) A normalization method of accounting (within the meaning of § 168(i)(9)) will be used for the public utility property subject to the Form 3115;

(ii) As of the beginning of the year of change, the taxpayer will adjust its deferred tax reserve account or similar account in the taxpayer's regulatory books of account by the amount of the deferral of federal income tax liability associated with the

§ 481(a) adjustment applicable to the public utility property subject to the Form 3115 if such amount is no longer being normalized for regulatory purposes by the taxpayer; and

(iii) Within 30 calendar days of filing the federal income tax return for the year of change, the taxpayer will provide a copy of the completed Form 3115 to any regulatory body having jurisdiction over the public utility property subject to the Form 3115.

(4) Section 481(a) adjustment.

(a) In general. Except as provided in section 3.12(3)(b) of this revenue procedure, a taxpayer changing its methods of accounting under this section 3.12 must take the entire net § 481(a) adjustment into account, whether positive or negative, in computing taxable income for the year of change in the manner provided in section 7.03 of Rev. Proc. 2015-13. The entire net § 481(a) adjustment includes all aspects of the NGSH Method described in Rev. Proc. 2023-15, including a change to the methods of accounting permitted under § 1.168(i)-1 pursuant to section 5.08(2) of Rev. Proc. 2023-15. However, a § 481(a) adjustment is neither required nor permitted for the late general asset account election described in section 5.08(2) of Rev. Proc. 2023-15. Further, a § 481(a) adjustment is neither required nor permitted if the taxpayer chooses to change to the NGSH Method on a cut-off basis under section 6.04 of Rev. Proc. 2023-15 or if the taxpayer changes to this method during the time described in section 5.08(2)(a)(iii) of Rev. Proc. 2023-15.

(b) Repair allowance property. A taxpayer changing its method of accounting under this section 3.12 must not include in the § 481(a) adjustment any amount attributable to property for which the taxpayer elected to apply the repair

allowance under § 1.167(a)-11(d)(2) for any taxable year in which the repair allowance election was made.

(c) Property subject to the election to capitalize repair and maintenance costs. A taxpayer changing its method of accounting under this section 3.12 must not include in the § 481(a) adjustment any amount attributable to property for which the taxpayer elected to capitalize repair and maintenance costs under § 1.263(a)-3(n) for any taxable year in which this election was made.

(d) Statistical sampling. A taxpayer changing to the NGSH Method under this section 3.12 may use statistical sampling in determining the § 481(a) adjustment amount attributable to any single taxable year by following the guidance provided in Rev. Proc. 2011-42, 2011-37 I.R.B. 318.

(e) Extrapolation. A taxpayer changing to the NGSH Method under this section 3.12 may use the extrapolation methodology provided in Appendix B to Rev. Proc. 2023-15 (Appendix B) in determining the § 481(a) adjustment amount if the taxpayer is within the scope of section 1.02 of Appendix B. Extrapolation methodologies not permitted in Appendix B are not permitted under the NGSH Method.

(5) No audit protection for certain taxpayers. If a taxpayer chooses to change to the NGSH Method described in Rev. Proc. 2023-15 on a cut-off basis as permitted under section 6.04 of Rev. Proc. 2023-15 or is required to change on a cut-off basis under section 5.08(3)(b)(i) of Rev. Proc. 2023-15, the taxpayer does not receive audit protection under section 8.01 of Rev. Proc. 2015-13 in connection with this change.

(6) Concurrent automatic changes.

(a) A taxpayer making changes under this section 3.12 for more than one asset for the same year of change must file a single Form 3115 for all such assets. The single Form 3115 must provide a single net § 481(a) adjustment for all such changes.

(b) A taxpayer making changes under this section 3.12 and changes under section 6.12(3)(b) and/or section 6.15 of this revenue procedure for linear property or non-linear property costs for the same year of change must file a single Form 3115 for all changes and must enter the designated automatic accounting method change numbers for all changes on the appropriate line on the Form 3115. See section 6.03(1)(b) of Rev. Proc. 2015-13 for information on making concurrent changes.

(c) A taxpayer making changes under this section 3.12 and also making a coordinating change to its linear property or non-linear property costs under section 11.08, 12.01, 12.02, 12.08, and/or 12.12 of this revenue procedure, as applicable, must file a single Form 3115 for the same year of change for all these changes, provided that the taxpayer is not prohibited from filing an automatic change under the eligibility rules under section 5 of Rev. Proc. 2015-13. For changes required to be filed on a single Form 3115 under this section, the taxpayer must enter the designated automatic accounting method change numbers for all changes on the appropriate line on the Form 3115. See section 6.03(1)(b) of Rev. Proc. 2015-13 for information on making concurrent changes.

(d) A taxpayer that changes to a method of accounting under this section 3.12 for taxable years ending after the third taxable year ending after May 1, 2023 and is also required to change its method of accounting to properly capitalize its linear property or non-linear property costs under § 263(a) and/or § 263A under section 5.08(3)(b)(ii) of Rev. Proc. 2023-15, must file a single Form 3115 for the same year of

change for all these changes, provided that the taxpayer is not prohibited from filing an automatic change under the eligibility rules set out in section 5 of Rev. Proc. 2015-13, 2015-5 I.R.B. 419. For changes required to be filed on a single Form 3115 under this paragraph, the taxpayer must enter the designated automatic accounting method change numbers for all changes on the appropriate line on the Form 3115. See section 6.03(1)(b) of Rev. Proc. 2015-13 for information on making concurrent changes.

(7) Examples. The following examples illustrate this section 3.12. In each example, it is assumed that the taxpayer (a) is a C corporation, on an accrual method of accounting and using a calendar taxable year, (b) is within the scope of Rev. Proc. 2023-15, (c) placed in service natural gas transmission property or distribution property that is described in section 4 of Rev. Proc. 2023-15 and is MACRS property, (d) did not make a general asset account election for any natural gas transmission property or distribution property placed in service by the taxpayer in any taxable year before the first taxable year that the taxpayer uses the NGS Method, (e) is changing its methods of accounting for both linear property and non-linear property under the NGS Method for the same taxable year, and (f) is not changing to the NGS Method on a cut-off basis under section 6.04 of Rev. Proc. 2023-15. Unless otherwise stated, it also is assumed that (a) the cost of the replacements before Year 1 were not capitalized under § 263(a), (b) the cost of the replacements before Year 1 would not have been capitalized if the taxpayer used the NGS Method provided under sections 5.02, 5.03, 5.04, 5.06, and 5.07 of Rev. Proc. 2023-15 for such prior taxable years, and (c) the taxpayer's natural gas transmission and distribution property expenditures are not per se capital expenditures under section 5.05(1)(a)-(f), (i), or (j) of Rev. Proc. 2023-15. Further, it is assumed that § 1.168(i)-1(e)(3) (special rules for certain dispositions of assets in

general asset accounts) does not apply for the first taxable year that the taxpayer uses the NGS Method. Moreover, for purposes of these examples, “Year 1” refers to the taxpayer’s first taxable year ending after May 1, 2023, “Year 2” refers to the taxpayer’s second taxable year ending after May 1, 2023, and “Year 4” refers to the taxpayer’s fourth taxable year ending after May 1, 2023.

(a) Example 1. (i) X is a local natural gas distribution company. Before Year 1, X owned and placed in service natural gas distribution property at a cost of \$120 million before any dispositions or additions. Before Year 1, X replaced parts of such property that had an original cost of \$10 million and incurred \$12 million for the cost of such replacements. On its Federal income tax returns before Year 1, X recognized losses upon the dispositions of that \$10 million of property, capitalized \$12 million for the cost of the replacements of that property under § 263(a), and deducted depreciation of \$800,000 on such \$12 million. X files a Form 3115 with its Federal income tax return for Year 1 to change its methods of accounting to use the NGS Method described in Rev. Proc. 2023-15.

(ii) Because Year 1 is X’s first taxable year ending after May 1, 2023, section 5.08(2)(a)(i) and (3)(a) of Rev. Proc. 2023-15 apply. Pursuant to section 5.08(3)(a) of Rev. Proc. 2023-15, the per se capital expenditure rules in section 5.05(1)(g) and (h) of Rev. Proc. 2023-15 do not apply to the replacement cost of \$12 million that X capitalized under § 263(a) on its Federal income tax returns before Year 1. Accordingly, this \$12 million cost of the replacements is not treated as a per se capital expenditure under the NGS Method. Therefore, at the beginning of Year 1, X is treated under Rev. Proc. 2023-15 as owning natural gas distribution property at a cost of \$110 million (\$120 million - \$10 million). Under section 5.08(2)(a)(i) of Rev. Proc.



2023-15, X must make a late general asset account election on its Form 3115 to include in general asset accounts all of the \$110 million of natural gas distribution property that X owns at the beginning of Year 1. These general asset accounts also must include the total depreciation allowed or allowable before the beginning of Year 1 for such property as the beginning balances of the depreciation reserves. The late general asset account election change is made on a modified cut-off method and, therefore, a § 481(a) adjustment is neither required nor permitted for the late general asset account election change.

(iii) On its Form 3115 to change to the NGS Method provided under Rev. Proc. 2023-15, the net negative § 481(a) adjustment for this change is \$11,200,000 (deduction of \$12 million for the cost of the replacements before Year 1 less depreciation of \$800,000 for such replacement assets before Year 1) and is deducted in computing X's taxable income for Year 1.

(b) Example 2. (i) The facts are the same as in Example 1, except that X files a Form 3115 with its Federal income tax return for Year 2 to change its method of accounting to use the NGS Method described in Rev. Proc. 2023-15, and, before Year 2, X deducted depreciation of \$1,000,000 on the replacement cost of \$12 million.

(ii) Because X filed its method change in Year 2, the special rule under section 5.08(3)(a) of Rev. Proc. 2023-15 does not apply to the replacement cost of \$12 million that X capitalized under § 263(a) on its Federal income tax returns before Year 1. Accordingly, section 5.05(1)(g) and (h) of Rev. Proc. 2023-15 apply to the replacement cost of \$12 million that X capitalized on its Federal income tax returns before Year 2. The total cost of \$12 million for this replacement is a per se capital expenditure, and must be capitalized, under the NGS Method.

(iii) At the beginning of Year 2, X is treated under the NGSH Method as owning natural gas distribution property at a cost of \$122 million (\$120 million - \$10 million + \$12 million). Under section 5.08(2)(a)(i) of Rev. Proc. 2023-15, X must make a late general asset account election on its Form 3115 to include in general asset accounts all of the \$122 million of natural gas distribution property that X owns at the beginning of Year 2. These general asset accounts also must include the total depreciation allowed or allowable before the beginning of Year 2 for such property as the beginning balances of the depreciation reserves. The late general asset account election change is made on a modified cut-off method and, therefore, a § 481(a) adjustment is neither required nor permitted for the late general asset account election.

(iv) On its Form 3115 to change to the NGSH Method under Rev. Proc. 2023-15, the net § 481(a) adjustment for this change is zero. Under its present method of accounting and under the NGSH Method (proposed method of accounting), X properly capitalized the \$12 million for the cost of the replacements before Year 1 and claimed depreciation for such replacement assets before Year 2.

(c) Example 3. (i) Y is a local natural gas distribution company. Before Year 1, Y owned and placed in service natural gas distribution property at a cost of \$120 million before any dispositions or additions. Before Year 1, Y replaced parts of such property that had an original cost of \$10 million and incurred \$12 million for the cost of such replacements. On its Federal income tax returns before Year 1, Y recognized losses upon the dispositions of that \$10 million of property and deducted \$12 million for the cost of the replacements of such property under § 162(a). During Year 1, Y replaced a part of the natural gas distribution property that had an original cost of \$2 million and incurred \$3 million for the cost of such replacements. If Y had

capitalized the \$15 million for the cost of the replacements, the total depreciation allowed or allowable for these assets would have been \$1 million before Year 2. On its Federal income tax return for Year 1, Y recognized a loss upon the disposition of that \$2 million of property and deducted \$3 million for the cost of the replacements under § 162(a). Y files a Form 3115 with its Federal income tax return for Year 2 to change its method of accounting to use the NGSH Method described in Rev. Proc. 2013-15.

(ii) Because Y filed its method change for Year 2, section 5.08(2)(a)(i) of Rev. Proc. 2023-15 applies to this change. However, the special rule under section 5.08(3)(a) of Rev. Proc. 2023-15 would apply only if Y had filed its method change for Year 1. Accordingly, section 5.05(1)(g) and (h) of Rev. Proc. 2023-15 apply to the replacement cost of \$12 million that Y deducted under § 162(a) on its Federal income tax returns before Year 1, and to the replacement cost of \$3 million that Y deducted under § 162(a) on its Federal income tax return for Year 1. Therefore, the total cost of \$15 million for these replacements is a per se capital expenditure, and must be capitalized, under the NGSH Method.

(iii) At the beginning of Year 2, Y is treated under Rev. Proc. 2023-15 as owning natural gas distribution property at a cost of \$123 million (\$120 million - \$10 million + \$12 million - \$2 million + \$3 million). Under section 5.08(2)(a)(i) of Rev. Proc. 2023-15, Y must make a late general asset account election on its Form 3115 to include in general asset accounts all of the \$123 million of natural gas distribution property that Y owns at the beginning of Year 2. These general asset accounts also must include the total depreciation allowed or allowable before the beginning of Year 2 for such property as the beginning balances of the depreciation reserves. The late general asset account

election change is made on a modified cut-off method and, therefore, a § 481(a) adjustment is neither required nor permitted for the late general asset account election.

(iv) On its Form 3115 to change to the NGS Method of Rev. Proc. 2023-15, the net positive § 481(a) adjustment for this change is \$14 million (\$15 million for the cost of the replacements before Year 2 less depreciation allowed or allowable of \$1 million for such replacement assets before Year 2) and is taken into account in computing Y's income in the manner provided in section 3.12(4)(a) of this revenue procedure.

(d) Example 4. (i) Z is a local natural gas distribution company. Before Year 4, Z owned and placed in service natural gas distribution property at a cost of \$150 million before any dispositions or additions. Before Year 4, Z replaced parts of such property that had an original cost of \$30 million and incurred \$45 million for the cost of such replacements. On its Federal income tax returns before Year 4, Z recognized losses upon the dispositions of that \$30 million of property, capitalized \$45 million for the cost of the replacements under § 263(a), and deducted depreciation of \$15 million on such \$45 million. Z files a Form 3115 with its Federal income tax return for Year 4 to change its method of accounting to use the NGS Method described in Rev. Proc. 2013-15. Assume Z is eligible to file Form 3115 for Year 4 under the automatic change procedures in Rev. Proc. 2015-13.

(ii) At the beginning of Year 4, Z owns natural gas distribution property at a cost of \$165 million (\$150 million - \$30 million + \$45 million). Because Year 4 is Z's fourth taxable year ending after May 1, 2023, sections 5.08(2)(a)(iii) and 5.08(3)(b) of Rev. Proc. 2023-15 apply. Accordingly, under section 5.08(2)(a)(iii) of Rev. Proc. 2023-15, Z must make a late general asset account election on its Form

3115 to include in general asset accounts all of the \$165 million of natural gas distribution property that Z owns at the beginning of Year 4. These general asset accounts also must include the total depreciation allowed or allowable before the beginning of Year 4 for such property as the beginning balances of the depreciation reserves. The late general asset account election change is made using a modified cut-off method and, therefore, a § 481(a) adjustment is neither permitted nor required for the late general asset account election.

(iii) Because sections 5.08(2)(a)(iii) and 5.08(3)(b) of Rev. Proc. 2023-15 apply, Z's change to the NGSH Method described in Rev. Proc. 2023-15, applies only to natural gas transmission and distribution property expenditures paid or incurred by Z beginning in Year 4 and is made on a cut-off basis. Therefore, a § 481(a) adjustment is neither required nor permitted for the change to the NGSH Method described in Rev. Proc. 2023-15.

(e) Example 5. (i) The facts are the same as in Example 4, except that, on its Federal income tax returns before Year 4, Z improperly deducted \$45 million for the cost of the replacements under § 162(a). Such \$45 million of replacement costs should have been capitalized under § 263(a). If Z had capitalized the \$45 million for the cost of the replacements, the total depreciation allowed or allowable for such assets would have been \$15 million before Year 4.

(ii) Because Year 4 is Z's fourth taxable year ending after May 1, 2023, sections 5.08(2)(a)(iii) and 5.08(3)(b) of Rev. Proc. 2023-15 apply. Pursuant to section 5.08(3)(b) of Rev. Proc. 2023-15, Z must also change its method of accounting to capitalize under § 263(a) the \$45 million for the cost of the replacements incurred before Year 4. The net positive § 481(a) adjustment for this coordinating change is \$30

million (\$45 million for the cost of the replacements before Year 4 less depreciation allowed or allowable of \$15 million for such replacement assets before Year 4). Z takes this net positive § 481(a) adjustment of \$30 million into account in computing Z's taxable income in the manner provided in section 3.12(4)(a) of this revenue procedure.

(iii) Z owns natural gas distribution property at a cost of \$165 million (\$150 million - \$30 million + \$45 million) at the beginning of Year 4. Accordingly, Z must make a late general asset account election on its Form 3115 to include in general asset accounts all of the \$165 million of natural gas distribution property that Z owns at the beginning of Year 4. These general asset accounts also must include the total depreciation allowed or allowable before the beginning of Year 4 for such property as the beginning balances of the depreciation reserves. The late general asset account election change is made using a modified cut-off method and, therefore, a § 481(a) adjustment is neither permitted nor required for the late general asset account election.

(iv) Because sections 5.08(2)(a)(iii) and 5.08(3)(b) of Rev. Proc. 2023-15 apply, Z's change to the NGS Method provided under sections 5.02, 5.03, 5.04, 5.06, and 5.07 of Rev. Proc. 2023-15, applies only to natural gas transmission and distribution property expenditures paid or incurred by Z beginning in Year 4 and is made on a cut-off basis. Therefore, a § 481(a) adjustment is neither required nor permitted for the change to the NGS Method described in Rev. Proc. 2023-15.

(v) Pursuant to section 3.12(6)(c) and section 5.08(3)(b) of Rev. Proc. 2023-15 the change to capitalize the replacement costs of \$45 million, the late general asset account election change, and the change to use the NGS Method provided under Rev. Proc. 2023-15 must be included on the same Form 3115 filed by Z for Year 4.

(8) Option to treat method changes filed for Year 2 as filed for Year 1 for purposes of section 5.08(3)(a) of Rev. Proc. 2023-15.

(a) In general. A taxpayer may choose to treat a method change filed for the taxpayer's second taxable year ending after May 1, 2023 (Year 2), as filed for the taxpayer's first taxable year ending after May 1, 2023 (Year 1), solely for purposes of applying the special rule under section 5.08(3)(a) of Rev. Proc. 2023-15. Specifically, a taxpayer changing to the safe harbor method for linear property or for both linear property and non-linear property, as applicable, for the taxpayer's second taxable year ending after May 1, 2023, with a § 481(a) adjustment may choose not to apply the per se capital expenditure rules under section 5.05(1)(g) and (h) of Rev. Proc. 2023-15 to amounts paid or incurred to replace or repair linear property or both linear property and non-linear property, as applicable, in taxable years ending on or before May 1, 2023. A taxpayer choosing to treat a method change filed for Year 2 as filed for Year 1 under this section 3.12(8) must otherwise comply with all the provisions of Rev. Proc. 2023-15.

(b) Application. A taxpayer that changed to the safe harbor method for linear property or both linear property and non-linear property, as applicable, for Year 1, may not choose to treat a method change filed for Year 2 as filed for Year 1 under paragraph 3.12(8) of this revenue procedure. Further, if a taxpayer chooses to treat a method change filed for Year 2 as filed for Year 1 under paragraph 3.12(8) of this revenue procedure, the taxpayer must do so for all members of a consolidated group changing to the NGSH Method.

(c) Example. The examples in section 3.12(7)(a) through (e) of this revenue procedure address taxpayers that do not choose to treat a method change filed for Year 2 as filed for Year 1 under this section 3.12(8). The following example

illustrates this section 3.12(8). The assumptions set out in 3.12(7) of this revenue procedure apply to this example.

(i) A is a local natural gas distribution company. Before Year 1, A owned and placed in service natural gas distribution property at a cost of \$120 million before any dispositions or additions. Before Year 1, A replaced parts of such property that had an aggregate original cost of \$10 million and incurred \$12 million for the cost of the replacements. On its Federal income tax returns for taxable years before Year 1, A recognized losses upon the disposition of that \$10 million of property, capitalized \$12 million of the replacement costs of such property under § 263(a), and deducted depreciation of \$800,000 on the \$12 million of replacement costs. During Year 1, A replaced a part of the natural gas distribution property that had an original cost of \$2 million and incurred \$3 million for the cost of such replacements. On its Federal income tax return for Year 1, A recognized a loss upon the disposition of that \$2 million of property, capitalized \$3 million for the cost of such replacements under § 263(a), and deducted depreciation of \$200,000 on the \$3 million of replacement costs. A files a Form 3115 with its Federal income tax return for Year 2 to change its method of accounting to use the NGS Method described in Rev. Proc. 2023-15 and chooses to treat its method change filed for Year 2 as filed for Year 1 under section 3.12(8) of this revenue procedure. Accordingly, A does not apply the per se capitalization rules of section 5.05(1)(g) and (h) of Rev. Proc. 2023-15 to amounts paid or incurred to replace or repair linear property or both linear property and non-linear property, as applicable, in taxable years ending on or before May 1, 2023.

(ii) Because A chooses to treat its method change filed for Year 2 as filed for Year 1 under paragraph 3.12(8)(a) of this revenue procedure, the special



transition rule under section 5.08(3)(a) applies to amounts paid or incurred by A to replace or repair linear natural gas distribution or both linear property and non-linear property distribution property, as applicable, in taxable years ending on or before May 1, 2023. Accordingly, the per se capital expenditure rules under section 5.05(1)(g) and (h) of Rev. Proc. 2023-15 do not apply to the replacement cost of \$12 million that A capitalized under § 263(a) on its Federal income tax returns for taxable years ending on or before May 1, 2023. As a result, the replacement cost of \$12 million is not required to be capitalized under the NGSH Method. However, the per se capital expenditure rules under section 5.05(1)(g) and (h) of Rev. Proc. 2023-15 do apply to the replacement cost of \$3 million that A capitalized on its Federal income tax return for Year 1. The total cost of \$3 million for this replacement is a per se capital expenditure and must be capitalized under the NGSH Method.

(iii) Therefore, at the beginning of Year 2, A is treated under Rev. Proc. 2023-15 as owning natural gas distribution property with an original cost of \$111 million (\$120 million - \$10 million - \$2 million + \$3 million). Under section 5.08(2)(a)(i) of Rev. Proc. 2023-15, A must make a late general asset account election on its Form 3115 to include in general asset accounts all of the \$111 million of natural gas distribution property that A owns at the beginning of Year 2. These general asset accounts also must include the total depreciation allowed or allowable before the beginning of Year 2 for such property as the beginning balances of the depreciation reserves. The late general asset account election change is made on a modified cut-off method and, therefore, a § 481(a) adjustment is neither required nor permitted for the late general asset account election change.

(iv) On its Form 3115 to change to the NGS Method provided under Rev. Proc. 2023-15 for Year 2, the net negative § 481(a) adjustment for this change is \$11,200,000 (deduction of \$12 million for the cost of the replacements before Year 1 less depreciation of \$800,000 for such replacement assets before Year 1). Because A properly capitalized the \$3 million for the cost of the replacements in Year 1 as per se capital expenditures under section 5.05(1)(g) and (h) of Rev. Proc. 2023-15 and properly claimed depreciation in Year 1 for such replacement assets, A does not include in its § 481(a) adjustment any amounts related to the cost of replacements in Year 1. Accordingly, A deducts \$11,200,000 in computing A's taxable income for Year 2.

(9) Designated automatic accounting method change number. The designated automatic accounting method change number for a change to the methods of accounting under this section 3.12 is "269."

(10) Contact information. For further information regarding a change under this section, contact Kasey A. Place or Merrill Feldstein at (202) 317-5100 (not a toll-free number).

#### SECTION 4. BAD DEBTS (§ 166)

##### .01 Change from reserve method to specific charge-off method.

(1) Description of change. This change applies to a taxpayer (other than a bank as defined in § 585(a)(2)) that wants to change its method of accounting for bad debts from a reserve method (or other improper method) to a specific charge-off method that complies with § 166. For procedures applicable to banks, see § 585(c) and the regulations thereunder and section 25 of this revenue procedure.

(2) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 4.01 is “5.”

(3) Contact information. For further information regarding a change under this section, contact Renay France at (202) 317-7003 (not a toll-free number).

.02 Conformity election by bank after previous election automatically revoked.

(1) Description of change. This change applies to a bank that wants to change its method of accounting for bad debts by making the conformity election under § 1.166-2(d)(3)(iii)(C)(3).

(2) Applicability. This change only applies to a bank (as defined in § 1.166-2(d)(4)(i)) that:

(a) is subject to supervision by Federal authorities, or by state authorities maintaining substantially equivalent standards;

(b) has previously adopted or elected to change to the method of accounting for bad debts described in § 1.166-2(d)(3);

(c) has had that previous election automatically revoked under § 1.166-2(d)(3)(iv)(C);

(d) meets the express determination requirement of § 1.166-2(d)(3)(iii)(D) for the year of change; and

(e) now seeks the consent of the Commissioner to make an election under § 1.166-2(d)(3)(iii)(C)(3).

(3) Certain eligibility rule inapplicable. The eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, does not apply to this change.

(4) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 4.02 is “211.”

(5) Contact information. For further information regarding a change under this section, contact K. Scott Brown at (202) 317-4423 (not a toll-free number).

## SECTION 5. INTEREST EXPENSE (§163) AND AMORTIZABLE BOND PREMIUM (§ 171)

### .01 Revocation of § 171(c) election.

(1) Description of change. This change applies to a taxpayer that wants to change its method of accounting for amortizable bond premium by revoking its § 171(c) election. Under § 171(c), a taxpayer that holds certain taxable bonds may elect to amortize any bond premium on the bonds in accordance with regulations prescribed by the Secretary. Sections 1.171-1 through 1.171-5 provide rules relating to the amortization of bond premium by a taxpayer. Section 1.171-4 provides the procedures to make a § 171(c) election to amortize bond premium.

(2) Revocation of election. The revocation of a § 171(c) election applies to all taxable bonds that are held by the taxpayer on the first day of the first taxable year for which the revocation is effective (year of change), and to all taxable bonds that are subsequently acquired by the taxpayer.

(3) Manner of making change. This change is made using a cut-off basis and applies only to taxable bonds held on or after the beginning of the year of change. Accordingly, a § 481(a) adjustment is neither permitted nor required.

Under the cut-off basis, for taxable bonds held at the beginning of the year of change, the taxpayer may not amortize any remaining bond premium on the bonds.

Because the cut-off basis is prescribed for this change, the basis of any bond, adjusted for amounts previously amortized during the period of the election, is not affected by the revocation.

(4) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 5.01 is “16.”

(5) Additional requirements. On a statement attached to the Form 3115, the taxpayer must provide:

(a) the reason(s) for revoking the election; and

(b) a description of the method by which, and the date on which, the taxpayer made the § 171(c) election that is proposed to be revoked.

(6) Audit protection. Any audit protection applicable to this change under section 8 of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, does not preclude the Commissioner from examining the method used by the taxpayer to determine the amount of amortizable bond premium under § 171(b) for a taxable year prior to the year of change.

(7) Contact information. For further information regarding a change under this section, contact Steven Harrison at (202) 317-6842 (not a toll-free number).

.02 Change to comply with § 163(e)(3).

(1) Description of change. This change applies to a taxpayer that wants to change its method or methods of accounting to comply with the requirements of § 163(e)(3), which defers certain deductions attributable to original issue discount debt instruments held by related foreign persons. Any portion of the original issue discount will not be allowable as a deduction to the U.S. person issuer until paid.

(2) Accelerated § 481(a) adjustment period in certain situations. In addition to the circumstances set forth in section 7.03(4) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, the § 481 adjustment period provided in section 7.03 of Rev. Proc. 2015-13 will be accelerated for a U.S. person with a remaining balance of a § 481(a) adjustment that arose by reason of a change in method of accounting described in this section 5.02 if a debt instrument subject to the change is paid off, retired, or significantly modified within the meaning of § 1.1001-3 prior to the end of the § 481(a) adjustment period. The portion of the remaining § 481(a) adjustment attributable to the debt instrument must be taken into account in the taxable year the debt instrument is paid off, retired, or significantly modified within the meaning of § 1.1001-3.

(3) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 5.02 is “212.”

(4) Contact information. For further information regarding a change under this section, contact Anisa Afshar at (202) 317-6934 (not a toll-free number).

## SECTION 6. DEPRECIATION OR AMORTIZATION (§ 56(a)(1), 167, 168, 197, 280F(a), or 1502, OR FORMER § 56(g)(4)(A), 168, 1400I, 1400L, or 1400N(d))

### .01 Impermissible to permissible method of accounting for depreciation or amortization.

#### (1) Description of change.

(a) Applicability. This change applies to a taxpayer that wants to change from an impermissible to a permissible method of accounting for depreciation or amortization (depreciation) for any item of depreciable or amortizable property under the taxpayer's present or proposed method of accounting:

(i) for which the taxpayer used the impermissible method of accounting in at least two taxable years immediately preceding the year of change (but see section 6.01(1)(b) of this revenue procedure for property placed in service in the taxable year immediately preceding the year of change);

(ii) for which the taxpayer is making a change in method of accounting under § 1.446-1(e)(2)(ii)(d);

(iii) for which depreciation is determined under § 56(a)(1), § 56(g)(4)(A) (as in effect on the day before the date of enactment of Public Law 115-97, 131 Stat. 2054 (Dec. 22, 2017), commonly referred to as the Tax Cuts and Jobs Act (TCJA)), § 167, § 168, § 197, § 1400I, or § 1400L(c), under § 168 prior to its amendment in 1986 (former § 168), or under any additional first year depreciation deduction provision of the Code (for example, § 168(k), § 168(l), § 1400L(b), or § 1400N(d)); and

(iv) that is owned by the taxpayer at the beginning of the year of change (but see section 6.07 of this revenue procedure for property disposed of before the year of change).

(b) Taxpayer has not adopted a method of accounting for the item of property. If a taxpayer does not satisfy section 6.01(1)(a)(i) of this revenue procedure for an item of depreciable or amortizable property because this item of property is placed in service by the taxpayer in the taxable year immediately preceding the year of change (“1-year depreciable property”), the taxpayer may change from the impermissible method of determining depreciation to the permissible method of determining depreciation for the 1-year depreciable property by filing a Form 3115 for this change, provided the § 481(a) adjustment reported on the Form 3115 includes the

amount of any adjustment that is attributable to all property (including the 1-year depreciable property) subject to the Form 3115. Alternatively, the taxpayer may change from the impermissible method of determining depreciation to the permissible method of determining depreciation for a 1-year depreciable property by filing an amended federal income tax return, or an administrative adjustment request under § 6227 (AAR), as applicable, for the property's placed-in-service year prior to the date the taxpayer files its federal income tax return for the taxable year succeeding the placed-in-service year.

(c) Inapplicability. This change does not apply to:

(i) any property to which § 1016(a)(3) (regarding property held by a tax-exempt organization) applies;

(ii) a taxpayer that is required under § 263A and the regulations thereunder to capitalize the costs with respect to which the taxpayer wants to change its method of accounting under this section 6.01 if the taxpayer is not capitalizing these costs, unless the taxpayer concurrently changes its method to capitalize these costs in conjunction with a change to a UNICAP method under section 12.01, 12.02, 12.08, or 12.12 of this revenue procedure (as applicable);

(iii) any property for which a taxpayer is making a change in depreciation under § 1.446-1(e)(2)(ii)(d)(2)(vi) or (vii);

(iv) any property subject to § 167(g) regarding property depreciated under the income forecast method;

(v) any § 1250 property that a taxpayer is reclassifying to an asset class of Rev. Proc. 87-56, 1987-2 C.B. 674 (as clarified and modified by Rev. Proc. 88-22, 1988-1 C.B. 785), or Rev. Proc. 83-35, 1983-1 C.B. 745, as appropriate, that does



not explicitly include § 1250 property (for example, asset class 57.0, Distributive Trades and Services);

(vi) any property for which a taxpayer is revoking a timely valid election, or making a late election, under § 167, § 168, § 179, § 1400I, § 1400L(c), former § 168, § 13261(g)(2) or (3) of the Revenue Reconciliation Act of 1993 (1993 Act), 1993-3 C.B. 1, 128 (relating to amortizable § 197 intangibles), or any additional first year depreciation deduction provision of the Code (for example, § 168(k), § 168(l), § 1400L(b), or § 1400N(d)). A taxpayer may request consent to revoke or make the election by submitting a request for a letter ruling under Rev. Proc. 2024-1, 2024-1 I.R.B. 1 (or successor). However, if a taxpayer is revoking or making an election under § 179, see § 179(c) and § 1.179-5. See § 1.446-1(e)(2)(ii)(d)(3)(iii);

(vii) any property for which depreciation is determined under § 56(g)(4)(A) (as in effect on the day before the date of enactment of the TCJA) or § 167 (other than under § 168, § 1400I, § 1400L(c), former § 168, or any additional first year depreciation deduction provision of the Code (for example, § 168(k), § 168(l), § 1400L(b), or § 1400N(d))) and a taxpayer is changing the useful life of the property. A change in the useful life of property is corrected by adjustments in the applicable taxable year provided under § 1.446-1(e)(2)(ii)(d)(5)(iv). However, this section 6.01(1)(c)(vii) does not apply if the taxpayer is changing to or from a useful life, recovery period, or amortization period that is specifically assigned by the Code (for example, § 167(f)(1), § 168(c)), the regulations thereunder, or other guidance published in the Internal Revenue Bulletin and, therefore, this change is a change in method of accounting (unless section 6.01(1)(c)(xv) of this revenue procedure applies). See § 1.446-1(e)(2)(ii)(d)(3)(i);

(viii) any depreciable property for which the use changes in the hands of the same taxpayer. See § 1.446-1(e)(2)(ii)(d)(3)(ii). But see sections 6.04 and 6.05 of this revenue procedure for changing to the methods of accounting provided in § 1.168(i)-1(c)(2)(ii)(I) or § 1.168(i)-1(h)(2), and § 1.168(i)-4, respectively;

(ix) any property for which depreciation is determined in accordance with § 1.167(a)-11 (regarding the Class Life Asset Depreciation Range System (ADR));

(x) any change in method of accounting involving a change from deducting the cost or other basis of any property as an expense to capitalizing and depreciating the cost or other basis, or vice versa (but see section 11.08 of this revenue procedure for making such a change in method of accounting under the final tangible property regulations);

(xi) any change in method of accounting involving a change from one permissible method of accounting for the property to another permissible method of accounting for the property. For example:

(A) a change from the straight-line method of depreciation to the income forecast method of depreciating for videocassettes. See Rev. Rul. 89-62, 1989-1 C.B. 78; or

(B) a change from charging the depreciation reserve with costs of removal and crediting the depreciation reserve with salvage proceeds to deducting costs of removal as an expense (provided the costs of removal are not required to be capitalized under any provision of the Code, such as § 263(a)) and including salvage proceeds in taxable income (see section 6.02 of this revenue procedure for making this change for property for which depreciation is determined under § 167);

(xii) any change in method of accounting involving both a change from treating the cost or other basis of the property as nondepreciable or nonamortizable property to treating the cost or other basis of the property as depreciable or amortizable property and the adoption of a method of accounting for depreciation requiring an election under § 167, § 168, § 1400I, § 1400L(c), former § 168, § 13261(g)(2) or (3) of the 1993 Act, or any additional first year depreciation deduction provision of the Code (for example, § 168(k), § 168(l), § 1400L(b), or § 1400N(d)) (for example, a change in the treatment of the space consumed in landfills placed in service in 2006 from nondepreciable to depreciable property (assuming section 6.01(1)(c)(xiii) of this revenue procedure does not apply) and the making of an election under § 168(f)(1) to depreciate this property under the unit-of-production method of depreciation under § 167);

(xiii) any change in method of accounting for any item of income or deduction other than depreciation, even if the change results in a change in computing depreciation under § 1.446-1(e)(2)(ii)(d)(2)(i), (ii), (iii), (iv), (v), (vi), (vii), or (viii). For example, a change in method of accounting involving:

(A) a change in inventory costs (for example, when property is reclassified from inventory property to depreciable property, or vice versa) (but see section 11.02 of this revenue procedure for making a change in method of accounting from inventory property to depreciable property for unrecoverable line pack gas or unrecoverable cushion gas, and section 11.06 of this revenue procedure for making a change in method of accounting from inventory property to depreciable property for rotatable spare parts); or

(B) a change in the character of a transaction from sale to lease, or vice versa (but see section 6.03 of this revenue procedure for making this change);

(xiv) a change from determining depreciation under § 168 to determining depreciation under former § 168 for any property subject to the transition rules in § 203(b) or § 204(a) of the Tax Reform Act of 1986, 1986-3 (Vol. 1) C.B. 1, 60-80;

(xv) any change in the placed-in-service date of a depreciable or amortizable property. This change is corrected by adjustments in the applicable taxable year provided under § 1.446-1(e)(2)(ii)(d)(5)(v);

(xvi) any property for which the taxpayer has claimed a federal income tax credit (e.g., the rehabilitation credit under § 47), unless the change does not alter the amount of the federal income tax credit;

(xvii) any qualified improvement property, as defined in § 168(e)(6), placed in service by the taxpayer after December 31, 2017, to which section 6.18 of this revenue procedure applies;

(xviii) any property to which section 4 or 5 of Rev. Proc. 2020-22, 2020-18 I.R.B. 745, applies. (See sections 4.02 and 4.03, or 5.02 of Rev. Proc. 2020-22, as applicable, for making any changes to depreciation for such property.);

(xix) any change in method of accounting to which section 6.20 of this revenue procedure applies; or

(xx) the change in method of accounting specified in section 6.21 of this revenue procedure.

(2) Certain eligibility rules inapplicable. The eligibility rule in section 5.01(1)(d) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, does not apply to this change. If

during any of the five taxable years ending with the year of change, a taxpayer requested or made a change in method of accounting from expensing to capitalizing, or vice versa, the cost or other basis of an asset, the eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13 is not applicable to a change under this section 6.01 for that same asset.

(3) Additional requirements. A taxpayer also must comply with the following:

(a) Permissible method of accounting for depreciation. A taxpayer must change to a permissible method of accounting for depreciation for the item of depreciable or amortizable property. The permissible method of accounting is the same method that determines the depreciation allowable for the item of property (as provided in section 6.01(7) of this revenue procedure).

(b) Statements required. A taxpayer (including a qualified small taxpayer as defined in section 6.01(4)(b) of this revenue procedure) must provide the following statements, if applicable, and attach them to the completed Form 3115:

(i) a detailed description of the present and proposed methods of accounting. A general description of these methods of accounting is unacceptable (for example, MACRS to MACRS, erroneous method to proper method, claiming less than the depreciation allowable to claiming the depreciation allowable);

(ii) to the extent not provided elsewhere on the Form 3115, a statement describing the taxpayer's business or income-producing activities. Also, if the taxpayer has more than one business or income-producing activity, a statement describing the taxpayer's business or income-producing activity in which the item of property at issue is primarily used by the taxpayer;

(iii) to the extent not provided elsewhere on the Form 3115, a statement of the facts and law supporting the proposed method of accounting, new classification of the item of property, and new asset class in, as appropriate, Rev. Proc. 87-56 or Rev. Proc. 83-35. If the taxpayer is the owner and lessor of the item of property at issue, the statement of the facts and law supporting the new asset class also must describe the business or income-producing activity in which that item of property is primarily used by the lessee;

(iv) to the extent not provided elsewhere on the Form 3115, a statement identifying the year in which the item of property was placed in service by the taxpayer;

(v) if any item of property is public utility property within the meaning of § 168(i)(10) or former § 167(l)(3)(A), as applicable, a statement providing that the taxpayer agrees to the following additional terms and conditions:

(A) a normalization method of accounting (within the meaning of former § 167(l)(3)(G), former § 168(e)(3)(B), or § 168(i)(9), as applicable) will be used for the public utility property subject to the Form 3115;

(B) as of the beginning of the year of change, the taxpayer will adjust its deferred tax reserve account or similar reserve account in the taxpayer's regulatory books of account by the amount of the deferral of federal income tax liability associated with the § 481(a) adjustment applicable to the public utility property subject to the Form 3115; and

(C) within 30 calendar days of filing the federal income tax return for the year of change, the taxpayer will provide a copy of the completed Form 3115 to

any regulatory body having jurisdiction over the public utility property subject to the Form 3115;

(vi) if the taxpayer is changing the classification of an item of § 1250 property placed in service after August 19, 1996, to a retail motor fuels outlet under § 168(e)(3)(E)(iii), a statement containing the following representation: “For purposes of § 168(e)(3)(E)(iii) of the Internal Revenue Code, the taxpayer represents that (A) 50 percent or more of the gross revenue generated from the item of § 1250 property is from the sale of petroleum products (not including gross revenue from related services, such as the labor cost of oil changes and gross revenue from the sale of nonpetroleum products such as tires and oil filters), (B) 50 percent or more of the floor space in the item of property is devoted to the sale of petroleum products (not including floor space devoted to related services, such as oil changes and floor space devoted to nonpetroleum products such as tires and oil filters), or (C) the item of § 1250 property is 1,400 square feet or less.”; and

(vii) if the taxpayer is changing the classification of an item of property from § 1250 property to § 1245 property under § 168 or former § 168, a statement of the facts and law supporting the new § 1245 property classification, and a statement containing the following representation: “Each item of depreciable property that is the subject of the Form 3115 filed under section 6.01 of Rev. Proc. 2024-23 for the year of change beginning [Insert the date], and that is reclassified from [Insert, as appropriate: nonresidential real property, residential rental property, qualified leasehold improvement property, qualified restaurant property, qualified retail improvement property, qualified improvement property as defined in § 168(e)(6) (as amended by § 13204 of the TCJA), 19-year real property, 18-year real property, or 15-year real

property] to an asset class of [Insert, as appropriate, either: Rev. Proc. 87-56, 1987-2 C.B. 674, or Rev. Proc. 83-35, 1983-1 C.B. 745] that does not explicitly include § 1250 property, is § 1245 property for depreciation purposes.”

(4) Reduced filing requirement for qualified small taxpayers.

(a) In general. A qualified small taxpayer, as defined in section 6.01(4)(b) of this revenue procedure, is required to complete only the following information on Form 3115 (Rev. December 2022) to make this change:

- (i) The identification section of page 1 (above Part I);
- (ii) The signature section at the bottom of page 1;
- (iii) Part I;
- (iv) Part II, all lines except lines 13, 15b, 16c, 17, and 19;
- (v) Part IV, all lines except line 25; and
- (vi) Schedule E.

(b) Definition of qualified small taxpayer. A “qualified small taxpayer” is a taxpayer whose average annual gross receipts, as determined under § 1.263(a)-3(h)(3), for the three preceding taxable years is less than or equal to \$10,000,000.

(5) Section 481(a) adjustment. Because the adjusted basis of the property is changed as a result of a method change made under this section 6.01 (see section 6.01(6) of this revenue procedure), items are duplicated or omitted. Accordingly, this change is made with a § 481(a) adjustment. This adjustment may result in either a negative § 481(a) adjustment (a decrease in taxable income) or a positive § 481(a) adjustment (an increase in taxable income) and may be a different amount for regular tax, alternative minimum tax, and adjusted current earnings purposes. This § 481(a) adjustment equals the difference between the total amount of depreciation taken into



account in computing taxable income for the property under the taxpayer's present method of accounting (including the amount attributable to any property described in section 6.01(1)(b) of this revenue procedure that is included in the taxpayer's Form 3115), and the total amount of depreciation allowable for the property under the taxpayer's proposed method of accounting (as determined under section 6.01(7) of this revenue procedure, and including the amount attributable to any property described in section 6.01(1)(b) of this revenue procedure that is included in the taxpayer's Form 3115), for open and closed years prior to the year of change. However, the amount of the § 481(a) adjustment must be adjusted to account for the proper amount of the depreciation allowable that is required to be capitalized under any provision of the Code (for example, § 263A) at the beginning of the year of change.

(6) Basis adjustment. As of the beginning of the year of change, the basis of depreciable property to which this section 6.01 applies must reflect the reductions required by § 1016(a)(2) for the depreciation allowable for the property (as determined under section 6.01(7) of this revenue procedure).

(7) Meaning of depreciation allowable.

(a) In general. Section 6.01(7) of this revenue procedure provides the amount of the depreciation allowable determined under § 56(a)(1), § 56(g)(4)(A) (as in effect on the day before the date of enactment of the TCJA), § 167, § 168, or § 197, or former § 168, § 1400I, or § 1400L(c). This amount, however, may be limited by other provisions of the Code (for example, § 280F).

(b) Section 56(a)(1) property. The depreciation allowable for any taxable year for property for which depreciation is determined under § 56(a)(1) is determined by

using the depreciation method, recovery period, and convention provided for under § 56(a)(1) that applies for the property's placed-in-service date.

(c) Section 56(g)(4)(A) property. The depreciation allowable for any taxable year for property for which depreciation is determined under § 56(g)(4)(A) (as in effect on the day before the date of enactment of the TCJA) is determined by using the depreciation method, recovery period or useful life, as applicable, and convention provided for under § 56(g)(4)(A) (as in effect on the day before the date of enactment of the TCJA) that applies for the property's placed-in-service date.

(d) Section 167 property. Generally, for any taxable year, the depreciation allowable for property for which depreciation is determined under § 167, is determined either:

(i) under the depreciation method adopted by the taxpayer for the property; or

(ii) if that depreciation method does not result in a reasonable allowance for depreciation or the taxpayer has not adopted a depreciation method for the property, under the straight-line depreciation method.

For determining the estimated useful life and salvage value of the property, see § 1.167(a)-1(b) and (c), respectively.

The depreciation allowable for any taxable year for property subject to § 167(f) (regarding certain property excluded from § 197) is determined by using the depreciation method and useful life prescribed in § 167(f). If computer software is depreciated under § 167(f)(1) and is qualified property (as defined in § 168(k)(2) as amended by the TCJA and § 1.168(k)-2), qualified property (as defined in § 168(k)(2) as in effect on the day before the date of enactment of the TCJA and § 1.168(k)-1), 50-

percent bonus depreciation property (as defined in § 168(k)(4) (as in effect on the day before the date of enactment of the Economic Stimulus Act of 2008, Pub. L. No. 110-185, 122 Stat. 613 (February 13, 2008)) and § 1.168(k)-1), qualified disaster assistance property (as defined in § 168(n)(2) (as in effect on the day before the date of enactment of the Tax Technical Corrections Act of 2018, Pub. L. No. 115-141, Division U, 132 Stat. 1211 (March 23, 2018)), qualified New York Liberty Zone (Liberty Zone) property (as defined in § 1400L(b)(2) (as in effect on the day before the date of enactment of the Tax Technical Corrections Act of 2018) and § 1.1400L(b)-1), qualified Gulf Opportunity Zone (GO Zone) property (as defined in § 1400N(d)(2) (as in effect on the day before the date of enactment of the Tax Technical Corrections Act of 2018) and sections 2.02 and 2.03 of Notice 2006-77, 2006-2 C.B. 590, as clarified, modified, and amplified by Notice 2007-36, 2007-1 C.B. 1000), specified Gulf Opportunity Zone extension property (GO Zone extension property) (as defined in § 1400N(d)(6) (as in effect on the day before the date of enactment of the Tax Technical Corrections Act of 2018) and section 4 of Notice 2007-36), or qualified Recovery Assistance (RA) property (as defined in sections 2.02 and 2.03 of Notice 2008-67, 2008-32 I.R.B. 307), the depreciation allowable for that computer software under § 167(f)(1) is also determined by taking into account the additional first year depreciation deduction provided by § 168(k), § 168(n) (as in effect on the day before the date of enactment of the Tax Technical Corrections Act of 2018), § 1400L(b) (as in effect on the day before the date of enactment of the Tax Technical Corrections Act of 2018), or § 1400N(d) (as in effect on the day before the date of enactment of the Tax Technical Corrections Act of 2018), or by § 15345(a)(1) and (d)(1) of the Food, Conservation, and Energy Act of 2008, Pub. L. No. 110-246, 122 Stat.

1651 (June 18, 2008), as applicable, unless the taxpayer made a timely valid election not to deduct any additional first year depreciation for the computer software.

(e) Section 168 property. The depreciation allowable for any taxable year for property for which depreciation is determined under § 168, is determined as follows:

(i) by using either:

(A) the general depreciation system in § 168(a); or

(B) the alternative depreciation system in § 168(g) if the property is required to be depreciated under the alternative depreciation system pursuant to § 168(g)(1) or other provisions of the Code (for example, property described in § 263A(e)(2)(A) or § 280F(b)(1)). Property required to be depreciated under the alternative depreciation system pursuant to § 168(g)(1) includes property in a class (as set out in § 168(e)) for which the taxpayer made a timely valid election under § 168(g)(7);

(ii) if the property is qualified property, 50-percent bonus depreciation property, qualified disaster assistance property, Liberty Zone property, GO Zone property, GO Zone extension property, or RA property, by also taking into account the additional first year depreciation deduction provided by § 168(k), § 168(n) (as in effect on the day before the date of enactment of the Tax Technical Corrections Act of 2018), § 1400L(b) (as in effect on the day before the date of enactment of the Tax Technical Corrections Act of 2018), or § 1400N(d) (as in effect on the day before the date of enactment of the Tax Technical Corrections Act of 2018), or by § 15345(a)(1) and (d)(1) of the Food, Conservation, and Energy Act of 2008, as applicable, unless the taxpayer made a timely valid election not to deduct the additional first year depreciation (or made

a deemed election not to deduct the additional first year depreciation; for further guidance, see, for example, Rev. Proc. 2002-33, 2002-1 C.B. 963, Rev. Proc. 2003-50, 2003-2 C.B. 119, Notice 2006-77, Notice 2008-67, section 5 of Rev. Proc. 2011-26, 2011-16 I.R.B. 664, Rev. Proc. 2015-48, 2015-40 I.R.B. 469, or Rev. Proc. 2019-33, 2019-34 I.R.B. 662) for the class of property (as defined in § 1.168(k)-2(f)(1)(ii), § 1.168(k)-1(e)(2), § 1.1400L(b)-1(e)(2), or section 4.02 of Notice 2006-77, as applicable) in which that property is included;

(iii) if the property is qualified second generation biofuel plant property (as defined in § 168(l)(2) and (3)) or qualified cellulosic biofuel plant property (as defined in former § 168(l)(2) and (3)), by also taking into account the additional first year depreciation deduction provided by § 168(l)(1), unless the taxpayer made a timely valid election not to deduct the additional first year depreciation for the property; and

(iv) if the property is qualified reuse and recycling property (as defined in § 168(m)(2)), by also taking into account the additional first year depreciation deduction provided by § 168(m)(1), unless the taxpayer made a timely valid election not to deduct the additional first year depreciation for the property.

(f) Section 197 property. The amortization allowable for any taxable year for an amortizable § 197 intangible (including any property for which a timely election under § 13261(g)(2) of the 1993 Act was made) is determined in accordance with § 1.197-2(f).

(g) Former § 168 property. The depreciation allowable for any taxable year for property subject to former § 168 is determined by using either:

(i) the accelerated method of cost recovery applicable to the property (for example, for 5-year property, the recovery method under former § 168(b)(1)); or

(ii) the straight-line method applicable to the property if the property is required to be depreciated under the straight-line method (for example, property described in former § 168(f)(2) or former § 280F(b)(2)) or if the taxpayer elected to determine the depreciation allowance under the optional straight-line percentage (for example, the straight-line method in former § 168(b)(3)).

(h) Qualified revitalization building. The depreciation allowable for any taxable year for any qualified revitalization building (as defined in § 1400I(b)(1) (as in effect on the day before the date of enactment of the Tax Technical Corrections Act of 2018)) for which the taxpayer has made a timely valid election under § 1400I(a) is determined as follows:

(i) if the taxpayer elected to deduct one-half of any qualified revitalization expenditures (as defined in § 1400I(b)(2) and as limited by § 1400I(c) (as in effect on the day before the date of enactment of the Tax Technical Corrections Act of 2018)) chargeable to a capital account with respect to the qualified revitalization building for the taxable year in which the building is placed in service by the taxpayer, the depreciation allowable for the qualified revitalization building's placed-in-service year is equal to one-half of the qualified revitalization expenditures for the building and the depreciation allowable for the remaining depreciable basis of the qualified revitalization building for its placed-in-service year and subsequent taxable years is determined using the general depreciation system of § 168(a) or the alternative depreciation system of § 168(g), as applicable; or

(ii) if the taxpayer elected to amortize all of the qualified revitalization expenditures chargeable to a capital account with respect to the qualified revitalization building ratably over the 120-month period beginning with the month in which the

building is placed in service, the depreciation allowable for the qualified revitalization expenditures is determined in accordance with this election and the depreciation allowable for the remaining depreciable basis of the qualified revitalization building is determined using the general depreciation system of § 168(a) or the alternative depreciation system of § 168(g), as applicable.

(i) Qualified New York Liberty Zone leasehold improvement property.

The depreciation allowable for any taxable year for qualified New York Liberty Zone leasehold improvement property (as defined in § 1400L(c)(2) (as in effect on the day before the date of enactment of the Tax Technical Corrections Act of 2018)) is determined by using the depreciation method and recovery period prescribed in § 1400L(c) (as in effect on the day before the date of enactment of the Tax Technical Corrections Act of 2018) unless the taxpayer made a timely valid election under § 1400L(c)(5) (as in effect on the day before the date of enactment of the Tax Technical Corrections Act of 2018) not to use that recovery period.

(8) Concurrent automatic change.

(a) A taxpayer making this change for more than one asset for the same year of change should file a single Form 3115 for all such assets and provide a single net § 481(a) adjustment for all the changes included in that Form 3115. If one or more of the changes in that single Form 3115 generate a negative § 481(a) adjustment and other changes in that same Form 3115 generate a positive § 481(a) adjustment, the taxpayer may provide a single negative § 481(a) adjustment for all the changes that are included in that Form 3115 generating such adjustment and a single positive § 481(a) adjustment for all the changes that are included in that Form 3115 generating such adjustment. For example, a taxpayer files a single Form 3115 to change the

depreciation methods, recovery periods, and/or conventions under § 168(a) resulting from the reclassification of two computers from nonresidential real property to 5-year property, one office desk from nonresidential real property to 7-year property, and two office desks from 5-year property to 7-year property. On that Form 3115, the taxpayer must provide either (i) a single net § 481(a) adjustment that covers all the changes resulting from all of these reclassifications, or (ii) a single negative § 481(a) adjustment that covers the changes resulting from the reclassifications of the two computers and one office desk from nonresidential real property to 5-year property and 7-year property, respectively, and a single positive § 481(a) adjustment that covers the changes resulting from the reclassifications of the two office desks from 5-year property to 7-year property.

(b) A taxpayer making both this change and a change to a UNICAP method under section 12.01, 12.02, 12.08, or 12.12 of this revenue procedure (as applicable) for the same year of change should file a single Form 3115 for both changes, in which case the taxpayer must enter the designated automatic accounting method change numbers for both changes on the appropriate line on that Form 3115. See section 6.03(1)(b) of Rev. Proc. 2015-13 for information on making concurrent changes. For example, a qualified small taxpayer must include on the single Form 3115 the information required by section 6.01(4)(a) of this revenue procedure for this change and the information required by the lines on Form 3115 applicable to the UNICAP method change, including Part II lines 14 and 15, Part IV, and Schedule D, and must include a separate response to each line on Form 3115 that is applicable to both changes (such as Part II lines 6b, 7, 8b, 14, and, as applicable for this change, Part IV)



for which the taxpayer's response is different for this change and the change to a UNICAP method.

(9) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 6.01 is "7."

(10) Contact information. For further information regarding a change under this section, contact James Liechty at (202) 317-7005 (not a toll-free number).

.02 Permissible to permissible method of accounting for depreciation.

(1) Description of change. This change applies to a taxpayer that wants to change from a permissible method of accounting for depreciation under § 56(g)(4)(A)(iv) (as in effect on the day before the date of enactment of Public Law 115-97, 131 Stat. 2054 (Dec. 22, 2017), commonly referred to as the Tax Cuts and Jobs Act (TCJA)) or § 167 to another permissible method of accounting for depreciation under § 56(g)(4)(A)(iv) (as in effect on the day before the date of enactment of the TCJA) or § 167. Pursuant to § 1.167(a)-7(a) and (c), a taxpayer may account for depreciable property either by treating each individual asset as an account or by combining two or more assets in a single account and, for each account, depreciation allowances are computed separately.

(2) Applicability.

(a) In general. This change applies to any taxpayer wanting to make a change in method of accounting for depreciation specified in section 6.02(4) of this revenue procedure for the property in an account:

(i) for which the present and proposed methods of accounting for depreciation specified in section 6.02(4) of this revenue procedure are permissible

methods for the property under § 56(g)(4)(A)(iv) (as in effect on the day before the date of enactment of the TCJA) or § 167; and

(ii) that is owned by the taxpayer at the beginning of the year of change.

(b) Inapplicability. This change does not apply to:

(i) a taxpayer that is required under § 263A and the regulations thereunder to capitalize the costs with respect to which the taxpayer wants to change its method of accounting under this section 6.02 if the taxpayer is not capitalizing these costs, unless the taxpayer concurrently changes its method to capitalize these costs in conjunction with a change to a UNICAP method under section 12.01, 12.02, 12.08, or 12.12 of this revenue procedure (as applicable);

(ii) any property to which § 1016(a)(3) (regarding property held by a tax-exempt organization) applies;

(iii) any property described in § 167(f) (regarding certain property excluded from § 197);

(iv) any property subject to § 167(g) (regarding property depreciated under the income forecast method);

(v) any property for which depreciation is determined under § 56(a)(1), § 56(g)(4)(A)(i), (ii), (iii), or (v) (as in effect on the day before the date of enactment of the TCJA), § 168, § 1400I (as in effect on the day before the date of enactment of the Tax Technical Corrections Act of 2018, Pub. L. No. 115-141, Division U, 132 Stat. 1211 (March 23, 2018)), § 1400L(c) (as in effect on the day before the date of enactment of the Tax Technical Corrections Act of 2018), § 168 prior to its amendment in 1986 (former § 168), or any additional first year depreciation deduction

provision of the Code (for example, § 168(k), § 168(l), § 1400L(b) (as in effect on the day before the date of enactment of the Tax Technical Corrections Act of 2018), or § 1400N(d) (as in effect on the day before the date of enactment of the Tax Technical Corrections Act of 2018));

(vi) any property that the taxpayer elected under § 168(f)(1) or former § 168(e)(2) to exclude from the application of, respectively, § 168 or former § 168;

(vii) any property for which depreciation is determined in accordance with § 1.167(a)-11 (ADR);

(viii) any depreciable property for which the taxpayer is changing the depreciation method pursuant to § 1.167(e)-1(b) (change from declining-balance method to straight-line method), § 1.167(e)-1(c) (certain changes for § 1245 property), or § 1.167(e)-1(d) (certain changes for § 1250 property). These changes must be made prospectively and are not permitted under the cited regulations for property for which the depreciation is determined under § 168, § 1400I (as in effect on the day before the date of enactment of the Tax Technical Corrections Act of 2018), § 1400L(c) (as in effect on the day before the date of enactment of the Tax Technical Corrections Act of 2018), former § 168, or any additional first year depreciation deduction provision of the Code (for example, § 168(k), § 168(l), § 1400L(b) (as in effect on the day before the date of enactment of the Tax Technical Corrections Act of 2018), or § 1400N(d) (as in effect on the day before the date of enactment of the Tax Technical Corrections Act of 2018)); or

(ix) any distributor commissions (as defined by section 2 of Rev. Proc. 2000-38, 2000-2 C.B. 310, as modified by Rev. Proc. 2007-16, 2007-1 C.B. 358) for which the taxpayer is changing the useful life under the distribution fee period

method or the useful life method (both described in Rev. Proc. 2000-38). A change in this useful life is corrected by adjustments in the applicable taxable year provided under § 1.446-1(e)(2)(ii)(d)(5)(iv).

(3) Certain eligibility rule inapplicable. The eligibility rule in section 5.01(1)(d) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, does not apply to this change.

(4) Changes covered. This section 6.02 only applies to the following changes in methods of accounting for depreciation:

(a) a change from the straight-line method to the sum-of-the-years-digits method, the sinking fund method, the unit-of-production method, or the declining-balance method using any proper percentage of the straight-line rate;

(b) a change from the declining-balance method using any percentage of the straight-line rate to the sum-of-the-years-digits method, the sinking fund method, or the declining-balance method using a different proper percentage of the straight-line rate;

(c) a change from the sum-of-the-years-digits method to the sinking fund method, the declining-balance method using any proper percentage of the straight-line rate, or the straight-line method;

(d) a change from the unit-of-production method to the straight-line method;

(e) a change from the sinking fund method to the straight-line method, the unit-of-production method, the sum-of-the-years-digits method, or the declining-balance method using any proper percentage of the straight-line rate;

(f) a change in the interest factor used in connection with a compound interest method or sinking fund method;

(g) a change in averaging convention as set forth in § 1.167(a)-10(b).

However, as specifically provided in § 1.167(a)-10(b), in any taxable year in which an averaging convention substantially distorts the depreciation allowance for the taxable year, it may not be used (see Rev. Rul. 73-202, 1973-1 C.B. 81);

(h) a change from charging the depreciation reserve with costs of removal and crediting the depreciation reserve with salvage proceeds to deducting costs of removal as an expense and including salvage proceeds in taxable income as set forth in § 1.167(a)-8(e)(2). See Rev. Rul. 74-455, 1974-2 C.B. 63. This section 6.02 applies to this change, however, only if:

(i) the change is applied to all items in the account for which the change is being made; and

(ii) the removal costs are not required to be capitalized under any provision of the Code (for example, § 263(a), § 263A, or § 280B);

(i) a change from crediting the depreciation reserve with the salvage proceeds realized on normal retirement sales to computing and recognizing gains and losses on the sales (see Rev. Rul. 70-165, 1970-1 C.B. 43);

(j) a change from crediting ordinary income (including the combination method of crediting the lesser of estimated salvage value or actual salvage proceeds to the depreciation reserve, with any excess of salvage proceeds over estimated salvage value credited to ordinary income) with the salvage proceeds realized on normal retirement sales, to computing and recognizing gains and losses on the sales (see Rev. Rul. 70-166, 1970-1 C.B. 44);

(k) a change from item accounting for specific assets to multiple asset accounting (pooling) for the same assets, or vice versa;

(l) a change from one type of multiple asset accounting (pooling) for specific assets to a different type of multiple asset accounting (pooling) for the same assets;

(m) a change from one method described in Rev. Proc. 2000-38 for amortizing distributor commissions (as defined by section 2 of Rev. Proc. 2000-38) to another method described in Rev. Proc. 2000-38 for amortizing distributor commissions; or

(n) a change from pooling to a single asset, or vice versa, for distributor commissions (as defined by section 2 of Rev. Proc. 2000-38) for which the taxpayer is using the distribution fee period method or the useful life method (both described in Rev. Proc. 2000-38).

(5) Additional requirements. A taxpayer also must comply with the following:

(a) Basis for depreciation. At the beginning of the year of change, the basis for depreciation of property to which this change applies is the adjusted basis of the property as provided in § 1011 at the end of the taxable year immediately preceding the year of change (determined under taxpayer's present method of accounting for depreciation). If applicable under the taxpayer's proposed method of accounting for depreciation, this adjusted basis is reduced by the estimated salvage value of the property (for example, a change to the straight-line method).

(b) Rate of depreciation. The rate of depreciation for property changed to:

(i) the straight-line or the sum-of-the-years-digits method of depreciation must be based on the remaining useful life of the property as of the beginning of the year of change; or

(ii) the declining-balance method of depreciation must be based on the useful life of the property measured from the placed-in-service date, and not the expected remaining life from the date the change becomes effective.

(c) Regulatory requirements. For changes in method of depreciation to the sum-of-the-years-digits or declining-balance method, the property must meet the requirements of § 1.167(b)-0 or § 1.167(c)-1, as appropriate.

(d) Public utility property. If any item of property is public utility property within the meaning of former § 167(l)(3)(A), the taxpayer (including a qualified small taxpayer as defined in section 6.01(4)(b) of this revenue procedure) must attach to the Form 3115 a statement providing that the taxpayer agrees to the following additional terms and conditions:

(i) a normalization method of accounting within the meaning of former § 167(l)(3)(G) will be used for the public utility property subject to the Form 3115; and

(ii) within 30 calendar days of filing the federal income tax return for the year of change, the taxpayer will provide a copy of the completed Form 3115 to any regulatory body having jurisdiction over the public utility property subject to the Form 3115.

(6) Reduced filing requirement for qualified small taxpayers. A qualified small taxpayer, as defined in section 6.01(4)(b) of this revenue procedure, is required to complete only the following information on Form 3115 (Rev. December 2022) to make this change:

(a) The identification section of page 1 (above Part I);

(b) The signature section at the bottom of page 1;

- (c) Part I;
- (d) Part II, all lines except lines 13, 15b, 16, 17, and 19;
- (e) Part IV, line 25; and
- (f) Schedule E.

(7) Section 481(a) adjustment. Because the adjusted basis of the property is not changed as a result of a method change made under this section 6.02, no items are being duplicated or omitted. Accordingly, a § 481(a) adjustment is neither required nor permitted.

(8) Concurrent automatic change.

(a) A taxpayer making this change for more than one asset for the same year of change should file a single Form 3115 for all such assets.

(b) A taxpayer making both this change and a change to a UNICAP method under section 12.01, 12.02, 12.08, or 12.12 of this revenue procedure (as applicable) for the same year of change should file a single Form 3115 for both changes, in which case the taxpayer must enter the designated automatic accounting method change numbers for both changes on the appropriate line on that Form 3115. See section 6.03(1)(b) of Rev. Proc. 2015-13 for information on making concurrent changes. For example, a qualified small taxpayer must include on the single Form 3115 the information required by section 6.02(6) of this revenue procedure for this change and the information required by the lines on Form 3115 applicable to the UNICAP method change, including Part II lines 14 and 15, Part IV, and Schedule D, and must include a separate response to each line on Form 3115 that is applicable to both changes (such as Part II lines 6b, 7, 8b, 14, and, as applicable for this change, Part IV)



for which the taxpayer's response is different for this change and the change to a UNICAP method.

(9) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 6.02 is "8."

(10) Contact information. For further information regarding a change under this section, contact Bruce Chang at (202) 317-7005 (not a toll-free number).

.03 Sale, lease, or financing transactions.

(1) Description of change and scope.

(a) Applicability. This change applies to a taxpayer that wants to change its method of accounting from:

(i) improperly treating property as sold by the taxpayer to properly treating property as leased or financed by the taxpayer;

(ii) improperly treating property as leased by the taxpayer to properly treating property as sold or financed by the taxpayer;

(iii) improperly treating property as financed by the taxpayer to properly treating property as sold or leased by the taxpayer;

(iv) improperly treating property as purchased by the taxpayer to properly treating property as leased by the taxpayer; and

(v) improperly treating property as leased by the taxpayer to properly treating property as purchased by the taxpayer.

(b) Inapplicability. This change does not apply to:

(i) a rent-to-own dealer that wants to change its method of accounting for rent-to-own contracts described in section 3 of Rev. Proc. 95-38, 1995-2 C.B. 397; or

(ii) a taxpayer that holds assets for sale or lease, if any asset so held is not the subject of a sale or lease transaction as of the beginning of the year of change.

(2) Manner of making the change.

(a) Required statement. A taxpayer changing its method of accounting under this section 6.03 must submit a statement with the Form 3115 that provides the name of the counterparty to the sale, lease, or financing transactions as of the beginning of the year of change.

(b) Section 481(a) adjustment. A change under this section 6.03 is made with a § 481(a) adjustment.

(3) No ruling on the characterization of any transaction as a sale, lease, or financing transaction. The consent granted under section 9 of Rev. Proc. 2015-13 for a change specified in this section 6.03 is not a determination by the Commissioner that the taxpayer has properly characterized any transaction as a sale, lease, or financing transaction and does not create any presumption that the proposed characterization of any transaction as a sale, lease, or financing transaction is permissible. The director will ascertain whether the taxpayer's characterization of any transaction as a sale, lease, or financing transaction is permissible.

(4) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 6.03 is "10."

(5) Contact information. For further information regarding a change under this section, contact Edward Schwartz at (202) 317-7006 (not a toll-free number).

.04 Change in general asset account treatment due to a change in the use of MACRS property.

(1) Description of change.

(a) Applicability. This change applies to a taxpayer that wants to change the method of accounting for general asset account treatment of MACRS property (as defined in § 1.168(b)-1(a)(2)) to the method of accounting provided in § 1.168(i)-1(c)(2)(ii)(I) or § 1.168(i)-1(h)(2), which applies when there is a change in the use of MACRS property pursuant to § 1.168(i)-4(d).

(b) Taxpayer has not adopted a method of accounting for the item of property. If a taxpayer does not satisfy section 6.04(1)(a) of this revenue procedure for an item of MACRS property because a change in the use of this item of MACRS property occurred in the taxable year immediately preceding the year of change (1-year change in use property), the taxpayer may change from the impermissible method for general asset account treatment to the permissible method provided in § 1.168(i)-1(c)(2)(ii)(I) or § 1.168(i)-1(h)(2) for the 1-year change in use property by filing a Form 3115. Alternatively, the taxpayer may change from the impermissible method for general asset account treatment to the permissible method provided in § 1.168(i)-1(c)(2)(ii)(I) or § 1.168(i)-1(h)(2) for a 1-year change in use property by filing an amended federal income tax return, or an administrative adjustment request under § 6227 (AAR), as applicable, for the year of change in the use of such property provided such filing occurs prior to the date the taxpayer files its federal income tax return for the taxable year succeeding the year of change in the use of such property.

(c) Inapplicability.

(i) The change described in section 6.04(1)(a) of this revenue procedure does not apply to any property to which section 4.05 of Rev. Proc. 2020-22, 2020-18 I.R.B. 745, applies unless the taxpayer and property are within the scope of Rev. Proc. 2021-28, 2021-27 I.R.B. 5. (See sections 4.02 and 4.03 of Rev. Proc. 2020-22, as applicable, for making such changes for such property.); and

(ii) The change described in section 6.04(1)(a) of this revenue procedure does not apply to any property to which section 5.04 of Rev. Proc. 2020-22, 2020-18 I.R.B. 745, applies. (See section 5.02 of Rev. Proc. 2020-22 for making such change for such property.).

(2) Certain eligibility rules inapplicable.

(a) In general. The eligibility rule in section 5.01(1)(d) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, does not apply to a taxpayer making this change.

(b) Special rule. The eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, does not apply to a taxpayer within the scope of section 3 of Rev. Proc. 2021-28, 2021-27 I.R.B. 5, making this change for any residential rental property within the scope of section 3 of Rev. Proc. 2021-28 for a taxable year beginning in 2019, 2020, 2021, or 2022.

(3) Manner of making change.

(a) The change is made on a modified cut-off basis (as defined in § 1.446-1(e)(2)(ii)(d)(5)(iii)) and, thus, the adjusted depreciable basis of the MACRS property as of the beginning of the year of change is recovered using the proposed method of accounting for general asset account treatment. Accordingly, a § 481(a) adjustment is neither permitted nor required. See § 1.168(i)-1(h)(2)(ii) and (iii) for more information

regarding how to establish the general asset account when a change in the use of MACRS property occurs pursuant to § 1.168(i)-4(d).

(b) Reduced filing requirement for qualified small taxpayers. A qualified small taxpayer, as defined in section 6.01(4)(b) of this revenue procedure, is required to complete only the following information on Form 3115 (Rev. December 2022) to make this change:

- (i) The identification section of page 1 (above Part I);
- (ii) The signature section at the bottom of page 1;
- (iii) Part I;
- (iv) Part II, all lines except lines 13, 15b, 16, 17, and 19;
- (v) Part IV, line 25; and
- (vi) Schedule E, all lines except lines 1, 4c, 5, 6, 7b, and 7c.

(4) Concurrent automatic change.

(a) A taxpayer making this change for more than one asset for the same year of change should file a single Form 3115 for all such assets.

(b) A taxpayer making this change and a change under section 6.05, section 6.12(3)(b), and/or section 6.15 of this revenue procedure for the same year of change should file a single Form 3115 for all such changes and must enter the designated automatic accounting method change numbers for the changes on the appropriate line on the Form 3115. See section 6.03(1)(b) of Rev. Proc. 2015-13 for information on making concurrent changes.

(5) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 6.04 is “87.”

(6) Contact information. For further information regarding a change under this section, contact Elizabeth Binder at (202) 317-7005 (not a toll-free number).

.05 Change in method of accounting for depreciation due to a change in the use of MACRS property.

(1) Description of change.

(a) Applicability. This change applies to a taxpayer that wants to (i) change the method of accounting for depreciation of MACRS property (as defined in § 1.168(b)-1(a)(2)) to the method of accounting for depreciation provided in § 1.168(i)-4, which applies when there is a change in the use of MACRS property, or (ii) revoke the election provided in § 1.168(i)-4(d)(3)(ii) to disregard a change in the use of MACRS property. See § 1.168(i)-4(g)(2).

(b) Taxpayer has not adopted a method of accounting for the item of property. If a taxpayer does not satisfy section 6.05(1)(a)(i) of this revenue procedure for an item of MACRS property because a change in the use of this item of MACRS property occurred in the taxable year immediately preceding the year of change (1-year change in use property), the taxpayer may change from the impermissible method of determining depreciation to the permissible method of determining depreciation provided in § 1.168(i)-4 for the 1-year change in use property by filing a Form 3115 for this change, provided the § 481(a) adjustment reported on the Form 3115 includes the amount of any adjustment that is attributable to all property (including the 1-year change in use property) subject to the Form 3115. Alternatively, the taxpayer may change from the impermissible method of determining depreciation to the permissible method of determining depreciation provided in § 1.168(i)-4 for a 1-year change in use property by filing an amended federal income tax return, or an administrative adjustment request

under § 6227 (AAR), as applicable, for the year of change in the use of such property provided such filing occurs prior to the date the taxpayer files its federal income tax return for the taxable year succeeding the year of change in the use of such property.

(c) Inapplicability.

(i) The change described in section 6.05(1)(a)(i) of this revenue procedure does not apply to any property to which section 4.05 of Rev. Proc. 2020-22, 2020-18 I.R.B. 745, applies unless the taxpayer and property are within the scope of Rev. Proc. 2021-28, 2021-27 I.R.B. 5. (See sections 4.02 and 4.03, or 5.02 of Rev. Proc. 2020-22, as applicable, for making such change for such property.);

(ii) The change described in section 6.05(1)(a)(i) of this revenue procedure does not apply to any property to which section 5.04 of Rev. Proc. 2020-22, 2020-18 I.R.B. 745, applies. (See section 5.02 of Rev. Proc. 2020-22 for making such change for such property.); and

(iii) The change described in this section 6.05 does not apply to any property that is not owned by the taxpayer at the beginning of the year of change.

(2) Certain eligibility rules inapplicable.

(a) In general. The eligibility rule in section 5.01(1)(d) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, does not apply to a taxpayer making this change.

(b) Special rule. The eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, does not apply to a taxpayer within the scope of section 3 of Rev. Proc. 2021-28, 2021-27 I.R.B. 5, making this change for any residential rental property within the scope of section 3 of Rev. Proc. 2021-28 for a taxable year beginning in 2019, 2020, 2021, or 2022.

(3) Reduced filing requirement for qualified small taxpayers. A qualified small taxpayer, as defined in section 6.01(4)(b) of this revenue procedure, is required to complete only the following information on Form 3115 (Rev. December 2022) to make this change:

- (a) The identification section of page 1 (above Part I);
- (b) The signature section at the bottom of page 1;
- (c) Part I;
- (d) Part II, all lines except lines 13, 15b, 16, 17, and 19;
- (e) Part IV, all lines except line 25; and
- (f) Schedule E, all lines except lines 1, 4c, 5, 6, 7b, and 7c.

(4) Section 481(a) adjustment. A taxpayer changing its method of accounting under this section 6.05 is required to calculate a § 481(a) adjustment as of the first day of the year of change as if the proposed method of accounting had always been used by the taxpayer beginning with the taxable year in which the change in the use of the MACRS property occurred by the taxpayer.

(5) Concurrent automatic change.

(a) A taxpayer making this change for more than one asset for the same year of change should file a single Form 3115 for all such assets and provide a single net § 481(a) adjustment for all the changes included in that Form 3115. If one or more of the changes in that single Form 3115 generate a negative § 481(a) adjustment and other changes in that same Form 3115 generate a positive § 481(a) adjustment, the taxpayer may provide a single negative § 481(a) adjustment for all the changes that are included in that Form 3115 generating such adjustment and a single positive § 481(a)



adjustment for all the changes that are included in that Form 3115 generating such adjustment.

(b) A taxpayer making this change and a change under section 6.04, section 6.12(3)(b), and/or section 6.15 of this revenue procedure for the same year of change should file a single Form 3115 for all such changes and must enter the designated automatic accounting method change numbers for the changes on the appropriate line on the Form 3115. See section 6.03(1)(b) of Rev. Proc. 2015-13 for information on making concurrent changes.

(6) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 6.05 is “88.”

(7) Contact information. For further information regarding a change under this section, contact Elizabeth Binder at (202) 317-7005 (not a toll-free number).

.06 Depreciation of qualified non-personal use vans and light trucks.

(1) Description of change. This change applies to a taxpayer that wants to change the method of accounting for depreciation for certain vehicles in accordance with § 1.280F-6(f)(2)(iv). Section 1.280F-6(f)(2)(iv) applies to a truck or van that is a qualified nonpersonal use vehicle as defined under § 1.274-5T(k), was placed in service by the taxpayer before July 7, 2003, and was treated by the taxpayer as a passenger automobile under § 1.280F-6T as in effect prior to July 7, 2003. If the taxpayer files Form 3115, in accordance with § 1.280F-6(f)(2)(iv), the treatment of the truck or van will be changed from property to which § 280F(a) applies to property to which § 280F(a) does not apply.

(2) Reduced filing requirement for qualified small taxpayers. A qualified small taxpayer, as defined in section 6.01(4)(b) of this revenue procedure, is required to complete only the following information on Form 3115 (Rev. December 2022) to make this change:

- (a) The identification section of page 1 (above Part I);
- (b) The signature section at the bottom of page 1;
- (c) Part I;
- (d) Part II, all lines except lines 13, 15b, 16, 17, and 19;
- (e) Part IV, all lines except line 25; and
- (f) Schedule E.

(3) Concurrent automatic change. A taxpayer making this change for more than one asset for the same year of change should file a single Form 3115 for all such assets and provide a single net § 481(a) adjustment for all the changes included in that Form 3115. If one or more of the changes in that single Form 3115 generate a negative § 481(a) adjustment and other changes in that same Form 3115 generate a positive § 481(a) adjustment, the taxpayer may provide a single negative § 481(a) adjustment for all the changes that are included in that Form 3115 generating such adjustment and a single positive § 481(a) adjustment for all the changes that are included in that Form 3115 generating such adjustment.

(4) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 6.06 is “89.”

(5) Contact information. For further information regarding a change under this section, contact C. Dylan Durham at (202) 317-7005 (not a toll-free number).

.07 Impermissible to permissible method of accounting for depreciation or amortization for disposed depreciable or amortizable property.

(1) Description of change. This change applies to a taxpayer that wants to make the change in method of accounting for depreciation or amortization (depreciation) provided under section 3 of Rev. Proc. 2007-16, 2007-1 C.B. 358, for an item of depreciable or amortizable property that has been disposed of by the taxpayer. Section 3 of Rev. Proc. 2007-16 allows a taxpayer to make a change in method of accounting for depreciation for the disposed property if the taxpayer used an impermissible method of accounting for depreciation for the property under which the taxpayer did not take into account any depreciation allowance, or did take into account some depreciation but less than the depreciation allowable, in the year of change (as defined in section 6.07(4) of this revenue procedure) or any prior taxable year.

(2) Applicability.

(a) In general. Except as provided in section 6.07(2)(b) of this revenue procedure, this section 6.07 applies to a taxpayer that is changing from an impermissible method of accounting for depreciation to a permissible method of accounting for depreciation for any item of depreciable or amortizable property subject to §§ 167, 168, 197, 1400I, or 1400L(c), to former § 168, or to any additional first year depreciation deduction provision of the Code (for example, § 168(k), § 168(l), § 1400L(b), or § 1400N(d)):

(i) that has been disposed of by the taxpayer during the year of change (as defined in section 6.07(4) of this revenue procedure); and

(ii) for which the taxpayer did not take into account any depreciation allowance, or did take into account some depreciation but less than the depreciation

allowable (hereinafter, both are referred to as “claimed less than the depreciation allowable”), in the year of change (as defined in section 6.07(4) of this revenue procedure) or any prior taxable year.

(b) Inapplicability. This section 6.07 does not apply to:

(i) any property to which § 1016(a)(3) (regarding property held by a tax-exempt organization) applies;

(ii) any property for which a taxpayer is revoking a timely valid depreciation election, or making a late depreciation election, under the Code or regulations thereunder, or under other guidance published in the Internal Revenue Bulletin (including under § 13261(g)(2) or (3) of the Revenue Reconciliation Act of 1993 (1993 Act), 1993-3 C.B. 1, 128 (relating to amortizable § 197 intangibles));

(iii) any property for which the taxpayer deducted the cost or other basis of the property as an expense; or

(iv) any property disposed of by the taxpayer in a transaction to which a nonrecognition section of the Code applies (for example, § 1031, transactions subject to § 168(i)(7)(B)). However, this section 6.07(2)(b)(iv) does not apply to property disposed of by the taxpayer in a § 1031 or § 1033 transaction if the taxpayer elects under § 1.168(i)-6(i) and (j) to treat the entire basis (that is, both the exchanged and excess basis (as defined in § 1.168(i)-6(b)(7) and (8), respectively) of the replacement MACRS property (as defined in § 1.168(i)-6(b)(1)) as property placed in service by the taxpayer at the time of replacement and treat the adjusted depreciable basis of the relinquished MACRS property (as defined in § 1.168(i)-6(b)(2)) as being disposed of by the taxpayer at the time of disposition.

(3) Manner of making the change.

(a) Change made on an original return for the year of change. This change may be made on a taxpayer's timely filed (including any extension) original federal tax return for the year of change (as defined in section 6.07(4) of this revenue procedure), provided the taxpayer files the original Form 3115 in accordance with section 6.03(1)(a) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419.

(b) Change made on an amended return or an AAR for the year of change. This change may also be made on an amended federal income tax return, or administrative adjustment request under § 6227 (AAR), as applicable, for the year of change (as defined in section 6.07(4) of this revenue procedure), provided:

(i)(A) the taxpayer files the original Form 3115 with the taxpayer's amended federal income tax return for the year of change (as defined in section 6.07(4) of this revenue procedure) prior to the expiration of the period of limitation for assessment under § 6501(a) for the taxable year in which the item of depreciable or amortizable property was disposed of by the taxpayer, or if applicable (B) the partnership subject to the centralized partnership audit regime enacted as part of the Bipartisan Budget Act of 2015 (BBA partnership) files the original Form 3115 with its AAR for the year of change (as defined in section 6.07(4) of this revenue procedure) prior to the expiration of the applicable period of limitations for making adjustments under § 6235 for the reviewed year as defined in § 301.6241-1(a)(8) of the Procedure and Administration Regulations; and

(ii) the taxpayer's amended federal income tax return, or AAR, as applicable, for the year of change (as defined in section 6.07(4) of this revenue procedure) includes the adjustments to taxable income and any collateral adjustments to taxable income or tax liability (for example, adjustments to the amount or character of

the gain or loss of the disposed depreciable or amortizable property) resulting from the change in method of accounting for depreciation made by the taxpayer under this section 6.07.

(4) Year of change. The year of change for this change is the taxable year in which the item of depreciable or amortizable property was disposed of by the taxpayer.

(5) Certain eligibility rules inapplicable. The eligibility rules in sections 5.01(1)(d) and (f) of Rev. Proc. 2015-13 do not apply to this change.

(6) Filing requirements.

(a) Notwithstanding section 6.03(1)(a) of Rev. Proc. 2015-13, a taxpayer making this change in accordance with section 6.07(3)(b) of this revenue procedure must attach the original Form 3115 to the taxpayer's timely filed amended federal income tax return, or AAR, as applicable, for the year of change and must file the required duplicate copy (with signature) of the Form 3115 with the IRS in Ogden, UT, no later than when the original Form 3115 is filed with the amended federal income tax return, or AAR, as applicable, for the year of change. If a taxpayer is making this change in accordance with section 6.07(3)(a) of this revenue procedure, the filing requirements in section 6.03(1)(a) of Rev. Proc. 2015-13 apply.

(b) Reduced filing requirement for qualified small taxpayers. A qualified small taxpayer, as defined in section 6.01(4)(b) of this revenue procedure, is required to complete only the following information on Form 3115 (Rev. December 2022) to make this change:

- (i) The identification section of page 1 (above Part I);
- (ii) The signature section at the bottom of page 1;
- (iii) Part I;

(iv) Part II, all lines except lines 13, 15b, 16, 17, and 19;

(v) Part IV, all lines except line 25; and

(vi) Schedule E.

(7) Section 481(a) adjustment period. A taxpayer must take the entire § 481(a) adjustment into account in computing taxable income for the year of change.

(8) Concurrent automatic change. A taxpayer making this change for more than one asset for the same year of change should file a single Form 3115 for all such assets.

(9) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 6.07 is “107.”

(10) Contact information. For further information regarding a change under this section, contact James Liechty at (202) 317-7005 (not a toll-free number).

#### .08 Tenant construction allowances.

##### (1) Description of change and scope.

(a) Applicability. This change applies to a taxpayer that wants to change its method of accounting for tenant construction allowances:

(i) from improperly treating the taxpayer as having a depreciable interest in the property subject to the tenant construction allowances for federal income tax purposes to properly treating the taxpayer as not having a depreciable interest in such property for federal income tax purposes; or

(ii) from improperly treating the taxpayer as not having a depreciable interest in the property subject to the tenant construction allowances for federal income

tax purposes to properly treating the taxpayer as having a depreciable interest in such property for federal income tax purposes.

(b) Inapplicability. This change does not apply to:

(i) any tenant construction allowance that qualifies under § 110;

(ii) any portion of a tenant construction allowance that is not expended on depreciable property; or

(iii) any amount expended for depreciable property in excess of the tenant construction allowance.

(2) Definition. For purposes of this section 6.08, the term “tenant construction allowance(s)” means any amount received by a lessee from a lessor to construct, acquire, or improve property for use by the lessee pursuant to a lease.

(3) Manner of making the change. A taxpayer changing its method of accounting under this section 6.08 must submit the following information:

(a) If a lessee is filing the Form 3115, the lessee must submit a statement with the Form 3115 that provides the amount of the tenant construction allowance received by the lessee, the amount of such tenant construction allowance expended by the lessee on property, and the name of the lessor that provided the tenant construction allowance.

(b) If a lessor is filing the Form 3115, the lessor must submit a statement with the Form 3115 that provides the amount of the tenant construction allowance provided to the lessee and the name of the lessee that received such tenant construction allowance.

(4) Reduced filing requirement for qualified small taxpayers. A qualified small taxpayer, as defined in section 6.01(4)(b) of this revenue procedure, is required to



complete only the following information on Form 3115 (Rev. December 2022) to make this change in accordance with section 6.08(3)(a) of this revenue procedure:

- (a) The identification section of page 1 (above Part I);
- (b) The signature section at the bottom of page 1;
- (c) Part I;
- (d) Part II, all lines except lines 13, 15b, 16, 17, and 19;
- (e) Part IV, line 25; and
- (f) Schedule E.

(5) No ruling on which party has the depreciable interest in the property subject to tenant construction allowances. The consent granted under section 9 of Rev. Proc. 2015-13 for a change specified in this section 6.08 is not a determination by the Commissioner that the taxpayer has properly determined that the taxpayer has, or does not have, a depreciable interest in the property subject to the tenant construction allowances for federal income tax purposes and does not create any presumption that the proposed determination of which party has the depreciable interest in such property is permissible. The director will ascertain whether the taxpayer's determination of which party has the depreciable interest in the property subject to the tenant construction allowances is permissible.

(6) Concurrent automatic change. A taxpayer making this change for more than one asset for the same year of change should file a single Form 3115 for all such assets.

(7) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 6.08 is "145."

(8) Contact information. For further information regarding a change under this section, contact Elizabeth Binder at (202) 317-7005 (not a toll-free number).

.09 Safe harbor method of accounting for determining the depreciation of certain tangible assets used by wireless telecommunications carriers under Rev. Proc. 2011-22.

(1) Description of change. This change applies to a taxpayer that is within the scope of Rev. Proc. 2011-22, 2011-18 I.R.B. 737, and wants to change to the recovery periods described in section 5 of Rev. Proc. 2011-22 and any collateral change to the depreciation methods for all, or some of, the assets listed in that section.

(2) Reduced filing requirement for qualified small taxpayers. A qualified small taxpayer, as defined in section 6.01(4)(b) of this revenue procedure, is required to complete only the following information on Form 3115 (Rev. December 2022) to make this change:

- (a) The identification section of page 1 (above Part I);
- (b) The signature section at the bottom of page 1;
- (c) Part I;
- (d) Part II, all lines except lines 13, 15b, 16, 17, and 19;
- (e) Part IV, all lines except line 25; and
- (f) Schedule E.

(3) Concurrent automatic change. A taxpayer making this change for more than one asset for the same year of change should file a single Form 3115 for all such assets and provide a single net § 481(a) adjustment for all the changes included in that Form 3115. If one or more of the changes in that single Form 3115 generate a negative § 481(a) adjustment and other changes in that same Form 3115 generate a positive

§ 481(a) adjustment, the taxpayer may provide a single negative § 481(a) adjustment for all the changes that are included in that Form 3115 generating such adjustment and a single positive § 481(a) adjustment for all the changes that are included in that Form 3115 generating such adjustment.

(4) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 6.09 is “157.”

(5) Contact information. For further information regarding a change under this section, contact Charles Magee at (202) 317-7005 (not a toll-free number).

.10 Partial dispositions of tangible depreciable assets to which the IRS’s adjustment pertains (§ 168; § 1.168(i)-8).

(1) Description of change.

(a) Applicability. This change applies to a taxpayer that is described in § 1.168(i)-8(d)(2)(iii) and, pursuant to § 1.168(i)-8(d)(2)(iii), that wants to make the partial disposition election specified in § 1.168(i)-8(d)(2)(i) to the disposition of a portion of an asset to which the IRS’s adjustment (as described in § 1.168(i)-8(d)(2)(iii)) pertains.

(b) Inapplicability. This change does not apply to:

(i) Any asset of which the disposed portion was a part that is not owned by the taxpayer at the beginning of the year of change; or

(ii) Any partial disposition election specified in § 1.168(i)-8(d)(2)(i) that is not made pursuant to § 1.168(i)-8(d)(2)(iii) (for example, this change does not apply to the partial disposition election specified in § 1.168(i)-8(d)(2)(i) that is made pursuant to § 1.168(i)-8(d)(2)(iv)).

(2) Change in method of accounting. The IRS will treat the making of the late election specified in section 6.10(1) of this revenue procedure as a change in method of accounting.

(3) Certain eligibility rules inapplicable. The eligibility rules in sections 5.01(1)(d) and (f) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, do not apply to this change.

(4) Manner of making change.

(a) A qualified small taxpayer, as defined in section 6.01(4)(b) of this revenue procedure, is required to complete only the following information on Form 3115 (Rev. December 2022) to make this change:

- (i) The identification section of page 1 (above Part I);
- (ii) The signature section at the bottom of page 1;
- (iii) Part I;
- (iv) Part II, all lines except lines 13, 15b, 16, 17, and 19;
- (v) Part IV, all lines except line 25; and
- (vi) Schedule E.

(b) A taxpayer (including a qualified small taxpayer) making this change must:

- (i) Apply § 1.168(i)-8(h)(1) and (3) (accounting for asset disposed of);
- (ii) If the asset (as determined under § 1.168(i)-8(c)(4)) of which the disposed portion is a part is properly included in one of the asset classes 00.11 through 00.4 of Rev. Proc. 87-56, 1987-2 C.B. 674, classify the replacement portion of such asset under the same asset class as the disposed portion of the asset in the taxable year in which the replacement portion is placed in service by the taxpayer;

(iii) If the taxpayer's present method of accounting is not in accord with § 1.168(i)-8(c)(4) (determination of asset disposed of), change to the appropriate asset as determined under § 1.168(i)-8(c)(4);

(iv) If the taxpayer continues to deduct depreciation for the disposed portion of the asset (as determined under § 1.168(i)-8(c)(4)) under the taxpayer's present method of accounting, change from depreciating such disposed portion to recognizing gain or loss for the disposed portion or, if § 280B and § 1.280B-1 apply to the disposition, change from depreciating such disposed portion to capitalizing the loss sustained on account of the demolition to the land on which the demolished structure was located; and

(v) If any asset is public utility property within the meaning of § 168(i)(10), attach a statement to its Form 3115 providing that the taxpayer agrees to the following additional terms and conditions:

(A) A normalization method of accounting (within the meaning of § 168(i)(9)) will be used for the public utility property subject to the Form 3115;

(B) Within 30 calendar days of filing the federal income tax return for the year of change, the taxpayer will provide a copy of the completed Form 3115 to any regulatory body having jurisdiction over the public utility property subject to the Form 3115; and

(C) As of the beginning of the year of change, the taxpayer will adjust its deferred tax reserve account or similar account in the taxpayer's regulatory books of account by the amount of the deferral of federal income tax liability associated with the § 481(a) adjustment applicable to the public utility property subject to the Form 3115.

(5) Concurrent automatic change. A taxpayer making this change for more than one asset for the same year of change should file a single Form 3115 for all such assets. If the change for more than one asset included in that Form 3115 is specified in section 6.10(1) of this revenue procedure, the single Form 3115 should provide a single net § 481(a) adjustment for all such changes. If one or more of the changes specified in section 6.10(1) of this revenue procedure in that single Form 3115 generate a negative § 481(a) adjustment and other changes specified in section 6.10(1) of this revenue procedure in that same Form 3115 generate a positive § 481(a) adjustment, the taxpayer may provide a single negative § 481(a) adjustment for all such changes that are included in that Form 3115 generating such negative adjustment and a single positive § 481(a) adjustment for all such changes that are included in that Form 3115 generating such positive adjustment.

(6) Designated automatic accounting method change number. The designated automatic accounting method change number for a change to the method of accounting under this section 6.10 is “198.”

(7) Contact information. For further information regarding a change under this section, contact Patrick Clinton at (202) 317-7005 (not a toll-free number).

.11 Depreciation of leasehold improvements (§§ 167, 168, and 197; § 1.167(a)-4).

(1) Description of change. This change, as described in Rev. Proc. 2014-17, 2014-12 I.R.B. 661, applies to a taxpayer that wants to change its method of accounting to comply with § 1.167(a)-4 for leasehold improvements in which the taxpayer has a depreciable interest at the beginning of the year of change:

(a) From improperly depreciating the leasehold improvements to which § 168 applies over the term of the lease (including renewals, if applicable) to properly depreciating these improvements under § 168;

(b) From improperly amortizing leasehold improvements to which § 197 applies over the term of the lease (including renewals, if applicable) to properly amortizing these improvements under § 197; or

(c) From improperly amortizing leasehold improvements to which § 167(f)(1) applies over the term of the lease (including renewals, if applicable) to properly amortizing these improvements under § 167(f)(1).

(2) Certain eligibility rule inapplicable. The eligibility rule in section 5.01(1)(d) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, does not apply to a taxpayer making this change.

(3) Manner of making change.

(a) A qualified small taxpayer, as defined in section 6.01(4)(b) of this revenue procedure, is required to complete only the following information on Form 3115 (Rev. December 2022) to make this change:

- (i) The identification section of page 1 (above Part I);
- (ii) The signature section at the bottom of page 1;
- (iii) Part I;
- (iv) Part II, all lines except lines 13, 15b, 16, 17, and 19;
- (v) Part IV, all lines except line 25; and
- (vi) Schedule E.

(b) If any leasehold improvement is public utility property within the meaning of § 168(i)(10) or former § 167(l)(3)(A), a taxpayer (including a qualified small

taxpayer) making this change must attach to its Form 3115 a statement providing that the taxpayer agrees to the following additional terms and conditions:

(i) A normalization method of accounting (within the meaning of § 168(i)(9) or former § 167(l)(3)(G)) will be used for the public utility property subject to the change;

(ii) As of the beginning of the year of change, the taxpayer will adjust its deferred tax reserve account or similar account in the taxpayer's regulatory books of account by the amount of the deferral of federal income tax liability associated with the § 481(a) adjustment applicable to the public utility property subject to the change; and

(iii) Within 30 calendar days of filing the federal income tax return for the year of change, the taxpayer will provide a copy of the completed Form 3115 to any regulatory body having jurisdiction over the public utility property subject to the change.

(4) Concurrent automatic change.

(a) A taxpayer making this change for more than one asset for the same year of change should file a single Form 3115 for all such assets and provide a single net § 481(a) adjustment for all the changes included in that Form 3115. If one or more of the changes in that single Form 3115 generate a negative § 481(a) adjustment and other changes in that same Form 3115 generate a positive § 481(a) adjustment, the taxpayer may provide a single negative § 481(a) adjustment for all the changes that are included in that Form 3115 generating such adjustment and a single positive § 481(a) adjustment for all the changes that are included in that Form 3115 generating such adjustment.

(b) A taxpayer making both this change and a change to a UNICAP method under section 12.01, 12.02, 12.08, or 12.12 of this revenue procedure (as



applicable) for the same year of change should file a single Form 3115 for all such changes and must enter the designated automatic accounting method change numbers for the changes on the appropriate line on the Form 3115. See section 6.03(1)(b) of Rev. Proc. 2015-13 for information on making concurrent changes. For example, a qualified small taxpayer must include on the single Form 3115 the information required by section 6.11(3)(a) of this revenue procedure for this change and the information required by the lines on Form 3115 applicable to the UNICAP method change, including Part II lines 14 and 15, Part IV, and Schedule D, and must include a separate response to each line on Form 3115 that is applicable to both changes (such as Part II lines 6b, 7, 8b, 14, and, as applicable for this change, Part IV) for which the taxpayer's response is different for this change and the change to a UNICAP method.

(5) Designated automatic accounting method change number. The designated automatic accounting method change number for a change to a method of accounting under this section 6.11 is "199."

(6) Contact information. For further information regarding a change under this section, contact Patrick Clinton at (202) 317-7005 (not a toll-free number).

.12 Permissible to permissible method of accounting for depreciation of MACRS property (§ 168; §§ 1.168(i)-1, 1.168(i)-7, and 1.168(i)-8).

(1) Description of change.

(a) Applicability. This change, as described in Rev. Proc. 2014-54, 2014-41 I.R.B. 675, applies to a taxpayer that wants to make a change in method of accounting for depreciation that is specified in section 6.12(3) of this revenue procedure for an asset:

(i) to which § 168 applies (MACRS property);

(ii) for which the present and proposed methods of accounting are permissible methods of accounting under § 1.168(i)-1, § 1.168(i)-7, or § 1.168(i)-8, as applicable; and

(iii) that is owned by the taxpayer at the beginning of the year of change.

(b) Inapplicability. This change does not apply to any property that is not depreciated under § 168 under the taxpayer's present and proposed methods of accounting.

(2) Certain eligibility rule inapplicable. The eligibility rule in section 5.01(1)(d) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, does not apply to a taxpayer making this change.

(3) Changes covered. This section 6.12 only applies to the following changes in methods of accounting for depreciation of MACRS property:

(a) For the items of MACRS property not subject to a general asset account election under § 168(i)(4) and the regulations thereunder—

(i) a change from single asset accounts (or item accounts) for specific items of MACRS property to multiple asset accounts (or pools) for the same assets, or vice versa, in accordance with § 1.168(i)-7;

(ii) a change from grouping specific items of MACRS property in multiple asset accounts to a different grouping of the same assets in multiple asset accounts in accordance with § 1.168(i)-7(c);

(iii) a change in the method of identifying which assets in multiple asset accounts or which portions of assets have been disposed of by the taxpayer from the specific identification method under § 1.168(i)-8(g)(1) to the first-in, first-out (FIFO)

method of accounting under § 1.168(i)-8(g)(2)(i) or the modified FIFO method of accounting under § 1.168(i)-8(g)(2)(ii);

(iv) a change in the method of identifying which assets in multiple asset accounts or which portions of assets have been disposed of by the taxpayer from the FIFO method of accounting under § 1.168(i)-8(g)(2)(i) or the modified FIFO method of accounting under § 1.168(i)-8(g)(2)(ii) to the specific identification method under § 1.168(i)-8(g)(1);

(v) a change in the method of identifying which assets in multiple asset accounts or which portions of assets have been disposed of by the taxpayer from the FIFO method of accounting under § 1.168(i)-8(g)(2)(i) to the modified FIFO method of accounting under § 1.168(i)-8(g)(2)(ii), or vice versa;

(vi) a change in the method of identifying which mass assets (as defined in § 1.168(i)-8(b)(3)) in multiple asset accounts or which portions of mass assets have been disposed of by the taxpayer from the specific identification method under § 1.168(i)-8(g)(1) to a mortality dispersion table in accordance with § 1.168(i)-8(g)(2)(iii);

(vii) a change in the method of identifying which mass assets (as defined in § 1.168(i)-8(b)(3)) in multiple asset accounts or which portions of mass assets have been disposed of by the taxpayer from the FIFO method of accounting under § 1.168(i)-8(g)(2)(i) or the modified FIFO method of accounting under § 1.168(i)-8(g)(2)(ii) to a mortality dispersion table in accordance with § 1.168(i)-8(g)(2)(iii);

(viii) a change in the method of identifying which mass assets (as defined in § 1.168(i)-8(b)(3)) in multiple asset accounts or which portions of mass assets have been disposed of by the taxpayer from a mortality dispersion table in

accordance with § 1.168(i)-8(g)(2)(iii) to the specific identification method under § 1.168(i)-8(g)(1), the FIFO method of accounting under § 1.168(i)-8(g)(2)(i), or the modified FIFO method of accounting under § 1.168(i)-8(g)(2)(ii);

(ix) if § 1.168(i)-8(f)(2) applies (disposition of an asset in a multiple asset account) and it is impracticable from the taxpayer's records to determine the unadjusted depreciable basis of the asset disposed of, a change in the method of determining the unadjusted depreciable basis of all assets in the same multiple asset account from one reasonable method to another reasonable method; or

(x) if § 1.168(i)-8(f)(3) applies (disposition of a portion of an asset) and it is impracticable from the taxpayer's records to determine the unadjusted depreciable basis of the disposed portion of the asset, a change in the method of determining the unadjusted depreciable basis of all disposed portions of the asset from one reasonable method to another reasonable method; and

(b) For the items of MACRS property subject to a general asset account election under § 168(i)(4) and the regulations thereunder—

(i) a change from grouping specific items of MACRS property in general asset accounts to a different grouping of the same assets in general asset accounts in accordance with § 1.168(i)-1(c);

(ii) a change in the method of identifying which assets or which portions of assets have been disposed of by the taxpayer from the specific identification method under § 1.168(i)-1(j)(2)(i)(A) to the FIFO method of accounting under § 1.168(i)-1(j)(2)(i)(B) or the modified FIFO method of accounting under § 1.168(i)-1(j)(2)(i)(C);

(iii) a change in the method of identifying which assets or which portions of assets have been disposed of by the taxpayer from the FIFO method of

accounting under § 1.168(i)-1(j)(2)(i)(B) or the modified FIFO method of accounting under § 1.168(i)-1(j)(2)(i)(C) to the specific identification method under § 1.168(i)-1(j)(2)(i)(A);

(iv) a change in the method of identifying which assets or which portions of assets have been disposed of by the taxpayer from the FIFO method of accounting under § 1.168(i)-1(j)(2)(i)(B) to the modified FIFO method of accounting under § 1.168(i)-1(j)(2)(i)(C), or vice versa;

(v) a change in the method of identifying which mass assets (as defined in § 1.168(i)-1(b)(6)) or which portions of mass assets that are in a separate general asset account in accordance with § 1.168-1(c)(2)(ii)(H), have been disposed of by the taxpayer from the specific identification method under § 1.168(i)-1(j)(2)(i)(A) to a mortality dispersion table in accordance with § 1.168(i)-1(j)(2)(i)(D);

(vi) a change in the method of identifying which mass assets (as defined in § 1.168(i)-1(b)(6)) or which portions of mass assets that are in a separate general asset account in accordance with § 1.168-1(c)(2)(ii)(H), have been disposed of by the taxpayer from the FIFO method of accounting under § 1.168(i)-1(j)(2)(i)(B) or the modified FIFO method of accounting under § 1.168(i)-1(j)(2)(i)(C) to a mortality dispersion table in accordance with § 1.168(i)-1(j)(2)(i)(D);

(vii) a change in the method of identifying which mass assets (as defined in § 1.168(i)-1(b)(6)), or which portions of mass assets that are in a separate general asset account in accordance with § 1.168-1(c)(2)(ii)(H), have been disposed of by the taxpayer from a mortality dispersion table in accordance with § 1.168(i)-1(j)(2)(i)(D) to the specific identification method under § 1.168(i)-1(j)(2)(i)(A), the FIFO

method of accounting under § 1.168(i)-1(j)(2)(i)(B), or the modified FIFO method of accounting under § 1.168(i)-1(j)(2)(i)(C); or

(viii) if § 1.168(i)-1(j)(3) applies (basis of a disposed asset or a disposed portion of an asset in a general asset account) and it is impracticable from the taxpayer's records to determine the unadjusted depreciable basis of the disposed asset or the disposed portion of the asset, a change in the method of determining the unadjusted depreciable basis of all assets in the same general asset account from one reasonable method to another reasonable method.

(4) Manner of making change.

(a) The changes in methods of accounting specified in section 6.12(3)(a)(i) and (ii) and section 6.12(3)(b)(i) of this revenue procedure are made using a modified cut-off method under which the unadjusted depreciable basis and the depreciation reserve of the asset as of the beginning of the year of change are accounted for using the proposed method of accounting.

(i) If the change specified in section 6.12(3)(a)(i) of this revenue procedure is a change to a single asset account, the new single asset account must include a beginning balance for both the unadjusted depreciable basis and the depreciation reserve of the asset included in that single asset account.

(ii) If the change specified in section 6.12(3)(a)(i) or (ii) of this revenue procedure is a change to a multiple asset account (either a new one or a different grouping), the multiple asset account must include a beginning balance for both the unadjusted depreciable basis and the depreciation reserve. The beginning balance for the unadjusted depreciable basis of each multiple asset account is equal to the sum of the unadjusted depreciable bases as of the beginning of the year of change

for all assets included in that multiple asset account. The beginning balance of the depreciation reserve of each multiple asset account is equal to the sum of the greater of the depreciation allowed or allowable as of the beginning of the year of change for all assets included in that multiple asset account.

(iii) The change specified in section 6.12(3)(b)(i) of this revenue procedure requires the general asset account to include a beginning balance for both the unadjusted depreciable basis and the depreciation reserve. The beginning balance for the unadjusted depreciable basis of each general asset account is equal to the sum of the unadjusted depreciable bases as of the beginning of the year of change for all assets included in that general asset account. The beginning balance of the depreciation reserve of each general asset account is equal to the sum of the greater of the depreciation allowed or allowable as of the beginning of the year of change for all assets included in that general asset account.

(b) The changes in methods of accounting specified in section 6.12(3)(a)(iii), (vi), (ix), and (x) and section 6.12(3)(b)(ii), (v), and (viii) of this revenue procedure are made using a cut-off method and apply to dispositions occurring on or after the beginning of the year of change.

(c) Even though the changes in methods of accounting specified in section 6.12(3)(a)(iv), (v), (vii), and (viii) and section 6.12(3)(b)(iii), (iv), (vi), and (vii) of this revenue procedure are changes from one permissible method of accounting to another permissible method of accounting, these changes are made with a § 481(a) adjustment. However, see section 6.12(4)(f) of this revenue procedure for an exception. For the changes in methods of accounting specified in section 6.12(3)(b)(iii), (iv), (vi),

and (vii) of this revenue procedure, the § 481(a) adjustment should be zero unless § 1.168(i)-1(e)(3) applies to the asset subject to the change.

(d) A qualified small taxpayer, as defined in section 6.01(4)(b) of this revenue procedure, is required to complete only the following information on Form 3115 (Rev. December 2022) to make this change:

- (i) The identification section of page 1 (above Part I);
- (ii) The signature section at the bottom of page 1;
- (iii) Part I;
- (iv) Part II, all lines except lines 13, 15b, 16, 17, and 19 if the qualified small taxpayer is not making a change in method of accounting specified in section 6.12(3)(a)(ix) and (x) and section 6.12(3)(b)(viii) of this revenue procedure;
- (v) Part II, all lines except lines 13, 15b, 16c, 17, and 19 if the qualified small taxpayer is making a change in method of accounting specified in section 6.12(3)(a)(ix) or (x) or section 6.12(3)(b)(viii) of this revenue procedure;
- (vi) Part IV; and
- (vii) Schedule E.

(e) If any asset subject to this change is public utility property within the meaning of § 168(i)(10), a taxpayer (including a qualified small taxpayer) making this change must attach to its Form 3115 a statement providing that the taxpayer agrees to the following additional terms and conditions:

- (i) A normalization method of accounting (within the meaning of § 168(i)(9)) will be used for the public utility property subject to the change;
- (ii) As of the beginning of the year of change, the taxpayer will adjust its deferred tax reserve account or similar account in the taxpayer's regulatory books of



account by the amount of the deferral of federal income tax liability associated with the § 481(a) adjustment applicable to a change in method of accounting specified in section 6.12(3)(a)(iv), (v), (vii), or (viii) or section 6.12(3)(b)(iii), (iv), (vi), or (vii) of this revenue procedure made for the public utility property subject to the change; and

(iii) Within 30 calendar days of filing the federal income tax return for the year of change, the taxpayer will provide a copy of the completed Form 3115 to any regulatory body having jurisdiction over the public utility property subject to the change.

(f) A taxpayer that met the scope requirements of section 4 of Rev. Proc. 2015-20, 2015-9 I.R.B. 694, and that changed its method of accounting under section 6.37(3)(a)(iv), (a)(v), (a)(vii), or (a)(viii) of Rev. Proc. 2015-14 (which is now section 6.12(3)(a)(iv), (a)(v), (a)(vii), or (a)(viii) of this revenue procedure) by following section 5 of Rev. Proc. 2015-20 is required to calculate a § 481(a) adjustment as of the first day of the year of change that takes into account only dispositions in taxable years beginning on or after January 1, 2014.

(5) No audit protection. A taxpayer calculating a § 481(a) adjustment under section 6.12(4)(f) of this revenue procedure that takes into account only dispositions in taxable years beginning on or after January 1, 2014, does not receive audit protection under section 8.01 of Rev. Proc. 2015-13 for dispositions subject to a change under section 6.12(3)(a)(iv), (a)(v), (a)(vii), or (a)(viii) of this revenue procedure in taxable years beginning before January 1, 2014. See section 5.03 of Rev. Proc. 2015-20.

(6) Concurrent change.

(a) A taxpayer making this change for more than one asset for the same year of change should file a single Form 3115 for all such assets. If the change for more than one asset included in that Form 3115 is specified in section 6.12(3)(a)(iv),

(v), (vii), or (viii) or section 6.12(3)(b)(iii), (iv), (vi), or (vii) of this revenue procedure, the single Form 3115 also should provide a single net § 481(a) adjustment for all such changes. If one or more changes specified in section 6.12(3)(a)(iv), (v), (vii), or (viii) or section 6.12(3)(b)(iii), (iv), (vi), or (vii) of this revenue procedure in that single Form 3115 generate a negative § 481(a) adjustment and other changes specified in section 6.12(3)(a)(iv), (v), (vii), or (viii) or section 6.12(3)(b)(iii), (iv), (vi), or (vii) of this revenue procedure in that same Form 3115 generate a positive § 481(a) adjustment, the taxpayer may provide a single negative § 481(a) adjustment for all such changes that are included in that Form 3115 generating such negative adjustment and a single positive § 481(a) adjustment for all such changes that are included in that Form 3115 generating such positive adjustment.

(b) A taxpayer making this change and any change listed in section 6.12(6)(b)(i)-(iv) of this revenue procedure for the same year of change should file a single Form 3115 for all such changes and must enter the designated automatic accounting method change numbers for the changes on the appropriate line on the Form 3115. See section 6.03(1)(b) of Rev. Proc. 2015-13 for information on making concurrent changes. For example, a qualified small taxpayer must include on the single Form 3115 the information required to be completed on Form 3115 by a qualified small taxpayer under this revenue procedure for each change in method of accounting included on that Form 3115. The listed changes are:

- (i) A change under section 6.01 of this revenue procedure;
- (ii) A change under section 6.13 of this revenue procedure;
- (iii) A change under section 6.14 of this revenue procedure;
- (iv) A change under section 6.15 of this revenue procedure; and

(v) A change under section 11.07(3)(c) of this revenue procedure.

(7) Designated automatic accounting method change number. The designated automatic accounting method change number for a change to a method of accounting under this section 6.12 is “200.”

(8) Contact information. For further information regarding a change under this section, contact Patrick Clinton at (202) 317-7005 (not a toll-free number).

.13 Disposition of a building or structural component (§ 168; § 1.168(i)-8).

(1) Description of change.

(a) Applicability. This change, as described in Rev. Proc. 2014-54, 2014-41 I.R.B. 675, applies to a taxpayer that wants to make a change in method of accounting that is specified in section 6.13(3) of this revenue procedure for disposing of a building or a structural component or disposing of a portion of a building (including its structural components) to which the partial disposition rule in § 1.168(i)-8(d)(1) applies. These specified changes are consistent with §§ 1.168(i)-8(b)(2), 1.168(i)-8(c)(4)(ii)(A), (B), and (D), 1.168(i)-8(f), and 1.168(i)-8(g), as applicable. This change also affects the determination of gain or loss from disposing of the building, the structural component, or the portion of the building (including its structural components) and may affect whether the taxpayer must capitalize amounts paid to restore a unit of property (as determined under § 1.263(a)-3(e) or (f)) under § 1.263(a)-3(k).

(b) Inapplicability. This change does not apply to the following:

(i) Any asset (as determined under § 1.168(i)-8(c)(4)) that is not depreciated under § 168 under the taxpayer’s present method of accounting and, if applicable, under the taxpayer’s proposed method of accounting;

(ii) Any asset subject to a general asset account election under § 168(i)(4) and the regulations thereunder (but see section 6.15 of this revenue procedure for making a change in method of accounting for dispositions of tangible depreciable assets subject to a general asset account election);

(iii) Any multiple buildings, condominium units, or cooperative units that are treated as a single building under the taxpayer's present method of accounting, or will be treated as a single building under the taxpayer's proposed method of accounting, pursuant to § 1.1250-1(a)(2)(ii);

(iv) Any disposition of a portion of an asset in a transaction described in the last sentence in § 1.168(i)-8(d)(1) for which the taxpayer did not make a partial disposition election in accordance with § 1.168(i)-8(d)(2)(ii), (iii), or (iv), as applicable (but see section 6.10 of this revenue procedure for making a partial disposition election pursuant to § 1.168(i)-8(d)(2)(iii)); or

(v) Any demolition of a structure to which § 280B and § 1.280B-1 apply.

(2) Certain eligibility rule inapplicable. The eligibility rule in section 5.01(1)(d) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, does not apply to a taxpayer making this change.

(3) Covered changes. This section 6.13 only applies to the following changes in methods of accounting for a building (including its structural components), condominium unit (including its structural components), cooperative unit (including its structural components), or an improvement or addition (including its structural components) thereto:

(a) For purposes of applying § 1.168(i)-8(c)(4) (determination of asset disposed of), a change to the appropriate asset as determined under § 1.168(i)-8(c)(4)(ii)(A), (B), or (D), as applicable;

(b) If the taxpayer makes the change specified in section 6.13(3)(a) of this revenue procedure, and if the taxpayer disposed of the asset as determined under section 6.13(3)(a) of this revenue procedure in a taxable year prior to the year of change but under its present method of accounting continues to deduct depreciation for such disposed asset, a change from depreciating the disposed asset to recognizing gain or loss upon disposition or, if § 280B and § 1.280B-1 apply to the disposition, change from depreciating such disposed asset to capitalizing the loss sustained on account of the demolition to the land on which the demolished structure was located;

(c) If the taxpayer makes the change specified in section 6.13(3)(a) of this revenue procedure, and if the taxpayer disposed of a portion of the asset as determined under section 6.13(3)(a) of this revenue procedure in a transaction described in the first sentence in § 1.168(i)-8(d)(1) in a taxable year prior to the year of change but under its present method of accounting continues to deduct depreciation for such disposed portion, a change from depreciating the disposed portion to recognizing gain or loss upon disposition or, if § 280B and § 1.280B-1 apply to the disposition, change from depreciating such disposed portion to capitalizing the loss sustained on account of the demolition to the land on which the demolished structure was located;

(d) If the taxpayer's present method of accounting for its buildings (including their structural components), condominium units (including their structural components), cooperative units (including their structural components), and improvements or additions (including its structural components) thereto that are

depreciated under § 168 is in accord with § 1.168(i)-8(c)(4)(ii)(A), (B), and (D), and if the taxpayer disposed of an asset as determined under § 1.168(i)-8(c)(4)(ii)(A), (B), or (D), as applicable, in a taxable year prior to the year of change but under its present method of accounting continues to deduct depreciation for such disposed asset, a change from depreciating the disposed asset to recognizing gain or loss upon disposition or, if § 280B and § 1.280B-1 apply to the disposition, change from depreciating such disposed asset to capitalizing the loss sustained on account of the demolition to the land on which the demolished structure was located;

(e) If the taxpayer's present method of accounting for its buildings (including their structural components), condominium units (including their structural components), cooperative units (including their structural components), and improvements or additions (including its structural components) thereto that are depreciated under § 168 is in accord with § 1.168(i)-8(c)(4)(ii)(A), (B), and (D), and if the taxpayer disposed of a portion of an asset as determined under § 1.168(i)-8(c)(4)(ii)(A), (B), or (D), as applicable, in a transaction described in the first sentence in § 1.168(i)-8(d)(1) in a taxable year prior to the year of change but under its present method of accounting continues to deduct depreciation for such disposed portion, a change from depreciating the disposed portion to recognizing gain or loss upon disposition or, if § 280B and § 1.280B-1 apply to the disposition, change from depreciating such disposed portion to capitalizing the loss sustained on account of the demolition to the land on which the demolished structure was located;

(f) A change in the method of identifying which assets in multiple asset accounts or which portions of assets have been disposed of from a method of accounting not specified in § 1.168(i)-8(g)(1) or (2)(i), (ii), or (iii) (for example, the last-in,

first-out (LIFO) method of accounting) to a method of accounting specified in § 1.168(i)-8(g)(1) or (2)(i), (ii), or (iii), as applicable;

(g) If § 1.168(i)-8(f)(2) applies (disposition of an asset in a multiple asset account) and it is practicable from the taxpayer's records to determine the unadjusted depreciable basis of the disposed asset, a change in the method of determining the unadjusted depreciable basis of the disposed asset from a method of not using the taxpayer's records to a method of using the taxpayer's records;

(h) If § 1.168(i)-8(f)(2) applies (disposition of an asset in a multiple asset account) and it is impracticable from the taxpayer's records to determine the unadjusted depreciable basis of the disposed asset, a change in the method of determining the unadjusted depreciable basis of all assets in the same multiple asset account from an unreasonable method (for example, discounting the cost of the replacement asset to its placed-in-service year cost using the Consumer Price Index) to a reasonable method;

(i) If § 1.168(i)-8(f)(3) applies (disposition of a portion of an asset) and it is practicable from the taxpayer's records to determine the unadjusted depreciable basis of the disposed portion of the asset, a change in the method of determining the unadjusted depreciable basis of the disposed portion of the asset from a method of not using the taxpayer's records to a method of using the taxpayer's records;

(j) If § 1.168(i)-8(f)(3) applies (disposition of a portion of an asset) and it is impracticable from the taxpayer's records to determine the unadjusted depreciable basis of the disposed portion of the asset, a change in the method of determining the unadjusted depreciable basis of the disposed portion of the asset from an unreasonable method (for example, discounting the cost of the replacement portion of the asset to its placed-in-service year cost using the Consumer Price Index) to a reasonable method; or

(k) A change from recognizing gain or loss under § 1.168(i)-8T upon the disposition of an asset (as determined under § 1.168(i)-8(c)(4)(ii)(A), (B), or (D), as applicable) included in a general asset account to recognizing gain or loss upon the disposition of the same asset under § 1.168(i)-8 if: (A) the taxpayer made the change specified in section 6.11 of Rev. Proc. 2016-29, 2016-21 I.R.B. 880, section 6.34 of Rev. Proc. 2015-14, 2015-5 I.R.B. 450, or section 6.34 of the APPENDIX to Rev. Proc. 2011-14, 2011-4 I.R.B. 330, as clarified and modified by Rev. Proc. 2012-39, 2012-41 I.R.B. 470, Rev. Proc. 2014-17, 2014-12 I.R.B. 661, and Rev. Proc. 2014-54, 2014-41 I.R.B. 675 (revocation of a general asset account election); (B) the taxpayer made a qualifying disposition election under § 1.168(i)-1T(e)(3)(iii) in a taxable year prior to the year of change for the disposition of such asset; (C) the taxpayer's present method of accounting for such asset is in accord with § 1.168(i)-8(c)(4)(ii)(A), (B), or (D), as applicable; and (D) the taxpayer recognized a gain or loss under § 1.168(i)-8T upon the disposition of such asset in a taxable year prior to the year of change.

(4) Examples. The following examples illustrate the covered changes specified in section 6.13(3) of this revenue procedure.

(a) Example 1. X, a calendar-year taxpayer, acquired and placed in service a building and its structural components in 2000. In 2005, X constructed and placed in service an addition to this building. X depreciates the building, the addition, and their structural components under § 168. A change by X to treat the original building (including its structural components) as an asset and the addition to the building (including the structural components of such addition) as a separate asset for disposition purposes is a change described in section 6.13(3)(a) of this revenue procedure solely for purposes of § 1.168(i)-8(c)(4).

(b) Example 2. Y, a calendar year taxpayer, acquired and placed in service a building and its structural components in 1990. Y depreciates this building and its structural components under § 168. In 2000, a tornado damaged the roof and, as a result, Y replaced the entire roof of the building. Y did not recognize a loss on the retirement of the original roof and continues to depreciate the original roof. Y also capitalized the cost of the replacement roof and has been depreciating this roof under



§ 168 since 2000. Because the original roof was disposed of as a result of a casualty event described in § 165, a change by Y from depreciating the original roof to recognizing a loss upon its retirement is a covered change described in section 6.13(3)(e) of this revenue procedure solely for purposes of § 1.168(i)-8.

(c) Example 3. The facts are the same as in Example 2, except a tornado did not occur, but Y still replaced the entire roof of the building in 2000. Because the original roof was not disposed of as a result of any of the events described in the first sentence in § 1.168(i)-8(d)(1) that require a partial disposition, a partial disposition election must be made to change from depreciating the original roof to recognizing a loss upon its retirement. Pursuant to section 6.13(1)(b)(iv) of this revenue procedure, section 6.13 does not apply to the disposition of the original roof in 2000.

(5) Manner of making change.

(a) A taxpayer (including a qualified small taxpayer as defined in section 6.01(4)(b) of this revenue procedure) making this change must attach to its Form 3115 a statement with the following:

(i) A description of the assets to which this change applies;

(ii) If the taxpayer is making a change specified in section 6.13(3)(a) of this revenue procedure, a description of the assets for disposition purposes under the taxpayer's present and proposed methods of accounting;

(iii) If the taxpayer is making the change specified in section 6.13(3)(f) of this revenue procedure, a description of the methods of identifying which assets have been disposed of under the taxpayer's present and proposed methods of accounting;

(iv) If the taxpayer is making the change specified in section 6.13(3)(h) or (j) of this revenue procedure, a description of the methods of determining the unadjusted depreciable basis of the disposed asset or disposed portion of the asset, as applicable, under the taxpayer's present and proposed methods of accounting; and

(v) If any asset is public utility property within the meaning of § 168(i)(10), a statement providing that the taxpayer agrees to the following additional terms and conditions:

(A) A normalization method of accounting (within the meaning of § 168(i)(9)) will be used for the public utility property subject to the application;

(B) As of the beginning of the year of change, the taxpayer will adjust its deferred tax reserve account or similar account in the taxpayer's regulatory books of account by the amount of the deferral of federal income tax liability associated with the § 481(a) adjustment applicable to the public utility property subject to the application; and

(C) Within 30 calendar days of filing the federal income tax return for the year of change, the taxpayer will provide a copy of the completed application to any regulatory body having jurisdiction over the public utility property subject to the application.

(b) A qualified small taxpayer, as defined in section 6.01(4)(b) of this revenue procedure, is required to complete only the following information on Form 3115 (Rev. December 2022) to make this change:

(i) The identification section of page 1 (above Part I);

(ii) The signature section at the bottom of page 1;

(iii) Part I;

(iv) Part II, all lines except lines 13, 15b, 16, 17, and 19 if the qualified small taxpayer is not making a change in method of accounting specified in section 6.13(3)(h) and (j) of this revenue procedure;

(v) Part II, all lines except lines 13, 15b, 16c, 17, and 19 if the qualified small taxpayer is making a change in method of accounting specified in section 6.13(3)(h) or (j) of this revenue procedure;

(vi) Part IV, all lines except line 25; and

(vii) Schedule E.

(6) No ruling on asset. The consent granted under section 9 of Rev. Proc. 2015-13 for a change specified in section 6.13(3)(a) of this revenue procedure is not a determination by the Commissioner that the taxpayer is using the appropriate asset under § 1.168(i)-8(c)(4) for determining what asset is disposed of by the taxpayer and does not create any presumption that the proposed asset is permissible under § 1.168(i)-8(c)(4). The director will ascertain whether the taxpayer's determination of its asset under § 1.168(i)-8(c)(4) is permissible.

(7) Section 481(a) adjustment.

(a) A taxpayer changing its method of accounting under this section 6.13 may use statistical sampling in determining the § 481(a) adjustment by following the guidance provided in Rev. Proc. 2011-42, 2011-37 I.R.B. 318.

(b) A taxpayer that met the scope requirements of section 4 of Rev. Proc. 2015-20, 2015-9 I.R.B. 694, and that changed its method of accounting under section 6.38 of Rev. Proc. 2015-14 (which is now this section 6.13) by following section 5 of Rev. Proc. 2015-20 is required to calculate a section § 481(a) adjustment as of the first day of the year of change that takes into account only dispositions in taxable years beginning on or after January 1, 2014.

(8) Section 481(a) adjustment period.

(a) A taxpayer must take the entire amount of the § 481(a) adjustment into account in computing taxable income for the year of change:

(i) If the taxpayer is making the change specified in section 6.13(3)(a) of this revenue procedure and if the taxpayer recognized a gain or loss under § 1.168(i)-8T on the disposition of the asset (or if applicable, a portion thereof) in a taxable year prior to the year of change;

(ii) If the taxpayer is making the change specified in section 6.13(3)(k) of this revenue procedure; or

(iii) If the taxpayer is a qualified taxpayer as defined in section 4.01 of Rev. Proc. 2015-56, 2015-49 I.R.B. 827, and that is within the scope of section 3 of Rev. Proc. 2015-56, and is making the change specified in section 5.02(5)(b) of Rev. Proc. 2015-56 on or before the first taxable year that the qualified taxpayer uses the remodel-refresh safe harbor provided in section 5.02 of Rev. Proc. 2015-56.

(b) If section 6.13(8)(a) of this revenue procedure does not apply, see section 7.03 of Rev. Proc. 2015-13 for the § 481(a) adjustment period.

(c) Example. (i) Y, a fiscal year taxpayer with a taxable year beginning December 1 and ending November 30, acquired and placed in service a building and its structural components in 2000. Y depreciates this building and its structural components under § 168. The roof is a structural component of the building. Y replaced the entire roof in June 2010. On its federal tax return for the taxable year ended November 30, 2010, Y did not recognize a loss on the retirement of the original roof and continues to depreciate the original roof. Y also capitalized the cost of the replacement roof and has been depreciating this roof under § 168 since June 2010. The adjusted depreciable basis of the original roof at the time of its retirement in 2010 (taking into account the applicable convention) is \$11,000, and Y claimed depreciation of \$1,000 for such roof after its retirement (taking into account the applicable convention) and before the taxable year ended November 30, 2013 (2012 taxable year). Also the 12-month allowable depreciation deduction for the original roof is \$500 for the 2012 taxable year, \$500 for the taxable year ended November 30, 2014 (2013 taxable year), and \$500 for the taxable year ended November 30, 2015 (2014 taxable year).

(ii) In accordance with § 1.168(i)-8T(c)(4)(ii)(A) and (B) and section 6.29(3)(a) and (b) of the APPENDIX to Rev. Proc. 2011-14, as modified by Rev. Proc. 2012-20, 2012-14 I.R.B. 700, Y filed with its federal income tax return for the taxable year ended November 30, 2013, a Form 3115 to treat the building as an asset and each structural component of the building as a separate asset for disposition purposes and also to change from depreciating the original roof to recognizing a loss upon its retirement. The amount of the net negative § 481(a) adjustment on this Form 3115 is \$10,000 (adjusted depreciable basis of \$11,000 for the original roof at the time of its retirement (taking into account the applicable convention) less depreciation of \$1,000 claimed for such roof after its retirement (taking into account the applicable convention) and before the 2012 taxable year).

(iii) Y complies with § 1.168(i)-8 beginning with its taxable year ended November 30, 2016 (2015 taxable year). For Y's 2015 taxable year, the late partial disposition election under section 6.10 of Rev. Proc. 2016-29 does not apply. Y also decides not to file a private letter ruling requesting an extension of time under § 301.9100-3 of the Procedure and Administration Regulations to make a partial disposition election for the original roof. In accordance with section 6.13(3)(a) of this revenue procedure, Y files a Form 3115 with its federal income tax return for the 2015 taxable year to change to treating the original building (including its original roof and other original structural components) as an asset and the replacement roof as a separate asset for disposition purposes. Because the late partial disposition election under section 6.10 of Rev. Proc. 2016-29 does not apply for Y's 2015 taxable year and Y did not receive a private letter ruling granting an extension of time under § 301.9100-3 to make a partial disposition election for the original roof, Y does not recognize the net loss of \$10,000 upon the retirement of the original roof under § 1.168(i)-8 and Y will continue to depreciate the original roof. Thus, the net positive § 481(a) adjustment for this change is \$8,500 (net loss of \$10,000 claimed on the 2012 return for the retirement of the original roof less depreciation of \$1,500 for the original roof for the 2012, 2013, and 2014 taxable years) and is included in Y's taxable income for the 2015 taxable year.

(9) No audit protection. A taxpayer calculating a § 481(a) adjustment under section 6.13(7)(b) of this revenue procedure that takes into account only dispositions in taxable years beginning on or after January 1, 2014, does not receive audit protection under section 8.01 of Rev. Proc. 2015-13 for dispositions subject to a change under this section 6.13 in taxable years beginning before January 1, 2014. See section 5.04 of Rev. Proc. 2015-20.

(10) Concurrent automatic change.

(a) A taxpayer making this change for more than one asset for the same year of change should file a single Form 3115 for all such assets and provide a single net § 481(a) adjustment for all the changes included in that Form 3115. If one or more of the changes in that single Form 3115 generate a negative § 481(a) adjustment and other changes in that same Form 3115 generate a positive § 481(a) adjustment, the taxpayer may provide a single negative § 481(a) adjustment for all the changes that are included in that Form 3115 generating such negative adjustment and a single positive § 481(a) adjustment for all the changes that are included in that Form 3115 generating such positive adjustment.

(b) A taxpayer making this change and any change listed in section 6.13(10)(b)(i)-(iv) of this revenue procedure for the same year of change should file a single Form 3115 for all of such changes and must enter the designated automatic accounting method change numbers for the changes on the appropriate line on the Form 3115. See section 6.03(1)(b) of Rev. Proc. 2015-13 for information on making concurrent changes. For example, a qualified small taxpayer must include on the single Form 3115 the information required to be completed on Form 3115 by a qualified small taxpayer under this revenue procedure for each change in method of accounting included on that Form 3115. The listed changes are:

- (i) A change under section 6.01 of this revenue procedure;
- (ii) A change under section 6.12 of this revenue procedure;
- (iii) A change under section 6.14 of this revenue procedure; and
- (iv) A change under section 6.15 of this revenue procedure.

(11) Designated automatic accounting method change number. The designated automatic accounting method change number for a change to the method of accounting under this section 6.13 is “205.”

(12) Contact information. For further information regarding a change under this section, contact Patrick Clinton at (202) 317-7005 (not a toll-free number).

.14 Dispositions of tangible depreciable assets (other than a building or its structural components) (§ 168; § 1.168(i)-8).

(1) Description of change.

(a) Applicability. This change, as described in Rev. Proc. 2014-54, 2014-41 I.R.B. 675, applies to a taxpayer that wants to make a change in method of accounting that is specified in section 6.14(3) of this revenue procedure for disposing of § 1245 property or a depreciable land improvement or disposing of a portion of § 1245 property or a depreciable land improvement to which the partial disposition rule in § 1.168(i)-8(d)(1) applies. These specified changes are consistent with §§ 1.168(i)-8(c)(4)(i), 1.168(i)-8(c)(4)(ii)(C) and (D), 1.168(i)-8(f), and 1.168(i)-8(g), as applicable. This change also affects the determination of gain or loss from disposing of the § 1245 property, the depreciable land improvement, or a portion of the § 1245 property or depreciable land improvement, and may affect whether the taxpayer must capitalize amounts paid to restore a unit of property (as determined under § 1.263(a)-3(e) or (f)) under § 1.263(a)-3(k).

(b) Inapplicability. This change does not apply to the following:

(i) Any asset (as determined under § 1.168(i)-8(c)(4)) that is not depreciated under § 168 under the taxpayer’s present method of accounting and, if applicable, under the taxpayer’s proposed method of accounting;

(ii) Any building (including its structural components), condominium unit (including its structural components), cooperative unit (including its structural components), or an improvement or addition (including its structural components) thereto (but see section 6.13 of this revenue procedure for making this change);

(iii) Any asset subject to a general asset account election under § 168(i)(4) and the regulations thereunder (but see section 6.15 of this revenue procedure for making a change for dispositions of tangible depreciable assets subject to a general asset account election); or

(iv) Any disposition of a portion of an asset in a transaction described in the last sentence in § 1.168(i)-8(d)(1) for which the taxpayer did not make a partial disposition election in accordance with § 1.168(i)-8(d)(2)(ii), (iii), or (iv), as applicable (but see section 6.10 of this revenue procedure for making a partial disposition election pursuant to § 1.168(i)-8(d)(2)(iii)).

(2) Certain eligibility rule inapplicable. The eligibility rule in section 5.01(1)(d) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, does not apply to a taxpayer making this change.

(3) Covered changes. This section 6.14 only applies to the following changes in methods of accounting for a § 1245 property, a depreciable land improvement, or an improvement or addition thereto:

(a) For purposes of applying § 1.168(i)-8(c)(4) (determination of asset disposed of), a change to the appropriate asset as determined under § 1.168(i)-8(c)(4)(i), (ii)(C), or (ii)(D), as applicable;

(b) If the taxpayer makes the change specified in section 6.14(3)(a) of this revenue procedure, and if the taxpayer disposed of the asset as determined under



section 6.14(3)(a) of this revenue procedure in a taxable year prior to the year of change but continues to deduct depreciation for such disposed asset under the taxpayer's present method of accounting, a change from depreciating the disposed asset to recognizing gain or loss upon disposition;

(c) If the taxpayer makes the change specified in section 6.14(3)(a) of this revenue procedure, and if the taxpayer disposed of a portion of the asset as determined under section 6.14(3)(a) of this revenue procedure in a transaction described in the first sentence in § 1.168(i)-8(d)(1) in a taxable year prior to the year of change but under its present method of accounting continues to deduct depreciation for such disposed portion, a change from depreciating the disposed portion to recognizing gain or loss upon disposition;

(d) If the taxpayer's present method of accounting for its § 1245 property, depreciable land improvements, or improvements or additions thereto is in accord with § 1.168(i)-8(c)(4)(i) or (ii), as applicable, and if the taxpayer disposed of an asset as determined under § 1.168(i)-8(c)(4)(i) or (ii), as applicable, in a taxable year prior to the year of change but under its present method of accounting continues to deduct depreciation for this disposed asset, a change from depreciating the disposed asset to recognizing gain or loss upon disposition;

(e) If the taxpayer's present method of accounting for its § 1245 property, depreciable land improvements, or improvements or additions thereto is in accord with § 1.168(i)-8(c)(4)(i) or (ii), as applicable, and if the taxpayer disposed of a portion of an asset as determined under § 1.168(i)-8(c)(4)(i) or (ii), as applicable, in a transaction described in the first sentence in § 1.168(i)-8(d)(1) in a taxable year prior to the year of change but under its present method of accounting continues to deduct depreciation for

such disposed portion, a change from depreciating the disposed portion to recognizing gain or loss upon disposition;

(f) A change in the method of identifying which assets in multiple asset accounts or which portions of assets have been disposed of from a method of accounting not specified in § 1.168(i)-8(g)(1) or (2)(i), (ii), or (iii) (for example, the last-in, first-out (LIFO) method of accounting) to a method of accounting specified in § 1.168(i)-8(g)(1) or (2)(i), (ii), or (iii), as applicable;

(g) If § 1.168(i)-8(f)(2) applies (disposition of an asset in a multiple asset account) and it is practicable from the taxpayer's records to determine the unadjusted depreciable basis of the disposed asset, a change in the method of determining the unadjusted depreciable basis of the disposed asset from a method of not using the taxpayer's records to a method of using the taxpayer's records;

(h) If § 1.168(i)-8(f)(2) applies (disposition of an asset in a multiple asset account) and it is impracticable from the taxpayer's records to determine the unadjusted depreciable basis of the disposed asset, a change in the method of determining the unadjusted depreciable basis of all assets in the same multiple asset account from an unreasonable method (for example, discounting the cost of the replacement asset to its placed-in-service year cost using the Consumer Price Index) to a reasonable method;

(i) If § 1.168(i)-8(f)(3) applies (disposition of a portion of an asset) and it is practicable from the taxpayer's records to determine the unadjusted depreciable basis of the disposed portion of the asset, a change in the method of determining the unadjusted depreciable basis of the disposed portion of the asset from a method of not using the taxpayer's records to a method of using the taxpayer's records;

(j) If § 1.168(i)-8(f)(3) applies (disposition of a portion of an asset) and it is impracticable from the taxpayer's records to determine the unadjusted depreciable basis of the disposed portion of the asset, a change in the method of determining the unadjusted depreciable basis of the disposed portion of the asset from an unreasonable method (for example, discounting the cost of the replacement portion of the asset to its placed-in-service year cost using the Consumer Price Index) to a reasonable method; or

(k) A change from recognizing gain or loss under § 1.168(i)-8T upon the disposition of a section 1245 property, depreciable land improvement, or improvement or addition thereto included in a general asset account to recognizing gain or loss upon the disposition of the same asset under § 1.168(i)-8 if: (A) the taxpayer made the change specified in section 6.11 of Rev. Proc. 2016-29, section 6.34 of Rev. Proc. 2015-14, or section 6.34 of the APPENDIX to Rev. Proc. 2011-14 (revocation of a general asset account election); (B) the taxpayer made a qualifying disposition election under § 1.168(i)-1T(e)(3)(iii) in a taxable year prior to the year of change for the disposition of such asset; (C) the taxpayer's present method of accounting for such asset is in accord with § 1.168(i)-8(c)(4)(i) or (ii), as applicable; and (D) the taxpayer recognized a gain or loss under § 1.168(i)-8T on the disposition of such asset in a taxable year prior to the year of change.

(4) Manner of making change.

(a) A taxpayer (including a qualified small taxpayer as defined in section 6.01(4)(b) of this revenue procedure) making this change must attach to its Form 3115 a statement with the following:

(i) A description of the assets to which this change applies;

(ii) If the taxpayer is making a change specified in section 6.14(3)(a) of this revenue procedure, a description of the assets for disposition purposes under the taxpayer's present and proposed methods of accounting;

(iii) If the taxpayer is making the change specified in section 6.14(3)(f) of this revenue procedure, a description of the methods of identifying which assets have been disposed of under the taxpayer's present and proposed methods of accounting;

(iv) If the taxpayer is making the change specified in section 6.14(3)(h) or (j) of this revenue procedure, a description of the methods of determining the unadjusted depreciable basis of the disposed asset or disposed portion of the asset, as applicable, under the taxpayer's present and proposed methods of accounting; and

(v) If any asset is public utility property within the meaning of § 168(i)(10), a statement providing that the taxpayer agrees to the following additional terms and conditions:

(A) A normalization method of accounting (within the meaning of § 168(i)(9)) will be used for the public utility property subject to the application;

(B) As of the beginning of the year of change, the taxpayer will adjust its deferred tax reserve account or similar account in the taxpayer's regulatory books of account by the amount of the deferral of federal income tax liability associated with the § 481(a) adjustment applicable to the public utility property subject to the application; and

(C) Within 30 calendar days of filing the federal income tax return for the year of change, the taxpayer will provide a copy of the completed application to

any regulatory body having jurisdiction over the public utility property subject to the application.

(b) A qualified small taxpayer, as defined in section 6.01(4)(b) of this revenue procedure, is required to complete only the following information on Form 3115 (Rev. December 2022) to make this change:

(i) The identification section of page 1 (above Part I);

(ii) The signature section at the bottom of page 1;

(iii) Part I;

(iv) Part II, all lines except lines 13, 15b, 16, 17, and 19 if the qualified small taxpayer is not making a change in method of accounting specified in section 6.14(3)(h) and (j) of this revenue procedure;

(v) Part II, all lines except lines 13, 15b, 16c, 17, and 19 if the qualified small taxpayer is making a change in method of accounting specified in section 6.14(3)(h) or (j) of this revenue procedure;

(vi) Part IV, all lines except line 25; and

(vii) Schedule E.

(5) No ruling on asset. The consent granted under section 9 of Rev. Proc. 2015-13 for a change specified in section 6.14(3)(a) of this revenue procedure is not a determination by the Commissioner that the taxpayer is using the appropriate asset under § 1.168(i)-8(c)(4) for determining what asset is disposed of by the taxpayer and does not create any presumption that the proposed asset is permissible under § 1.168(i)-8(c)(4). The director will ascertain whether the taxpayer's determination of its asset under § 1.168(i)-8(c)(4) is permissible.

(6) Section 481(a) adjustment.

(a) A taxpayer changing its method of accounting under section 6.14 of the revenue procedure may use statistical sampling in determining the § 481(a) adjustment by following the guidance provided in Rev. Proc. 2011-42, 2011-37 I.R.B. 318.

(b) A taxpayer that met the scope requirements of section 4 of Rev. Proc. 2015-20, 2015-9 I.R.B. 694, and that changed its method of accounting under section 6.39 of Rev. Proc. 2015-14 (which is now this section 6.14) by following section 5 of Rev. Proc. 2015-20 is required to calculate a section § 481(a) adjustment as of the first day of the year of change that takes into account only dispositions in taxable years beginning on or after January 1, 2014.

(7) Section 481(a) adjustment period.

(a) A taxpayer must take the entire amount of the § 481(a) adjustment into account in computing taxable income for the year of change:

(i) If the taxpayer is making the change specified in section 6.14(3)(a) of this revenue procedure and if the taxpayer recognized a gain or loss under § 1.168(i)-8T on the disposition of the § 1245 property, depreciable land improvement, or improvement or addition thereto (or if applicable, a portion of such asset) in a taxable year prior to the year of change; or

(ii) If the taxpayer is making the change specified in section 6.14(3)(k) of this revenue procedure.

(b) If section 6.14(7)(a) of this revenue procedure does not apply, see section 7.03 of Rev. Proc. 2015-13 for the § 481(a) adjustment period.

(8) No audit protection. A taxpayer calculating a § 481(a) adjustment under section 6.14(6)(b) of this revenue procedure that takes into account only dispositions in

taxable years beginning on or after January 1, 2014, does not receive audit protection under section 8.01 of Rev. Proc. 2015-13 for dispositions subject to a change under this section 6.14 in taxable years beginning before January 1, 2014. See section 5.05 of Rev. Proc. 2015-20.

(9) Concurrent automatic change.

(a) A taxpayer making this change for more than one asset for the same year of change should file a single Form 3115 for all such assets and provide a single net § 481(a) adjustment for all the changes included in that Form 3115. If one or more of the changes in that single Form 3115 generate a negative § 481(a) adjustment and other changes in that same Form 3115 generate a positive § 481(a) adjustment, the taxpayer may provide a single negative § 481(a) adjustment for all the changes that are included in that Form 3115 generating such negative adjustment and a single positive § 481(a) adjustment for all the changes that are included in that Form 3115 generating such positive adjustment.

(b) A taxpayer making this change and any change listed in section 6.14(9)(b)(i)-(iv) of this revenue procedure for the same year of change should file a single Form 3115 for all of such changes and must enter the designated automatic accounting method change numbers for the changes on the appropriate line on the Form 3115. See section 6.03(1)(b) of Rev. Proc. 2015-13 for information on making concurrent changes. For example, a qualified small taxpayer must include on the single Form 3115 the information required to be completed on Form 3115 by a qualified small taxpayer under this revenue procedure for each change in method of accounting included on that Form 3115. The listed changes are:

(i) A change under section 6.01 of this revenue procedure;

- (ii) A change under section 6.12 of this revenue procedure;
- (iii) A change under section 6.13 of this revenue procedure; and
- (iv) A change under section 6.15 of this revenue procedure.

(10) Designated automatic accounting method change number. The designated automatic accounting method change number for a change to the method of accounting under this section 6.14 is “206.”

(11) Contact information. For further information regarding a change under this section, contact Patrick Clinton at (202) 317-7005 (not a toll-free number).

.15 Dispositions of tangible depreciable assets in a general asset account  
(§ 168(i)(4); § 1.168(i)-1).

(1) Description of change.

(a) Applicability. This change, as described in Rev. Proc. 2014-54, 2014-41 I.R.B. 675, applies to a taxpayer that wants to make a change in method of accounting that is specified in section 6.15(3) of this revenue procedure for disposing of an asset subject to a general asset account election under § 168(i)(4) and the regulations thereunder. These specified changes are consistent with §§ 1.168(i)-1(e)(1), 1.168(i)-1(e)(2)(viii), and 1.168(i)-1(j), as applicable. This change also may affect the determination of gain or loss from disposing of the asset and may affect whether the taxpayer must capitalize amounts paid to restore a unit of property (as determined under § 1.263(a)-3(e) or (f)) under § 1.263(a)-3(k).

(b) Inapplicability. This change does not apply to the following:

(i) Any asset (as determined under § 1.168(i)-1(e)(2)(viii)) that is not depreciated under § 168 under the taxpayer’s present method of accounting and, if applicable, proposed method of accounting; or



(ii) Any asset not subject to a general asset account election under § 168(i)(4) and the regulations thereunder (but see sections 6.13 and 6.14 of this revenue procedure for making a change for dispositions of tangible depreciable assets not subject to a general asset account election).

(2) Certain eligibility rule inapplicable. The eligibility rule in section 5.01(1)(d) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, does not apply to a taxpayer making this change.

(3) Covered changes. This section 6.15 only applies to the following changes in methods of accounting for an asset subject to a general asset account election under § 168(i)(4) and the regulations thereunder:

(a) For purposes of applying § 1.168(i)-1(e)(2)(viii) (determination of asset disposed of), a change to the appropriate asset as determined under § 1.168(i)-1(e)(2)(viii)(A) or (B), as applicable;

(b) A change in the method of identifying which assets or which portions of assets have been disposed of from a method of accounting not specified in § 1.168(i)-1(j)(2)(i)(A), (B), (C), or (D) (for example, the last-in, first-out (LIFO) method of accounting) to a method of accounting specified in § 1.168(i)-1(j)(2)(i)(A), (B), (C), or (D), as applicable;

(c) If § 1.168(i)-1(j)(3) applies (basis of disposed asset or disposed portion of an asset) and it is practicable from the taxpayer's records to determine the unadjusted depreciable basis of the disposed asset or the disposed portion of an asset, as applicable, a change in the method of determining the unadjusted depreciable basis of the disposed asset or the disposed portion of an asset, as applicable, from a method of not using the taxpayer's records to a method of using the taxpayer's records; or

(d) If § 1.168(i)-1(j)(3) applies (basis of disposed asset or disposed portion of an asset) and it is impracticable from the taxpayer's records to determine the unadjusted depreciable basis of the disposed asset or the disposed portion of an asset, as applicable, a change in the method of determining the unadjusted depreciable basis of all assets in the same general asset account from an unreasonable method (for example, discounting the cost of the replacement asset to its placed-in-service year cost using the Consumer Price Index) to a reasonable method.

(4) Manner of making change.

(a) A taxpayer (including a qualified small taxpayer as defined in section 6.01(4)(b) of this revenue procedure) making this change must attach to its Form 3115 a statement with the following:

(i) A description of the assets to which this change applies;

(ii) If the taxpayer is making the change specified in section 6.15(3)(a) of this revenue procedure, a description of the assets for disposition purposes under the taxpayer's present and proposed methods of accounting;

(iii) If the taxpayer is making the change specified in section 6.15(3)(b) of this revenue procedure, a description of the methods of identifying which assets have been disposed of under the taxpayer's present and proposed methods of accounting;

(iv) If the taxpayer is making the change specified in section 6.15(3)(d) of this revenue procedure, a description of the methods of determining the unadjusted depreciable basis of the disposed asset or disposed portion of the asset, as applicable, under the taxpayer's present and proposed methods of accounting; and

(v) If any asset is public utility property within the meaning of § 168(i)(10), a statement providing that the taxpayer agrees to the following additional terms and conditions:

(A) A normalization method of accounting (within the meaning of § 168(i)(9)) will be used for the public utility property subject to the application;

(B) As of the beginning of the year of change, the taxpayer will adjust its deferred tax reserve account or similar account in the taxpayer's regulatory books of account by the amount of the deferral of federal income tax liability associated with the § 481(a) adjustment applicable to the public utility property subject to the application; and

(C) Within 30 calendar days of filing the federal income tax return for the year of change, the taxpayer will provide a copy of the completed application to any regulatory body having jurisdiction over the public utility property subject to the application.

(b) A qualified small taxpayer, as defined in section 6.01(4)(b) of this revenue procedure, is required to complete only the following information on Form 3115 (Rev. December 2022) to make this change:

(i) The identification section of page 1 (above Part I);

(ii) The signature section at the bottom of page 1;

(iii) Part I;

(iv) Part II, all lines except lines 13, 15b, 16, 17, and 19 if the qualified small taxpayer is not making a change in method of accounting specified in section 6.15(3)(a) and (d) of this revenue procedure;

(v) Part II, all lines except lines 13, 15b, 16c, 17, and 19 if the qualified small taxpayer is making a change in method of accounting specified in section 6.15(3)(a) or (d) of this revenue procedure;

(vi) Part IV, all lines except line 25; and

(vii) Schedule E.

(5) No ruling on asset. The consent granted under section 9 of Rev. Proc. 2015-13 for a change specified in section 6.15(3)(a) of this revenue procedure is not a determination by the Commissioner that the taxpayer is using the appropriate asset under § 1.168(i)-1(e)(2)(viii) for determining what asset is disposed of by the taxpayer and does not create any presumption that the proposed asset is permissible under § 1.168(i)-1(e)(2)(viii). The director will ascertain whether the taxpayer's determination of its asset under § 1.168(i)-1(e)(2)(viii) is permissible.

(6) Section 481(a) adjustment period.

(a) A taxpayer must take the entire amount of the § 481(a) adjustment into account in computing taxable income for the year of change:

(i) If the taxpayer makes the change specified in section 6.15(3)(a) of this revenue procedure and if the taxpayer recognized a gain or loss under § 1.168(i)-1T or § 1.168(i)-8T, as applicable, on the disposition of a portion of the asset in a taxable year prior to the year of change; or

(iii) If the taxpayer is a qualified taxpayer as defined in section 4.01 of Rev. Proc. 2015-56, 2015-49 I.R.B. 827, and that is within the scope of section 3 of Rev. Proc. 2015-56, and is making the change specified in section 5.02(5)(b) of Rev. Proc. 2015-56 on or before the first taxable year that the qualified taxpayer uses the remodel-refresh safe harbor provided in section 5.02 of Rev. Proc. 2015-56.

(b) If section 6.15(6)(a) of this revenue procedure does not apply, see section 7.03 of Rev. Proc. 2015-13 for the § 481(a) adjustment period.

(c) Example. (i) X, a fiscal year taxpayer with a taxable year beginning December 1 and ending November 30, acquired and placed in service a building and its structural components in 2000. X depreciates this building and its structural components under § 168. The roof is a structural component of the building. X replaced the entire roof in June 2010. On its federal tax return for the taxable year ended November 30, 2010, X did not recognize a loss on the retirement of the original roof and continues to depreciate the original roof. X also capitalized the cost of the replacement roof and has been depreciating this roof under § 168 since June 2010. The adjusted depreciable basis of the original roof at the time of its retirement in 2010 (taking into account the applicable convention) is \$11,000, and X claimed depreciation of \$1,000 for such roof after its retirement (taking into account the applicable convention) and before the taxable year ended November 30, 2013 (2012 taxable year). Also the 12-month allowable depreciation deduction for the original roof is \$500 for the 2012 taxable year, \$500 for the taxable year ended November 30, 2014 (2013 taxable year), and \$500 for the taxable year ended November 30, 2015 (2014 taxable year).

(ii) In accordance with § 1.168(i)-1T and section 6.32(1)(a) of the APPENDIX to Rev. Proc. 2011-14, as modified by Rev. Proc. 2012-20, 2012-14 I.R.B. 700, X filed with its federal tax return for the taxable year ended November 30, 2013, a Form 3115 to: (1) make a late general asset account election to include the building (including its structural components) placed in service in 2000 in one general asset account and the replacement roof in a separate general asset account; and (2) make a late qualifying disposition election for the retirement of the original roof in 2010. As a result, X removed the original roof from the general asset account and reported a net negative § 481(a) adjustment on this Form 3115 of \$10,000 (adjusted depreciable basis of \$11,000 for the original roof at the time of its retirement (taking into account the applicable convention) less depreciation of \$1,000 claimed for such roof after its retirement (taking into account the applicable convention) and before the 2012 taxable year).

(iii) X complies with § 1.168(i)-1 beginning with its taxable year ended November 30, 2016 (2015 taxable year). In accordance with section 6.15(3)(a) of this revenue procedure, X files a Form 3115 with its federal income tax return for the 2015 taxable year to change to treating the building (including its original roof and other original structural components) placed in service in 2000 as an asset and the replacement roof as a separate asset for disposition purposes. As a result, X must include the original roof that X retired in 2010 in the general asset account. Thus, the net positive § 481(a) adjustment for this change is \$8,500 (net loss of \$10,000 claimed on the 2012 return for the retirement of the original roof less depreciation of \$1,500 for the original roof for the 2012, 2013, and 2014 taxable years) and is included in X's taxable income for the 2015 taxable year.

(7) Concurrent automatic change.

(a) A taxpayer making this change for more than one asset for the same year of change should file a single Form 3115 for all such assets and provide a single net § 481(a) adjustment for all the changes included in that Form 3115. If one or more of the changes in that single Form 3115 generate a negative § 481(a) adjustment and other changes in that same Form 3115 generate a positive § 481(a) adjustment, the taxpayer may provide a single negative § 481(a) adjustment for all the changes that are included in that Form 3115 generating such negative adjustment and a single positive § 481(a) adjustment for all the changes that are included in that Form 3115 generating such positive adjustment.

(b) A taxpayer making this change and any change listed in section 6.15(7)(b)(i)-(iv) of this revenue procedure for the same year of change should file a single Form 3115 for all of such changes and must enter the designated automatic accounting method change numbers for the changes on the appropriate line on the Form 3115. See section 6.03(1)(b) of Rev. Proc. 2015-13 for information on making concurrent changes. For example, a qualified small taxpayer must include on the single Form 3115 the information required to be completed on Form 3115 by a qualified small taxpayer under this revenue procedure for each change in method of accounting included on that Form 3115. The listed changes are:

- (i) A change under section 6.01 of this revenue procedure;
- (ii) A change under section 6.12 of this revenue procedure;
- (iii) A change under section 6.13 of this revenue procedure; and
- (iv) A change under section 6.14 of this revenue procedure.

(8) Designated automatic accounting method change number. The designated automatic accounting method change number for a change to the method of accounting under this section 6.15 is “207.”

(9) Contact information. For further information regarding a change under this section, contact Patrick Clinton at (202) 317-7005 (not a toll-free number).

.16 Summary of certain changes in methods of accounting related to dispositions of MACRS property.

(1) Final regulations. The following chart summarizes the changes in methods of accounting under § 1.167(a)-4, § 1.168(i)-1, § 1.168(i)-7, and § 1.168(i)-8 that a taxpayer may make under this revenue procedure.

**Depreciation of leasehold improvements:**

<b>FINAL REGULATION SECTION</b>	<b>SECTION # in REV. PROC. 2024-23</b>	<b>DESIGNATED CHANGE NUMBER (DCN)</b>
§ 1.167(a)-4, Depreciation of leasehold improvements	6.11	199

**General Asset Accounts:**

<b>FINAL REGULATION SECTION</b>	<b>SECTION # in REV. PROC. 2024-23</b>	<b>DESIGNATED CHANGE NUMBER (DCN)</b>
a. § 1.168(i)-1(c), Change in grouping assets	6.12	200
b. § 1.168(i)-1(e)(2)(viii), Change in determining asset disposed of	6.15	207
c. § 1.168(i)-1(j)(2), Change in method of identifying which assets or portions of assets have been disposed of from one method to another method specified in § 1.168(i)-1(j)(2)	6.12	200
d. § 1.168(i)-1(j)(2), Change in method of identifying which assets or portions of assets have been disposed of from a method not specified in § 1.168(i)-1(j)(2) to a method specified in § 1.168(i)-1(j)(2)	6.15	207
e. § 1.168(i)-1(j)(3), Change in determining unadjusted depreciable basis of disposed asset or disposed portion of an asset from one reasonable method to another reasonable method when it is impracticable from the taxpayer's records to determine the unadjusted depreciable basis of disposed asset or disposed portion of asset	6.12	200
f. § 1.168(i)-1(j)(3), Change in determining unadjusted depreciable basis of disposed asset or disposed portion of an asset from not using to using the taxpayer's records when it is practicable from the taxpayer's records to determine the unadjusted depreciable basis of disposed asset or disposed portion of asset	6.15	207
g. § 1.168(i)-1(j)(3), Change in determining unadjusted depreciable basis of disposed asset or disposed portion of an asset from an unreasonable method to a reasonable method when it is impracticable from the taxpayer's records to determine the unadjusted depreciable basis of disposed asset or disposed portion of asset	6.15	207



**Single Asset Accounts or Multiple Asset Accounts for MACRS Property:**

<b>FINAL REGULATION SECTION</b>	<b>SECTION # in REV. PROC. 2024- 23</b>	<b>DESIGNATED CHANGE NUMBER (DCN)</b>
a. § 1.168(i)-7, Change from single asset accounts to multiple asset accounts, or <u>vice versa</u>	6.12	200
b. § 1.168(i)-7(c), Change in grouping assets in multiple asset accounts	6.12	200

**Dispositions of MACRS Property (not in a general asset account):**

<b>FINAL REGULATION SECTION</b>	<b>SECTION # in REV. PROC. 2024-23</b>	<b>DESIGNATED CHANGE NUMBER (DCN)</b>
a. § 1.168(i)-8(c)(4), Change in determining asset disposed of	6.13 (Building or structural component)	205
	6.14 (Property other than a building or structural component)	206
b. § 1.168(i)-8(f)(2) or (3), Change in determining unadjusted depreciable basis of disposed asset in a multiple asset account or disposed portion of an asset from one reasonable method to another reasonable method when it is impracticable from the taxpayer's records to determine the unadjusted depreciable basis of disposed asset or disposed portion of asset	6.12	200
c. § 1.168(i)-8(f)(2) or (3), Change in determining unadjusted depreciable basis of disposed asset in a multiple asset account or disposed portion of an asset from not using to using the taxpayer's records when it is practicable from the taxpayer's records to determine the unadjusted depreciable basis of disposed asset or disposed portion of asset	6.13 (Building or structural component)	205
	6.14 (Property other than a building or structural component)	206
d. § 1.168(i)-8(f)(2) or (3), Change in determining unadjusted depreciable basis of disposed asset in a multiple asset account or disposed portion of an asset from an unreasonable method to a reasonable method when it is impracticable from the taxpayer's records to determine the unadjusted depreciable basis of disposed asset or disposed portion of asset	6.13 (Building or structural component)	205
	6.14 (Property other than a building or structural component)	206

e. § 1.168(i)-8(g), Change in method of identifying which assets in a multiple asset account or portions of assets have been disposed of from one method to another method specified in § 1.168(i)-8(g)(1) or (2)	6.12	200
f. § 1.168(i)-8(g), Change in method of identifying which assets in a multiple asset account or portions of assets have been disposed of from a method not specified in § 1.168(i)-8(g)(1) or (2) to a method specified in § 1.168(i)-8(g)(1) or (2)	6.13 (Building or structural component)	205
	6.14 (Property other than a building or structural component)	206
g. § 1.168(i)-8(h)(1), Change from depreciating a disposed asset or disposed portion of an asset to recognizing gain or loss upon disposition when a taxpayer continues to depreciate the asset or portion that the taxpayer disposed of prior to the year of change	6.13 (Building or structural component)	205
	6.14 (Property other than a building or structural component)	206
h. § 1.168(i)-8(d)(2)(iii), Partial disposition election for the disposition of a portion of an asset to which the IRS's adjustment pertains	6.10	198

.17 Depreciation of fiber optic transfer node and fiber optic cable used by a cable system operator (§§ 167 and 168).

(1) Description of change.

(a) Applicability. This change applies to a cable system operator that is within the scope of Rev. Proc. 2015-12, 2015-2 I.R.B. 266, and wants to change to the safe harbor method of accounting provided in section 8.03 of Rev. Proc. 2015-12 for determining depreciation under §§ 167 and 168 of a fiber optic transfer node and trunk line consisting of fiber optic cable used in a cable distribution network providing one-way and two-way communication services. The safe harbor method provided by section 8.03 of Rev. Proc. 2015-12 determines the asset for purposes of §§ 167 and 168.

(b) Inapplicability. This change does not apply to the following:

- (i) any property that is not depreciated under § 168 under the taxpayer's present and proposed methods of accounting; or
- (ii) any property that is not owned by the taxpayer at the beginning of the year of change.

(2) Certain eligibility rule inapplicable. The eligibility rule in section 5.01(1)(d) of Rev. Proc. 2015-13 does not apply to a taxpayer that makes this change.

(3) Concurrent automatic change.

(a) A taxpayer that wants to make this change for more than one asset for the same year of change should file a single Form 3115 for all such assets and provide a single net § 481(a) adjustment for all the changes included in that Form 3115. If one or more of the changes in that single Form 3115 generate a negative § 481(a) adjustment and other changes in that same Form 3115 generate a positive § 481(a) adjustment, the taxpayer may provide a single negative § 481(a) adjustment for all the changes that are included in that Form 3115 generating such adjustment and a single positive § 481(a) adjustment for all the changes that are included in that Form 3115 generating such adjustment.

(b) A taxpayer that wants to make both this change and a change to a UNICAP method under section 12.01, 12.02, 12.08, or 12.12 of this revenue procedure, as applicable, for the same year of change should file a single Form 3115 for all such changes and must enter the designated automatic accounting method change numbers for the changes on the appropriate line on the Form 3115. See section 6.03(1)(b) of Rev. Proc. 2015-13 for information on making concurrent changes.

(4) Designated automatic accounting method change number. The designated automatic accounting method change number for a change to the method of accounting under this section 6.17 is “210.”

(5) Contact information. For further information regarding a change under this section, contact Charles Magee at (202) 317-7005 (not a toll-free number).

.18 Qualified improvement property placed in service after December 31, 2017 (§ 168).

(1) Description of change.

(a) Applicability. This change applies to a taxpayer that wants to change from an impermissible to a permissible method of accounting for depreciation of any item of qualified improvement property, as defined in § 168(e)(6):

(i) that is placed in service by the taxpayer after December 31, 2017;

(ii) for which the taxpayer used the impermissible method of accounting in at least two taxable years immediately preceding the year of change (but see section 6.18(1)(b) of this revenue procedure for qualified improvement property placed in service in the taxable year immediately preceding the year of change); and

(iii) that is owned by the taxpayer at the beginning of the year of change (but see section 6.07 of this revenue procedure for property disposed of before the year of change).

(b) Taxpayer has not adopted a method of accounting for the qualified improvement property. If a taxpayer does not satisfy section 6.18(1)(a)(ii) of this revenue procedure for an item of qualified improvement property because the item of qualified improvement property is placed in service by the taxpayer in the taxable year immediately preceding the year of change (1-year QIP), the taxpayer may change from

the impermissible method of determining depreciation to the permissible method of determining depreciation for the 1-year QIP by filing a Form 3115 for this change, provided the § 481(a) adjustment reported on the Form 3115 includes the amount that is attributable to all property (including the 1-year QIP) subject to the Form 3115.

Alternatively, the taxpayer may change from the impermissible method of determining depreciation to the permissible method of determining depreciation for the 1-year QIP by filing an amended federal income tax return, or an administrative adjustment request under § 6227 (AAR), as applicable, for the property's placed-in-service year prior to the date the taxpayer files its federal income tax return for the taxable year succeeding the placed-in-service year. In addition, if the 1-year QIP is within the scope of section 3 of Rev. Proc. 2020-25, 2020-19 I.R.B. 785, the taxpayer may change from the impermissible method of determining depreciation to the permissible method of determining depreciation for the 1-year QIP by filing an amended federal income tax return, or AAR, as applicable, in accordance with section 3.02(3)(a) of Rev. Proc. 2020-25.

(c) Inapplicability. This change does not apply to:

(i) any qualified improvement property placed in service by a taxpayer that made a late election, or withdrew an election, under § 163(j)(7)(B) (electing real property trade or business) or § 163(j)(7)(C) (electing farming business) for the taxable year in which the qualified improvement property is placed in service by the taxpayer, in accordance with Rev. Proc. 2020-22, 2020-18 I.R.B. 745. Any changes to depreciation for such qualified improvement property, or other depreciable property, affected by the late election or withdrawn election under § 163(j)(7)(B) or (C) are made in accordance with sections 4.02 and 4.03, or 5.02 of Rev. Proc. 2020-22, as applicable;

(ii) any qualified improvement property for which the taxpayer is changing from deducting the cost or other basis as an expense to capitalizing and depreciating the cost or other basis, or vice versa;

(iii) any qualified improvement property for which the taxpayer is changing its method of accounting for depreciation to the method of accounting for depreciation provided in § 1.168(i)-4, which applies when there is a change in use of the property (but see section 6.04 or 6.05 of this revenue procedure for making this change); or

(iv) any change in method of accounting to which section 6.20 of this revenue procedure applies.

(2) Reduced filing requirement. A taxpayer making a change under this section 6.18 is required to complete only the following information on Form 3115 (Rev. December 2022):

- (a) The identification section of page 1 (above Part I);
- (b) The signature section at the bottom of page 1;
- (c) Part I;
- (d) Part II, all lines except lines 11, 12, 13, 15, 16, 17, and 19;
- (e) Part IV, all lines; and
- (f) Schedule E, all lines except lines 1, 4b, 5, and 6.

(3) Concurrent automatic change.

(a) A taxpayer making this change for more than one asset for the same year of change should file a single Form 3115 for all such assets and provide a single net § 481(a) adjustment for all the changes included in that Form 3115.



(b) A taxpayer making this change and the change in section 6.01 or 6.19 of this revenue procedure for the same year of change should file a single Form 3115 for all such changes and must enter the designated automatic accounting method change numbers on the appropriate line of the Form 3115. See section 6.03(1)(b) of Rev. Proc. 2015-13 for information on making concurrent changes.

(4) Designated automatic accounting method change number. The designated automatic accounting method change number for a change to the method of accounting under this section 6.18 is “244.”

(5) Contact information. For further information regarding a change under this section, contact Elizabeth Binder at (202) 317-7005 (not a toll-free number).

.19 Certain late elections under §§ 168 and 1502 or revocation of certain elections under § 168 (§ 168(g)(7), (k)(5), (k)(7), and (k)(10); §§ 1.168(k)-2 and 1.1502-68).

(1) Description of change.

(a) Applicability. This change applies to a taxpayer within the scope of section 5 of Rev. Proc. 2020-50, 2020-48 I.R.B. 1122, that wants to make a late election under § 168(k)(5), (7), or (10), § 1.168(k)-2(c) (component election), § 1.1502-68(c)(4) (designated transaction election), or proposed § 1.168(k)-2(c) (proposed component election) as provided in section 5.02(2) of Rev. Proc. 2020-50. This change also applies to a taxpayer within the scope of section 6 of Rev. Proc. 2020-50 that wants to revoke an election under § 168(k)(5), (k)(7), or (k)(10), or a proposed component election as provided in section 6.02(2)(b) of Rev. Proc. 2020-50.

(b) Inapplicability. The IRS will treat the making of a late election under § 168(k)(5), (7), or (10), a late component election, a late designated transaction

election, or a late proposed component election as provided in section 5 of Rev. Proc. 2020-50, or the revocation of an election under § 168(k)(5), (k)(7), or (k)(10), or a proposed component election as provided in section 6 of Rev. Proc. 2020-50, as a change in method of accounting with a § 481(a) adjustment only for the taxable years specified in section 6.19(2) of this revenue procedure. This treatment does not apply to a taxpayer that makes these late elections or revocations before or after the time specified in section 6.19(2) of this revenue procedure, and any such late election or revocation is not a change in method of accounting pursuant to § 1.446-1(e)(2)(ii)(d)(3)(iii).

(2) Time for making the change. The change under section 6.19(1)(a) and (b) of this revenue procedure must be made for the taxpayer's first or second taxable year succeeding the taxable year in which the taxpayer (A) placed in service the property affected by the late election under § 168(k)(7) or (10), the late component election, the late designated transaction election, or the late proposed component election, as applicable, or by the revocation of the election under § 168(k)(7) or (k)(10), or the proposed component election, as applicable, or (B) planted or grafted the specified plant to which the late § 168(k)(5) election applies or to which the revocation of the election under § 168(k)(5) applies.

(3) Certain eligibility rules inapplicable. The eligibility rules in section 5.01(1)(d) and (f) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, do not apply to the change under section 6.19(1)(a) and (b) of this revenue procedure for the taxpayer's first or second taxable year succeeding the taxable year in which the taxpayer (A) placed in service the property affected by the late election under § 168(k)(7) or (10), the late component election, the late designated transaction election, or the late proposed

component election, as applicable, or by the revocation of the election under § 168(k)(7) or (k)(10), or the proposed component election, as applicable, or (B) planted or grafted the specified plant to which the late § 168(k)(5) election applies or to which the revocation of the election under § 168(k)(5) applies.

(4) Reduced filing requirement. A taxpayer making a change under this section 6.19 is required to complete only the following information on Form 3115 (Rev. December 2022):

- (a) The identification section of page 1 (above Part I);
- (b) The signature section at the bottom of page 1;
- (c) Part I;
- (d) Part II, all lines except lines 11, 12, 13, 15, 16, 17, and 19;
- (e) Part IV, all lines; and
- (f) Schedule E, all lines except lines 1, 4b, 5, and 6.

(5) Concurrent automatic change.

(a) A taxpayer making one or more late elections and/or revoking one or more elections under sections 5 and 6 of Rev. Proc. 2020-50 for the same year of change must file a single Form 3115 for all such changes. The single Form 3115 must provide a single net § 481(a) adjustment for all such changes for all assets placed in service, and all specified plants planted or grafted, by the taxpayer during the same taxable year. See section 6.03(1)(b) of Rev. Proc. 2015-13 for information on making concurrent changes.

(b) A taxpayer making one or more changes under this section 6.19 and the change in section 6.01, 6.18, or 6.20 of this revenue procedure for the same year of change must file a single Form 3115 for all such changes and must enter the

designated automatic accounting method change numbers on the appropriate line on the Form 3115. The single Form 3115 must provide a single net § 481(a) adjustment for all such changes for all assets placed in service, and all specified plants planted or grafted, by the taxpayer during the same taxable year. See section 6.03(1)(b) of Rev. Proc. 2015-13 for information on making concurrent changes.

(6) Designated automatic accounting method change number. The designated automatic accounting method change number for a change to the method of accounting under this section 6.19 is “245.”

(7) Contact information. For further information regarding a change under this section, contact Elizabeth Binder at (202) 317-7005 (not a toll-free number).

.20 Change in depreciation as a result of applying the additional first year depreciation regulations (§ 168(k); §§ 1.168(k)-2 and 1.1502-68).

(1) Description of Change.

(a) Applicability. This change applies to a taxpayer within the scope of section 4 of Rev. Proc. 2020-50, 2020-48 I.R.B. 1122, that wants to change its method of accounting for depreciation under § 168 to comply with the Final Regulations (as defined in section 2.02(6) of Rev. Proc. 2020-50), the 2019 final regulations (as defined in section 2.02(2) of Rev. Proc. 2020-50), or both the 2019 final regulations and the 2019 proposed regulations (as defined in section 1 of Rev. Proc. 2020-50), as applicable, for depreciable property and specified plants within the scope of section 4 of Rev. Proc. 2020-50. A change under this section 6.20 applies to (i) a taxpayer that is changing from an impermissible method of accounting to a permissible method of accounting under section 4.03(4)(b) of Rev. Proc. 2020-50 and section 6.20(3) of this revenue procedure, and (ii) a taxpayer that is changing from one permissible method of

accounting to another permissible method of accounting under section 4.04 of Rev. Proc. 2020-50 and section 6.20(4) of this revenue procedure. For purposes of this section 6.20, a taxpayer is deemed to change from an impermissible method of accounting to a permissible method of accounting when, for the first time, the taxpayer changes its method of accounting for depreciation under this section 6.20 for depreciable property and specified plants described in section 4.02(1) of Rev. Proc. 2020-50 to comply with the Final Regulations, the 2019 final regulations, or both the 2019 final regulations and the 2019 proposed regulations. Further, any subsequent time the taxpayer changes its method of accounting for depreciation for depreciable property and specified plants described in section 4.02(1) of Rev. Proc. 2020-50 to comply with the Final Regulations, the 2019 final regulations, or both the 2019 final regulations and the 2019 proposed regulations, is a change from a permissible method of accounting to another permissible method of accounting under this section 6.20. See section 4.02(2) of Rev. Proc. 2020-50.

(b) Inapplicability. This change does not apply to any property for which the taxpayer is changing its method of accounting for depreciation to the method of accounting for depreciation provided in § 1.168(i)-4, which applies when there is a change in use of the property (but see section 6.04 or 6.05 of this revenue procedure for making this change).

(2) Certain eligibility rules inapplicable.

(a) In general. The eligibility rule in section 5.01(1)(d) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, does not apply to a taxpayer making this change for the property and specified plant within the scope of section 4 of Rev. Proc. 2020-50, as modified by section 6.20(1)(b) of this revenue procedure.

(b) Special rule. The eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, does not apply to a taxpayer making this change for the property and specified plant within the scope of section 4 of Rev. Proc. 2020-50, as modified by section 6.20(1)(b) of this revenue procedure, for the taxpayer's first or second taxable year succeeding the taxable year in which the taxpayer placed in service such property, or planted or grafted such specified plant, as applicable.

(3) Impermissible to permissible method of determining the depreciation deduction allowable.

(a) A taxpayer may change from an impermissible method of accounting to a permissible method of accounting under section 4.03 of Rev. Proc. 2020-50 for the property and specified plant within the scope of section 4.03 of Rev. Proc. 2020-50, as modified by section 6.20(1)(b) of this revenue procedure, for which the taxpayer used the impermissible method of accounting in at least two taxable years immediately preceding the year of change (but see section 6.20(3)(b) of this revenue procedure for property placed in service or a specified plant planted or grafted in the taxable year immediately preceding the year of change).

(b) If a taxpayer does not satisfy section 6.20(3)(a) of this revenue procedure for depreciable property that is within the scope of section 4.03 of Rev. Proc. 2020-50, as modified by section 6.20(1)(b) of this revenue procedure, because the depreciable property is placed in service by the taxpayer in the taxable year immediately preceding the year of change (1-year Property), the taxpayer may change from the impermissible method of determining depreciation to the permissible method of determining depreciation for the 1-year Property by filing a Form 3115 for this change in accordance with this section 6.20(3), provided the § 481(a) adjustment reported on the

Form 3115 includes the amount of any adjustment attributable to all property, including the 1-year Property, subject to the Form 3115. Similarly, for a specified plant that is within the scope of section 4.03 of Rev. Proc. 2020-50, as modified by section 6.20(1)(b) of this revenue procedure, and is planted or grafted by the taxpayer in the taxable year immediately preceding the year of change (1-year Plant), the taxpayer may change from the impermissible method of determining depreciation to the permissible method of determining depreciation under this section 6.20(3) for the 1-year Plant by filing a Form 3115 for this change in accordance with this section 6.20(3), provided the § 481(a) adjustment reported on the Form 3115 includes the amount of any adjustment attributable to all property, including the 1-year Plant, subject to the Form 3115.

Alternatively, the taxpayer may change from the impermissible method of determining depreciation to the permissible method of determining depreciation for the 1-year Property or 1-year Plant by filing an amended federal income tax return, or an administrative adjustment request under § 6227 (AAR), as applicable, for the 1-year Property's placed-in-service year or 1-year Plant's planting or grafting year, as applicable, prior to the date the taxpayer files its federal income tax return for the taxable year succeeding the placed-in-service year or planting or grafting year, as applicable. In addition, if the 1-year Property or 1-year Plant is within the scope of section 4.03 of Rev. Proc. 2020-50, as modified by section 6.20(1)(b) of this revenue procedure, the taxpayer may change from the impermissible method of determining depreciation to the permissible method of determining depreciation for the 1-year Property or 1-year Plant by filing an amended federal income tax return, or AAR, as applicable, in accordance with section 4.03(4)(a) of Rev. Proc. 2020-50.

(c) A change under section 4.03(4)(b) of Rev. Proc. 2020-50 and this section 6.20(3) is made with a § 481(a) adjustment. However, consent to make a change in method of accounting under this section 6.20 will be granted by the Commissioner only if the taxpayer satisfies section 4.02 of Rev. Proc. 2020-50, to the extent relevant. Further, if a taxpayer that has a trade or business with floor plan financing indebtedness is applying § 1.168(k)-2(b)(2)(ii)(G) of the Final Regulations, § 1.168(k)-2(b)(2)(ii)(G) of the 2019 final regulations, or both § 1.168(k)-2(b)(2)(ii)(G) of the 2019 final regulations and § 1.168(k)-2(b)(2)(ii)(G) of the 2019 proposed regulations for depreciable property placed in service by the taxpayer in its 2018, 2019, or 2020 taxable year, consent to make a change in method of accounting under this section 6.20 will be granted by the Commissioner only if the amount of the § 481(a) adjustment is adjusted to account for the proper amount of interest expense, taking into account the business interest limitation under § 163(j) and the regulations thereunder, as of the beginning of the year of change.

(4) Permissible to another permissible method of determining the depreciation deduction allowable.

(a) A taxpayer may change from one permissible method of accounting to another permissible method of accounting under section 4.04 of Rev. Proc. 2020-50 for the property and specified plant within the scope of section 4.04 of Rev. Proc. 2020-50, as modified by section 6.20(1)(b) of this revenue procedure.

(b) A change under section 4.04 of Rev. Proc. 2020-50 and this section 6.20(4) is made on a cut-off basis. Accordingly, neither the modified cut-off method, as described in § 1.446-1(e)(2)(ii)(d)(5)(iii), nor a § 481(a) adjustment is permitted or required.



(5) Additional requirement. A taxpayer making a change under this section 6.20 also must comply with section 4.02 of Rev. Proc. 2020-50, to the extent relevant. Once a taxpayer applies § 1.168(k)-2 and, to the extent relevant, § 1.1502-68, of the Final Regulations, in their entirety, for a taxable year, the taxpayer must continue to apply § 1.168(k)-2 and, to the extent relevant, § 1.1502-68, of the Final Regulations, in their entirety, for the taxpayer's subsequent taxable years. See §§ 1.168(k)-2(h)(3)(iii) and 1.1502-68(e)(2)(iii) of the Final Regulations and section 4.02(1) of Rev. Proc. 2020-50.

(6) Reduced filing requirement. A taxpayer making a change under this section 6.20 is required to complete only the following information on Form 3115 (Rev. December 2022):

- (a) The identification section of page 1 (above Part I);
- (b) The signature section at the bottom of page 1;
- (c) Part I;
- (d) Part II, all lines except lines 11, 12, 13, 15, 16, 17, and 19;
- (e) Part IV, all lines; and
- (f) Schedule E, all lines except lines 1, 4b, 5, and 6.

(7) Concurrent automatic change.

(a) A taxpayer making this change must file a single Form 3115 for all assets placed in service, and all specified plants planted or grafted, by the taxpayer during the same taxable year and must provide a single net § 481(a) adjustment for all the changes included in that Form 3115.

(b) A taxpayer making one or more changes under section 6.20(3) of this revenue procedure and the change in section 6.01, 6.18, or 6.19 of this revenue

procedure for the same year of change must file a single Form 3115 for all such changes and must enter the designated automatic accounting method change numbers on the appropriate line on the Form 3115. The single Form 3115 must provide a single net § 481(a) adjustment for all such changes for all assets placed in service, and all specified plants planted or grafted, by the taxpayer during the same taxable year. See section 6.03(1)(b) of Rev. Proc. 2015-13 for information on making concurrent changes.

(8) Designated automatic accounting method change numbers. The designated automatic accounting method change number for (a) a change under section 6.20(3) of this revenue procedure is “246”, and (b) a change under section 6.20(4) of this revenue procedure is “247.”

(9) Contact information. For further information regarding a change under this section, contact Elizabeth Binder at (202) 317-7005 (not a toll-free number).

.21 Depreciation of tangible property under § 168(g) by controlled foreign corporations.

(1) Description of change. This change is applicable to a controlled foreign corporation (as defined in § 957(a)) (CFC) that seeks to change its method of accounting for depreciation for an item of property that is described in § 168(g)(1)(A) (except for property excluded from the application of § 168 as a result of § 168(f)) and owned by the CFC at the beginning of the year of change to the permissible depreciation method, convention, and recovery period prescribed under the alternative depreciation system (ADS) in § 168(g) for such property in determining the CFC’s gross and taxable income under § 1.952-2 as well as its earnings and profits (“E&P”) under §§ 964 and 986(b) and the regulations thereunder. This change applies regardless of whether the method of accounting for depreciation that the CFC wants to change

pursuant to this section 6.21 is impermissible or permissible under the Internal Revenue Code and the regulations thereunder.

(2) CFC has not adopted a method of accounting for the item of property. If a CFC placed in service an item of property described in section 6.21(1) of this revenue procedure in the taxable year immediately preceding the year of change (1-year property), the CFC may change its method of determining depreciation for the 1-year property to ADS if the designated shareholder files a Form 3115 for this change, provided the § 481(a) adjustment attributable to the 1-year property is included on the Form 3115. Alternatively, the CFC may change its impermissible method of determining depreciation for the 1-year property to ADS if each U.S. shareholder of the CFC (or the agent described in § 1.1502-77(a), if applicable) files an amended federal income tax return for the taxable year in which or with which the property's placed-in-service year ends prior to the date the shareholder files its federal income tax return for the taxable year in which or with which the CFC's taxable year succeeding the placed-in-service year ends.

(3) Section 481(a) adjustment. A § 481(a) adjustment is required with respect to a change made under this section 6.21 for any CFC.

(4) Certain eligibility rules inapplicable. The eligibility rules in section 5.01(1)(c), (d), (e), and (f) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, do not apply to this change.

(5) Short Form 3115 in lieu of a standard Form 3115. In accordance with § 1.446-1(e)(3)(ii), the requirement in § 1.446-1(e)(3)(i) to file a standard Form 3115 is waived and, pursuant to section 6.02(2) of Rev. Proc. 2015-13, a short Form 3115 is

authorized with respect to any CFC making a change under this section 6.21. The short Form 3115 (Rev. December 2022) must include the following information:

- (a) The identification section of page 1 (above Part I);
- (b) The signature section at the bottom of page 1;
- (c) Part I;
- (d) Part II, all lines except lines 10, 13, 16, and 19;
- (e) Part IV; and
- (f) Schedule E.

(6) Concurrent automatic changes. A designated shareholder making an accounting method change on behalf of a CFC under this section 6.21 with respect to more than one asset for the same year of change may file a single short Form 3115 for all such changes. If any § 481(a) adjustment (or any component of a § 481(a) adjustment) from a change that is included in that Form 3115 shares all of the same characteristics as any other § 481(a) adjustment (or component) from a change that is included in that Form 3115, those § 481(a) adjustments (or components) must be provided as a single § 481(a) adjustment, with the characteristics identified, in the Form 3115. Any § 481(a) adjustment (or component of a § 481(a) adjustment) from a change that is included in that Form 3115 that does not share all of the same characteristics as any other § 481(a) adjustment (or component) from a change that is included in that Form 3115 must be provided as a separate § 481(a) adjustment, with the characteristics identified, in the Form 3115. A § 481(a) adjustment (or any component of a § 481(a) adjustment) shares all of the same characteristics as another § 481(a) adjustment (or component) if:

(i) The § 481(a) adjustments (or components) relate to the same qualified business unit (QBU), as defined in § 989(a) and § 1.989(a)-1(b);

(ii) If applicable, the § 481(a) adjustments (or components) relate to the same tested unit, as defined in § 1.951A-2(c)(7)(iv);

(iii) The § 481(a) adjustments (or components) are either all positive or all negative, as applicable (for this purpose a negative component of an overall positive adjustment will be treated as positive and a positive component of an overall negative adjustment will be treated as negative); and

(iv) The § 481(a) adjustments (or components) have the same source, separate limitation classification, character, and treatment under section 7.07(2) of Rev. Proc. 2015-13, as modified by section 4 of Rev. Proc. 2021-26, 2021-22 I.R.B. 1163, 1167-68.

(7) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 6.21 is “248.”

(8) Contact information. For further information regarding a change under this section, contact Melinda Harvey at (202) 317-6934 (not a toll-free number).

.22 Late elections under § 168(j)(8), § 168(l)(3)(D), and § 181(a)(1).

(1) Description of Change.

(a) Applicability. This change applies to:

(i) A taxpayer within the scope of section 3.01 of Rev. Proc. 2022-23, 2022-18 I.R.B. 1052, that wants to make the late election provided in section 4.01(2) of Rev. Proc. 2022-23 under § 168(j)(8) or § 168(l)(3)(D); or

(ii) A taxpayer within the scope of section 3.02 of Rev. Proc. 2022-23 that wants to make the late election provided in section 4.02(2) of Rev. Proc. 2022-23 under § 181(a)(1).

(b) Inapplicability. The IRS will treat the making of a late election provided in section 4 of Rev. Proc. 2022-23 under §§ 168(j)(8), 168(l)(3)(D), and 181(a)(1) as a change in method of accounting with a § 481(a) adjustment only for the taxable years specified in section 6.22(2) of this revenue procedure. This treatment does not apply to a taxpayer that makes these late elections before or after the time specified in section 6.22(2) of this revenue procedure, and any such late election is not a change in method of accounting.

(2) Time for making the change. The change under section 6.22(1)(a)(i) or (ii) of this revenue procedure must be made with the taxpayer's first or second timely filed original Federal income tax return or Form 1065, as applicable, that is filed after April 19, 2022.

(3) Certain eligibility rules inapplicable. The eligibility rules in section 5.01(1)(d) and (f) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, do not apply to a change under section 6.22(1)(a)(i) or (ii) of this revenue procedure.

(4) Certain audit protection exception temporarily inapplicable. Sections 8.02(1) and (7) of Rev. Proc. 2015-13 do not apply to a change in method of accounting made under section 6.22(1)(a)(i) or (ii) of this revenue procedure. However, sections 8.02(1) and (7) of Rev. Proc. 2015-13 continue to apply for purposes of determining the § 481(a) adjustment period provided in section 7.03(3)(b) of Rev. Proc. 2015-13.

(5) Short Form 3115.

(a) A taxpayer making a change under section 6.22(1)(a)(i) of this revenue procedure is required to complete only the following information on Form 3115 (Rev. December 2022):

- (i) The identification section of page 1 (above Part I);
- (ii) The signature section at the bottom of page 1;
- (iii) Part I;
- (iv) Part II, lines 6, 7, 8, 9, 14, and 18;
- (v) Part IV, all lines except line 25; and
- (vi) Schedule E, all lines except lines 1, 4b, 5, and 6.

(b) A taxpayer making the change under section 6.22(1)(a)(ii) of this revenue procedure is required to attach to the taxpayer's Form 3115 the statement required under § 1.181-2(c)(2)(i) and, if applicable, the statement required under § 1.181-2(c)(2)(ii), and to complete only the following information on Form 3115 (Rev. December 2022):

- (i) The identification section of page 1 (above Part I);
- (ii) The signature section at the bottom of page 1;
- (iii) Part I;
- (iv) Part II, lines 6, 7, 8, 9, 14, and 18; and
- (v) Part IV, all lines except line 25.

(6) Concurrent automatic change. A taxpayer making one or more late elections under section 4.01(2) or 4.02(2) of Rev. Proc. 2022-23 for the same year of change should file a single Form 3115 for all such changes. The single Form 3115 must provide a single net § 481(a) adjustment for all such changes. See section 6.03(1)(b) of Rev. Proc. 2015-13 for information on making concurrent changes.

(7) Designated automatic accounting method change number. The designated automatic accounting method change number for a change to the method of accounting under this section 6.22 is “264.”

(8) Contact information. For further information regarding a change under this section 6.22, contact James Liechty at (202) 317-7005 (not a toll-free number).

## SECTION 7. RESEARCH AND EXPERIMENTAL EXPENDITURES (§ 174)

### .01 Change in Method of Accounting for SRE Expenditures.

#### (1) Description of change.

(a) In general. This change applies to a taxpayer that wants to change its method of accounting for expenditures paid or incurred in taxable years beginning after December 31, 2021, to:

- (i) comply with § 174, as amended by § 13206(a) of the TCJA; or
- (ii) rely on interim guidance provided in sections 3, 4, 5, 6, or 7 of Notice 2023-63, 2023-39 I.R.B. 919, as modified by Notice 2024-12, 2024-5 I.R.B. 616.

(b) References to § 174. Unless otherwise stated, references to “§ 174” in this section 7.01 refer to § 174 as amended by § 13206(a) of the TCJA. Section 13206(e) of the TCJA provides that the amendments made by § 13206 of the TCJA apply to amounts paid or incurred in taxable years beginning after December 31, 2021.

(c) Changes included in section 7.01(1)(a) of this revenue procedure.  
The changes described in section 7.01(1)(a) of this revenue procedure include, among other changes, a change:

- (i) from capitalizing specified research or experimental (SRE) expenditures, as defined in § 174(b) and section 4.02(2) of Notice 2023-63, as applicable, to inventoriable property or depreciable property and recovering such



expenditures through cost of goods sold or depreciation, respectively, to capitalizing and amortizing such expenditures under § 174(a) or section 3.02 of Notice 2023-63, as applicable; and

(ii) from treating an expenditure that does not meet the definition of an SRE expenditure as an SRE expenditure subject to capitalization and amortization under § 174(a) or section 3.02 of Notice 2023-63, as applicable, to treating that expenditure under the appropriate provision of the Code.

(2) Inapplicability. This change described in section 7.01(1)(a) of this revenue procedure does not apply to:

(a) a change in the treatment of acquired, leased, or licensed computer software under Rev. Proc. 2000-50, 2000-2 C.B. 601, as modified by Rev. Proc. 2007-16, 2007-1 C.B. 358 (see section 9.01 of this revenue procedure);

(b) a change in the treatment of research or experimental expenditures under former § 174 (that is, § 174 as in effect prior to the amendments made by § 13206(a) of the TCJA), or software development expenditures, paid or incurred in taxable years beginning before January 1, 2022 (see section 9.01 of this revenue procedure).

(c) change to rely on interim guidance provided in sections 8 and 9 of Notice 2023-63, as modified by Notice 2024-12.

(d) a change from treating SRE expenditures paid or incurred by a taxpayer that transfers related property (that is, property with respect to which such SRE expenditures were paid or incurred) in a § 351 exchange as amortizable by the transferee corporation following such exchange to treating such SRE expenditures as

amortizable by the transferor following such exchange (as such a change is not a change in method of accounting).

(3) Manner of making change.

(a) Year of change is the first taxable year beginning after December 31, 2021.

(i) Cut-off basis. The change under section 7.01(1)(a) of this revenue procedure for the taxpayer's first taxable year beginning after December 31, 2021, is implemented on a cut-off basis.

(ii) Statement in lieu of a Form 3115 for first taxable year beginning after December 31, 2021. The requirement of § 1.446-1(e)(3)(i) to file a Form 3115, *Application for Change in Accounting Method*, is waived, and a statement in lieu of a Form 3115 is authorized for the change in method of accounting under section 7.01(1)(a) of this revenue procedure for which the year of change is the taxpayer's first taxable year beginning after December 31, 2021. Notwithstanding the definition of Form 3115 in section 3.07 of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, the statement in lieu of a Form 3115 that is permitted under this section 7.01(3)(a)(ii) is considered a Form 3115 for purposes of the automatic change procedures of Rev. Proc. 2015-13. The requirement to file the duplicate copy, under section 6.03(1)(a) of Rev. Proc. 2015-13, is waived. The statement must include the following information for each applicant:

(A) the name and employer identification number or social security number, as applicable, of the applicant that has paid or incurred expenditures after December 31, 2021;

(B) the beginning and ending dates of the first taxable year in which the change described in section 7.01(1)(a) takes effect for the applicant (year of change);

(C) a general description of the type of expenditures included as SRE expenditures;

(D) the amount of SRE expenditures paid or incurred by the applicant during the year of change; and

(E) a declaration that the applicant is changing its method of accounting to capitalize SRE expenditures to a SRE capital account, and amortize the capitalized amount over either a 5-year period for domestic research or a 15-year period for foreign research (as applicable), beginning with the mid-point of the taxable year in which such expenditures are paid or incurred in accordance with § 174 or sections 3 through 7 of Notice 2023-63, as applicable. Also, the declaration must state that the applicant is making the change on a cut-off basis.

(b) Year of change later than the first taxable year beginning after December 31, 2021.

(i) Modified § 481(a) adjustment and cut-off.

(A) In general. Except as provided in section 7.01(3)(b)(i)(B) of this revenue procedure, the change under section 7.01(1)(a) of this revenue procedure for a year of change later than the first taxable year beginning after December 31, 2021, is made with a modified § 481(a) adjustment that takes into account only expenditures paid or incurred in taxable years beginning after December 31, 2021.

(B) Exception for negative modified § 481(a) adjustment. If a change described in section 7.01(3)(b)(i)(A) of this revenue procedure results in a

modified § 481(a) adjustment that is negative, the taxpayer may instead choose to implement the change on a cut-off basis.

(ii) Form 3115 and required statement. In completing a Form 3115, *Application for Change in Accounting Method*, to make the change in method of accounting under section 7.01(1)(a) of this revenue procedure for a year of change later than the first taxable year beginning after December 31, 2021, a taxpayer must include on an attachment to Form 3115:

(A) a general description of the type of expenditures included as SRE expenditures;

(B) the taxable year(s) in which the expenditures subject to the change were paid or incurred by the applicant; and

(C) a declaration that provides the reason for which the applicant is changing its method of accounting under section 7.01(1)(a) of this revenue procedure. The declaration must also state whether the applicant is making the change on a cut-off basis under section 7.01(3)(b)(i)(B) of this revenue procedure or with a modified § 481(a) adjustment that takes into account only expenditures paid or incurred in taxable years beginning after December 31, 2021, under section 7.01(3)(b)(i)(A) of this revenue procedure.

(4) Transition rule. A taxpayer who filed a Federal tax return on or before January 17, 2023, for a taxable year beginning after December 31, 2021, is deemed to have complied with the § 446 method change procedures and section 7.01 of this revenue procedure to change its method of accounting for expenditures paid or incurred in the first taxable year beginning after December 31, 2021, to comply with § 174 if the taxpayer:

(a) reported the amount of SRE expenditures paid or incurred for such taxable year on Part VI of Form 4562, *Depreciation and Amortization*, filed with the Federal tax return, and

(b) properly capitalized and amortized such SRE expenditures in accordance with § 174 for such taxable year.

(5) Certain eligibility rules inapplicable.

(a) In general. The eligibility rules in section 5.01(1)(d) and (f) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, do not apply to a change described in section 7.01(1)(a) of this revenue procedure for the taxpayer's first or second taxable year beginning after December 31, 2021.

(b) Changes made in successive taxable years. A taxpayer may make a change described in section 7.01(1)(a) of this revenue procedure for its second taxable year beginning after December 31, 2021, regardless of whether the taxpayer made a change for the same item for its first taxable year beginning after December 31, 2021.

(6) Limited audit protection. A taxpayer does not receive audit protection under section 8.01 of Rev. Proc. 2015-13 for the change under section 7.01(1)(a) of this revenue procedure with respect to expenditures paid or incurred in taxable years beginning on or before December 31, 2021. Additionally, a taxpayer does not receive audit protection under section 8.01 of Rev. Proc. 2015-13 for a change under section 7.01(1)(a) of this revenue procedure in the second taxable year beginning after December 31, 2021, with respect to expenditures paid or incurred in the first taxable year beginning after December 31, 2021, if the taxpayer did not change its method of accounting under section 7.01(1)(a) in an effort to comply with § 174 for the first taxable year beginning after December 31, 2021. See section 8.02(2) of Rev. Proc. 2015-13.

(7) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 7.01 is “265.”

(8) No inference relating to expenditures paid or incurred in taxable years prior to the first taxable year in which § 174 becomes effective. No inference may be drawn from section 7.01 of this revenue procedure regarding the treatment of expenditures paid or incurred in, and changes in methods of accounting for, taxable years in which former § 174 was in effect, including issues relating to the application of §§ 1.174-1, 1.174-2, 1.174-3, and 1.174-4 for taxable years in which former § 174 was in effect.

(9) No ruling on method used. The consent granted under section 9 of Rev. Proc. 2015-13 for a change made under section 7.01(1)(a)(i) of this revenue procedure is not a determination by the Commissioner that the new method of accounting is a permissible method of accounting, nor does it create any presumption that the new method of accounting is a permissible method of accounting. The director will ascertain whether the new method of accounting is a permissible method of accounting.

(10) Contact information. For further information regarding a change under this section, contact Bruce Chang at (202) 317-7005 (not a toll-free number).

## SECTION 8. ELECTIVE EXPENSING PROVISIONS (§ 179D)

### .01 Deduction for Energy Efficient Commercial Buildings (§ 179D).

(1) Description of change. This change, as described in Rev. Proc. 2012-39, 2012-41 I.R.B. 470, applies to a taxpayer that wants to change its method of accounting to deduct under § 179D amounts paid or incurred for the installation of energy efficient commercial building property, as defined in § 179D(c)(1). The deduction for energy

efficient commercial building property is subject to the limits of § 179D(b) and must be claimed in the taxable year in which the property is placed in service. The basis of the energy efficient commercial building property is reduced by the amount of the § 179D deduction taken and the remaining basis of the energy efficient commercial building property is depreciated over its recovery period.

(2) Applicability. This change applies to a taxpayer that places in service property for which a deduction is allowed under § 179D(a).

(3) Inapplicability. This change does not apply to a designer to whom the owner of a government building allocates the § 179D deduction.

(4) Manner of making change. A taxpayer making this change must attach to its Form 3115 (the original, the duplicate copy filed with the IRS in Ogden, UT, and any additional copies) a statement with a detailed description of the tax treatment of the property under the taxpayer's present and proposed methods of accounting.

(5) Certification requirement. In addition to the statement required by section 8.01(4) of this revenue procedure, a taxpayer making this change must attach to its Form 3115 a certification as required by section 4 of Notice 2006-52, 2006-1 C.B. 1175, or section 5 of Notice 2008-40, 2008-1 C.B. 725, to demonstrate that the energy efficient commercial building property has achieved the reduction in energy and power costs or in lighting power density necessary to qualify for the § 179D deduction.

(6) No ruling on qualification. The consent granted under section 9 of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, for a change provided in this section 8.01 is not a determination by the Commissioner that the taxpayer qualifies for a deduction under section 179D. The director will ascertain whether the taxpayer qualifies for a deduction

under section 179D (including a review of the required certifications). See section 12 of Rev. Proc. 2015-13.

(7) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 8.01 is “152.”

(8) Contact information. For further information regarding a change under this section, contact Charles Hyde at (202) 317-5214 (not a toll-free number).

## SECTION 9. COMPUTER SOFTWARE EXPENDITURES (§§ 162, 167, and 197)

### .01 Computer software expenditures.

(1) Description of change. This change applies to a taxpayer that wants to change its method of accounting for the costs of computer software to a method described in Rev. Proc. 2000-50, 2000-2 C.B. 601, as modified by Rev. Proc. 2007-16, 2007-1 C.B. 358. Section 5 of Rev. Proc. 2000-50 describes the methods applicable to the costs of developing computer software. Section 6 of Rev. Proc. 2000-50 describes the method applicable to the costs of acquired computer software. Section 7 of Rev. Proc. 2000-50 describes the method applicable to leased or licensed computer software. Section 13206 of Public Law 115-97, 131 Stat. 2054 (Dec. 22, 2017), commonly referred to as the Tax Cuts and Jobs Act (TCJA), amended § 174 to treat the costs of software development as research or experimental expenditures, effective for amounts paid or incurred in taxable years beginning after December 31, 2021. Section 12 of Notice 2023-63, 2023-39 I.R.B. 919, as modified by Notice 2024-12, provides that, as a result of the TCJA amendments to § 174 and the rules in sections 3 through 5 of Notice 2023-63, section 5 of Rev. Proc. 2000-50 is obsolete for costs of developing software paid or incurred in taxable years beginning after December 31, 2021.



Accordingly, section 5 of Rev. Proc. 2000-50 (costs of developing computer software) applies only to costs of developing computer software paid or incurred in any taxable year beginning on or before December 31, 2021.

(2) Scope. This change applies to all costs of computer software as defined in section 2 of Rev. Proc. 2000-50. However, this change does not apply to any computer software that is subject to amortization as an “amortizable section 197 intangible” as defined in § 197(c) and the regulations thereunder, or to costs that a taxpayer has treated as research and experimentation expenditures under § 174.

(3) Inapplicability. This change does not apply to costs of developing computer software that are paid or incurred in taxable years beginning after December 31, 2021.

(4) Statement required. If a taxpayer is changing to the method described in section 5.01(2) of Rev. Proc. 2000-50, the taxpayer must attach to its Form 3115 a statement providing the information required in section 8.02(2) of Rev. Proc. 2000-50.

(5) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 9.01 is “18.”

(6) Contact information. For further information regarding a change under this section, contact Bruce Chang at (202) 317-7005 (not a toll-free number).

## SECTION 10. START-UP EXPENDITURES AND ORGANIZATIONAL FEES (§§ 195, 248, AND 709)

### .01 Start-up expenditures.

#### (1) Description of change and scope.

(a) Applicability. This change applies to a taxpayer that wants to change its method of accounting under § 195 to change:

- (i) the characterization of an item as a start-up expenditure;
- (ii) the determination of the taxable year in which the taxpayer begins the active trade or business to which the start-up expenditures relate; or
- (iii) the amortization period of a start-up expenditure to 180 months.

(b) Inapplicability. This change does not apply to:

- (i) start-up expenditures paid or incurred before October 23, 2004; or
- (ii) start-up expenditures paid or incurred after October 22, 2004, and before August 17, 2011, if the period of limitations on assessment of tax for the taxable year the election under § 1.195-1(b) is deemed made has expired.

(2) No rulings.

(a) Characterization of item. The consent granted under section 9 of Rev. Proc. 2015-13 for a change specified in section 10.01(1)(a)(i) of this revenue procedure is not a determination by the Commissioner that the taxpayer has properly characterized an item as a start-up expenditure and does not create any presumption that the proposed characterization of an item as a start-up expenditure is permissible under § 195(c)(1). The director will ascertain whether the taxpayer's characterization of an item as a start-up expenditure is permissible.

(b) When active trade or business begins. The consent granted under section 9 of Rev. Proc. 2015-13 for a change specified in section 10.01(1)(a)(ii) of this revenue procedure is not a determination by the Commissioner that the taxpayer has properly determined the taxable year in which the taxpayer begins the active trade or business to which the start-up expenditures relate and does not create any presumption

that the proposed taxable year in which the taxpayer begins the active trade or business to which the start-up expenditures relate is permissible under § 195(c)(2). The director will ascertain whether the taxpayer's determination of the taxable year in which the taxpayer begins the active trade or business to which the start-up expenditures relate is permissible.

(3) Designated automatic accounting method change number. The designated automatic accounting method change number for a change to a method of accounting under this section 10.01 is "223."

(4) Contact information. For further information regarding a change under this section, contact Elizabeth Binder at (202) 317-7005 (not a toll-free number).

.02 Organizational expenditures under § 248.

(1) Description of change and scope.

(a) Applicability. This change applies to a corporation that wants to change its method of accounting under § 248 to change:

- (i) the characterization of an item as an organizational expenditure;
- (ii) the determination of the taxable year in which the corporation begins business to which the organizational expenditures relate; or
- (iii) the amortization period of an organizational expenditure to 180 months.

(b) Inapplicability. This change does not apply to:

- (i) organizational expenditures paid or incurred before October 23, 2004; or

(ii) organizational expenditures paid or incurred after October 22, 2004, and before August 17, 2011, if the period of limitations on assessment of tax for the taxable year the election under § 1.248-1(c) is deemed made has expired.

(2) No rulings.

(a) Characterization of items. The consent granted under section 9 of Rev. Proc. 2015-13 for a change specified in section 10.02(1)(a)(i) of this revenue procedure is not a determination by the Commissioner that the corporation has properly characterized an item as an organizational expenditure and does not create any presumption that the proposed characterization of an item as an organizational expenditure is permissible under § 248(b) and § 1.248-1(b). The director will ascertain whether the corporation's characterization of an item as an organizational expenditure is permissible.

(b) When the corporation begins business. The consent granted under section 9 of Rev. Proc. 2015-13 for a change specified in section 10.02(1)(a)(ii) of this revenue procedure is not a determination by the Commissioner that the corporation has properly determined the taxable year in which the corporation begins business to which the organizational expenditures relate and does not create any presumption that the proposed taxable year in which the corporation begins business to which the organizational expenditures relate is permissible under §1.248-1(d). The director will ascertain whether the corporation's determination of the taxable year in which the corporation begins business to which the organizational expenditures relate is permissible.

(3) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 10.02 is “228.”

(4) Contact information. For further information regarding a change under this section, contact Sharon Horn at (202) 317-7003 (not a toll-free number).

.03 Organization fees under § 709.

(1) Description of change and scope.

(a) Applicability. This change applies to a partnership that wants to change its method of accounting under § 709 to change:

- (i) the characterization of an item as an organizational expense;
- (ii) the determination of the taxable year in which the partnership begins business to which the organizational expenses relate; or
- (iii) the amortization period of an organizational expense to 180 months.

(b) Inapplicability. This change does not apply to:

- (i) organizational expenses paid or incurred before October 23, 2004; or
- (ii) organizational expenses paid or incurred after October 22, 2004, and before August 17, 2011, if the period of limitations on assessment of tax for the taxable year the election under § 1.709-1(b) is deemed made has expired.

(2) No rulings.

(a) Characterization of items. The consent granted under section 9 of Rev. Proc. 2015-13 for a change specified in section 10.03(1)(a)(i) of this revenue procedure is not a determination by the Commissioner that the partnership has properly

characterized an item as an organizational expense and does not create any presumption that the proposed characterization of an item as an organizational expense is permissible under § 709(b)(3). The director will ascertain whether the partnership's characterization of an item as an organizational expense is permissible.

(b) When the partnership begins business. The consent granted under section 9 of Rev. Proc. 2015-13 for a change specified in section 10.03(1)(a)(ii) of this revenue procedure is not a determination by the Commissioner that the partnership has properly determined the taxable year in which the partnership begins business to which the organizational expenses relate and does not create any presumption that the proposed taxable year in which the partnership begins business to which the organizational expenses relate is permissible under §1.709-2(c). The director will ascertain whether the partnership's determination of the taxable year in which the partnership begins business to which the organizational expenses relate is permissible.

(3) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 10.03 is "229."

(4) Contact information. For further information regarding a change under this section, contact Elizabeth Zanet at (202) 317-5279 (not a toll-free number).

## SECTION 11. CAPITAL EXPENDITURES (§ 263)

### .01 Package design costs.

#### (1) Description of change.

(a) Applicability. This change applies to a taxpayer that wants to change its method of accounting for package design costs that are within the scope of Rev. Proc. 97-35, 1997-2 C.B. 448, as modified by Rev. Proc. 98-39, 1998-1 C.B. 1320, to

one of the three alternative methods of accounting for package design costs described in section 5 of Rev. Proc. 97-35, which are: (i) the capitalization method, (ii) the design-by-design capitalization and 60-month amortization method, and (iii) the pool-of-cost capitalization and 48-month amortization method.

(b) Inapplicability. This change does not apply to a taxpayer that wants to change to the capitalization method for costs of developing or modifying any package design that has an ascertainable useful life.

(2) Additional requirements. If a taxpayer is changing its method of accounting for package design costs to the capitalization method or the design-by-design capitalization and 60-month amortization method, the taxpayer must attach a statement to its timely filed Form 3115. The statement must provide a description of each package design, the date on which each was placed in service, and the cost basis of each (as determined under sections 5.01(2) or 5.02(2) of Rev. Proc. 97-35).

(3) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 11.01 is "19."

(4) Contact information. For further information regarding a change under this section, contact Maria Castillo Valle at (202) 317-7003 (not a toll-free number).

.02 Line pack gas or cushion gas.

(1) Description of change. This change applies to a taxpayer that wants to change its method of accounting for line pack gas or cushion gas to a method consistent with the holding in Rev. Rul. 97-54, 1997-2 C.B. 23. Rev. Rul. 97-54 holds that the cost of line pack gas or cushion gas is a capital expenditure under § 263, the cost of recoverable line pack gas or recoverable cushion gas is not depreciable, and the

cost of unrecoverable line pack gas or unrecoverable cushion gas is depreciable under §§ 167 and 168.

(2) Additional requirements. A taxpayer that changes its method of accounting for unrecoverable line pack gas or unrecoverable cushion gas under this section 11.02 must change to a permissible method of accounting for depreciation for the cost of that gas as part of this change.

(3) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 11.02 is “20.”

(4) Contact information. For further information regarding a change under this section, contact Douglas Kim at (202) 317-7003 (not a toll-free number).

.03 Removal costs.

(1) Description of change.

(a) Applicability. This change applies to a taxpayer that wants to change its method of accounting for certain costs in the retirement and removal of a depreciable asset to conform with Rev. Rul. 2000-7, 2000-1 C.B. 712, as modified by this revenue procedure, or for removal costs in disposal of a depreciable asset, including a partial disposition, as described under § 1.263(a)-3(g)(2)(i).

(b) Inapplicability. This change does not apply to a taxpayer that wants to change its method of accounting for removal costs in the disposal of a component of a unit of property where the disposal of the component is not a disposition for federal tax purposes. To make that change, see section 11.08 of this revenue procedure.



(c) Manner of making change. A qualified small taxpayer, as defined in section 6.01(4)(b) of this revenue procedure, is required to complete only the following information on Form 3115 (Rev. December 2022):

- (i) The identification section of page 1 (above Part I);
- (ii) The signature section at the bottom of page 1;
- (iii) Part I, line 1(a);
- (iv) Part II, all lines except lines 13, 15, 16, 17, and 19, if the change is not to depreciating property;
- (v) Part II, all lines except lines 13, 15b, 16, 17, and 19, if the change is to depreciating property;
- (vi) Part IV, lines 26 and 27; and
- (vii) Schedule E, if applicable.

(2) Additional requirements.

(a) Except for assets for which depreciation is determined in accordance with § 1.167(a)-11 (ADR), the taxpayer's proposed method of treating removal costs for assets accounted for in a multiple asset account must be consistent with the taxpayer's method of treating salvage proceeds. See Rev. Rul. 74-455, 1974-2 C.B. 63. (See section 6.02 of this revenue procedure for changing a taxpayer's present method of treating salvage proceeds.)

(b) If this change involves assets that are public utility property within the meaning of § 168(i)(10) or former § 167(l)(3)(A), the taxpayer must comply with the terms and conditions in section 6.01(3)(b)(v) of this revenue procedure.

(3) Certain eligibility rule inapplicable. The eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, does not apply to this change.

(4) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 11.03 is “21.”

(5) Contact information. For further information regarding a change under this section, contact Douglas Kim at (202) 317-7003 (not a toll-free number).

.04 Distributor commissions.

(1) Description of change.

(a) Applicability. This change applies to a taxpayer that wants to change from currently deducting distributor commissions (as defined by section 2 of Rev. Proc. 2000-38, 2002-2 C.B. 310, as modified by Rev. Proc. 2007-16, 2007-1 C.B. 358) to a method of capitalizing and amortizing distributor commissions using the distribution fee period method, the 5-year method, or the useful life method (all described in Rev. Proc. 2000-38).

(b) Inapplicability. This change does not apply to an amortizable section 197 intangible (including any property for which a timely election under § 13261(g)(2) of the Revenue Reconciliation Act of 1993, 1993-3 C.B. 1, 128, was made).

(2) Manner of making change. This change is made on a cut-off basis and applies only to distributor commissions paid or incurred on or after the beginning of the year of change. Accordingly, a § 481(a) adjustment is neither permitted nor required.

(3) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 11.04 is “47.”

(4) Contact information. For further information regarding a change under this section, contact Maria Castillo Valle at (202) 317-7003 (not a toll-free number).

.05 Intangibles.

(1) Description of change. This change applies to a taxpayer that wants to change its treatment of an item to a method of accounting permitted by §§ 1.263(a)-4, 1.263(a)-5, and 1.167(a)-3(b). See Rev. Proc. 2006-12, 2006-1 C.B. 310, as modified by Rev. Proc. 2006-37, 2006-2 C.B. 499, for the specific requirements, information, and documentation required for this change.

(2) Section 481(a) adjustment. In computing the § 481(a) adjustment for this change, the taxpayer takes into account only amounts paid or incurred in taxable years ending on or after January 24, 2002. See section 5 of Rev. Proc. 2006-12 for detailed rules for computing the § 481(a) adjustment and reporting it on Form 3115.

(3) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 11.05 is “78.”

(4) Contact information. For further information regarding a change under this section, contact Alicia Lee-Won at (202) 317-7003 (not a toll-free number).

.06 Rotable spare parts safe harbor method.

(1) Description of change. This change applies to a taxpayer that maintains a pool or pools of rotatable spare parts that are primarily used to repair customer-owned (or customer-leased) equipment under warranty or maintenance agreements, and wants to change its method of accounting for the rotatable spare parts to the safe harbor method of accounting provided in Rev. Proc. 2007-48, 2007-2 C.B. 110. The taxpayer must meet the requirements in section 4.01 of Rev. Proc. 2007-48 to use this safe harbor method of accounting.

(2) Change from safe harbor method. A taxpayer that is required to change its method of accounting from the safe harbor method under section 5.06 of Rev. Proc. 2007-48, must make the change under section 21.09 of this revenue procedure.

(3) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 11.06 is “109.”

(4) Contact information. For further information regarding a change under this section, contact Eugene Kirman at (202) 317-7003 (not a toll-free number).

.07 Repairable and reusable spare parts.

(1) Description of change.

(a) Applicability. This change applies to a taxpayer that wants to change its method of accounting to treat repairable and reusable spare parts as depreciable property to conform with the holdings in Rev. Rul. 69-200, 1969-1 C.B. 60, and Rev. Rul. 69-201, 1969-1 C.B. 60. This change applies to repairable and reusable spare parts that: are owned by the taxpayer at the beginning of the year of change; are used to repair equipment owned by the taxpayer; are acquired by the taxpayer for a specific type of equipment at the time that the related equipment is acquired; usually have the same useful life as the related equipment; and have been placed in service by the taxpayer after 1986. A taxpayer making a change in method of accounting under this section 11.07 may treat its repairable and reusable spare parts as tangible property for which depreciation is allowable at the time that the related equipment is placed in service by the taxpayer. The method of computing depreciation for the repairable and reusable spare parts is the same method of computing depreciation for the related equipment.

(b) Inapplicability. This change does not apply to:

(i) A taxpayer that is currently capitalizing and depreciating the cost of its repairable and reusable spare parts, or that is currently capitalizing the cost of its repairable and reusable spare parts and treating these parts as nondepreciable property (but see section 6.01 of this revenue procedure for making a change from an impermissible to a permissible method of accounting for depreciation);

(ii) A taxpayer that is using an impermissible method of accounting for depreciation for the related equipment for which the repairable and reusable spare parts are acquired, unless the taxpayer concurrently changes its method to use a permissible method of accounting for depreciation under section 6 of this revenue procedure;

(iii) A repairable and reusable spare part that meets the definition of rotatable spare parts, temporary spare parts, or standby emergency spare parts in § 1.162-3(c)(2) or (3), for which the cost was paid or incurred by the taxpayer in a taxable year beginning on or after January 1, 2014 (or in a taxable year beginning on or after January 1, 2012, if the taxpayer chooses to apply § 1.162-3 to amounts paid or incurred in those taxable years), and for which the taxpayer did not make the election under § 1.162-3(d) to capitalize and depreciate such repairable and reusable spare part; or

(iv) a taxpayer that chooses to apply § 1.162-3T to a repairable and reusable spare part that meets the definition of rotatable spare parts or temporary spare parts in § 1.162-3T(c)(2), for which the cost was paid or incurred by the taxpayer in a taxable year beginning on or after January 1, 2012, and before January 1, 2014, and for

which the taxpayer did not make the election under § 1.162-3T(d) to capitalize and depreciate such repairable and reusable spare part.

(2) Additional requirements.

(a) To change a method of accounting under this section 11.07, a taxpayer (including a qualified small taxpayer as defined in section 6.01(4)(b) of this revenue procedure) must complete Schedule E of Form 3115 for the repairable and reusable spare parts and also attach the following information to the completed Form 3115:

(i) A description of the repairable and reusable spare parts;

(ii) A list of related equipment for which the repairable and reusable spare parts are acquired; and

(iii) A complete description of the method of computing depreciation (for example, depreciation method, recovery period, convention, and applicable asset class under Rev. Proc. 87-56, 1987-2 C.B. 674, as clarified and modified by Rev. Proc. 88-22, 1988-1 C.B. 785) that the taxpayer uses for the related equipment for which the repairable and reusable spare parts are acquired.

(b) Reduced filing requirement for qualified small taxpayers. A qualified small taxpayer, as defined in section 6.01(4)(b) of this revenue procedure, is required to complete only the following information on Form 3115 (Rev. December 2022):

(i) The identification section of page 1 (above Part I);

(ii) The signature section at the bottom of page 1;

(iii) Part I;

(iv) Part II, all lines except lines 13, 15b, 16, 17, and 19; and

(v) Part IV, all lines except line 25.

(3) Concurrent automatic change.

(a) A taxpayer making both this change and a change to a UNICAP method under section 12.01, 12.02, 12.08, or 12.12 of this revenue procedure (as applicable) for the same year of change should file a single Form 3115 for both changes, in which case the taxpayer must enter the designated automatic accounting method change numbers for both changes on the appropriate line on that Form 3115. See section 6.03(1)(b) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, for information on making concurrent changes. For example, a qualified small taxpayer, as defined in section 6.01(4)(b) of this revenue procedure, must include on the single Form 3115 the information required by section 11.07(2)(b) of this revenue procedure and the information required by the lines on Form 3115, applicable to the UNICAP method change, including Part II lines 14 and 15, Part IV, and Schedule D, and must include a separate response to each line on Form 3115 that is applicable to both changes (such as Part II lines 6b, 7, 8b, 14, and, as applicable for this change, Part IV) for which the taxpayer's response is different for this change and the change to a UNICAP method.

(b) A taxpayer making both this change and a change to a permissible method of accounting for depreciation for repairable and reusable spare parts, or for the related equipment for which the repairable and reusable spare parts are acquired, under section 6 of this revenue procedure (as applicable) for the same year of change should file a single Form 3115 for both changes, in which case the taxpayer must enter the designated automatic accounting method change numbers for both changes on the appropriate line on that Form 3115. See section 6.03(1)(b) of Rev. Proc. 2015-13 for information on making concurrent changes. For example, a qualified small taxpayer must include on the single Form 3115 the information required to be completed on Form

3115 by a qualified small taxpayer under this revenue procedure for each change in method of accounting included on that Form 3115.

(c) A taxpayer making this change also may establish pools for the repairable and reusable spare parts or may identify disposed repairable and reusable spare parts in accordance with section 6.12 of this revenue procedure. A taxpayer making both this change and the change under section 6.12 of this revenue procedure for the same year of change should file a single Form 3115 for both changes, in which case the taxpayer must enter the designated automatic accounting method change numbers for both changes on the appropriate line on that Form 3115. See section 6.03(1)(b) of Rev. Proc. 2015-13 for information on making concurrent changes. For example, a qualified small taxpayer must include on the single Form 3115 the information required to be completed on Form 3115 by a qualified small taxpayer under this revenue procedure for each change in method of accounting included on that Form 3115.

(4) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 11.07 is “121.”

(5) Contact information. For further information regarding a change under this section, contact Eugene Kirman at (202) 317-7003 (not a toll-free number).

.08 Tangible property.

(1) Description of change.

(a) Applicability. This change, as described in Rev. Proc. 2014-16, 2014-9 I.R.B. 606, applies to a taxpayer that wants to make a change to a method of accounting specified in section 11.08(2) of this revenue procedure and permitted under:



(i) Section 1.162-3, § 1.162-4, § 1.263(a)-1, § 1.263(a)-2, or § 1.263(a)-3 (the final tangible property regulations) for taxable years beginning on or after January 1, 2012; or

(ii) Section 1.446-1(e)(2)(ii)(d)(2) if the property for which the taxpayer is otherwise changing its method of accounting under this section is depreciable under either the present or the proposed method of accounting.

(b) Inapplicability. This change does not apply to:

(i) A taxpayer that wants to change its method of accounting for dispositions of depreciable property, including a change in the asset disposed of (but see sections 6.10, 6.13, 6.14, and 6.15 of this revenue procedure);

(ii) Amounts paid or incurred for certain materials and supplies that the taxpayer has elected to capitalize and depreciate under § 1.162-3(d);

(iii) Amounts paid or incurred to which the taxpayer has elected to apply the de minimis safe harbor under § 1.263(a)-1(f);

(iv) Amounts paid or incurred for employee compensation or overhead that the taxpayer has elected to capitalize under § 1.263(a)-2(f)(2)(iv)(B);

(v) Amounts paid or incurred to which the taxpayer has elected to apply the safe harbor for small taxpayers under § 1.263(a)-3(h);

(vi) Amounts paid or incurred for repair and maintenance costs that the taxpayer has elected to capitalize under § 1.263(a)-3(n);

(vii) Amounts paid or incurred to facilitate the acquisition or disposition of assets that constitute a trade or business (but see section 10.05 of this revenue procedure); or

(viii) Amounts paid or incurred for repair and maintenance costs that the taxpayer is changing from capitalizing to deducting and for which the taxpayer has (A) claimed a federal income tax credit, (B) elected to apply § 168(k)(4) (as in effect on the day before the date of enactment of Public Law 115-97, 131 Stat. 2054 (Dec. 22, 2017), commonly referred to as the Tax Cuts and Jobs Act (TCJA)), or (C) received a payment for specified energy property in lieu of tax credits under section 1603 of the American Recovery and Reinvestment Tax Act of 2009, Div. B of Pub. L. No. 111-5, 123 Stat. 115 (February 17, 2009), as amended by section 707 of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, Pub. L. No. 111-312, 124 Stat. 3296 (December 17, 2010).

(2) Covered changes. This section 11.08 only applies to the following changes in methods of accounting:

(a) A change to deducting amounts paid or incurred to acquire or produce non-incidental materials and supplies in the taxable year in which they are first used in the taxpayer's operations or consumed in the taxpayer's operations in accordance with §§ 1.162-3(a)(1) and 1.162-3(c)(1);

(b) A change to deducting amounts to acquire or produce incidental materials and supplies in the taxable year in which paid or incurred in accordance with §§ 1.162-3(a)(2) and 1.162-3(c)(1);

(c) A change to deducting amounts paid or incurred to acquire or produce non-incidental rotatable and temporary spare parts in the taxable year which the taxpayer disposes of the parts in accordance with §§ 1.162-3(a)(3) and 1.162-3(c)(2);

(d) A change to the optional method of accounting for rotatable and temporary spare parts in accordance with § 1.162-3(e);

(e) A change to deducting amounts paid or incurred for repair and maintenance in accordance with § 1.162-4, including a change, if any, in identifying the unit of property under § 1.263(a)-3(e) or, in the case of a building, identifying the building structure or building systems under § 1.263(a)-3(e)(2) for purposes of making the change to deducting the amounts;

(f) A change to capitalizing amounts paid or incurred for improvements to tangible property in accordance with § 1.263(a)-3 and, if depreciable, to depreciating such property under § 167 or § 168, including a change, if any, in identifying the unit of property under § 1.263(a)-3(e) or, in the case of a building, identifying the building structure or building systems under § 1.263(a)-3(e)(2) for purposes of making the change to capitalizing the amounts;

(g) A change by a dealer in property to deduct amounts paid or incurred for commissions and other costs that facilitate the sale of property in accordance with § 1.263(a)-1(e)(2);

(h) A change by a non-dealer in property to capitalizing amounts paid or incurred for commissions and other costs that facilitate the sale of property in accordance with § 1.263(a)-1(e);

(i) A change to capitalizing amounts paid or incurred to acquire or produce property in accordance with § 1.263(a)-2, and if depreciable, to depreciating such property under § 167 or § 168;

(j) A change to deducting amounts paid or incurred in the process of investigating or otherwise pursuing the acquisition of real property if the amounts meet the requirements of § 1.263(a)-2(f)(2)(iii); and

(k) A change to the optional regulatory accounting method in accordance with § 1.263(a)-3(m) to determine whether amounts paid or incurred to repair, maintain, or improve tangible property are treated as deductible expenses or capital expenditures.

(3) Manner of making change.

(a) Form 3115. In addition to the other information required on line 14 of Form 3115, the taxpayer must include the following:

(i) The citation to the paragraph of the final tangible property regulations that provides for the proposed method, or methods, of accounting to which the taxpayer is changing (for example, § 1.162-3(a), § 1.263(a)-3(i), § 1.263(a)-3(k)); and

(ii) If the taxpayer is changing any unit(s) of property under § 1.263(a)-3(e) or, in the case of a building, is changing the identification of any building structure(s) or building system(s) under § 1.263-3(e)(2) for purposes of determining whether amounts are deducted as repair and maintenance costs under section § 1.162-4 or capitalized as improvement costs under § 1.263(a)-3, the taxpayer must include a detailed description of the unit(s) of property, building structure(s), or buildings system(s) used under its present method of accounting and a detailed description of the unit(s) of property, building structure(s), and building system(s) under its proposed method of accounting, together with a citation to the paragraph of the final tangible property regulations under which the unit of property is permitted.

(iii) A taxpayer changing its method of accounting under this section 11.08 to capitalizing amounts paid or incurred and to depreciating such property under § 167 or § 168, as applicable, must complete Schedule E of Form 3115.

(b) Reduced filing requirement for qualified small taxpayers. A qualified small taxpayer, as defined in section 6.01(4)(b) of this revenue procedure, is required to complete only the following information on Form 3115 (Rev. December 2022):

- (i) The identification section of page 1 (above Part I);
- (ii) The signature section at the bottom of page 1;
- (iii) Part I, line 1(a);
- (iv) Part II, all lines except lines 13, 15, 16, 17, and 19, if the change is to not depreciating property;
- (v) Part II, all lines except line 13, line 15b, 16, 17, and 19, if the change is to depreciating property;
- (vi) Part IV, lines 26 and 27; and
- (vii) Schedule E, if applicable.

(4) Concurrent automatic change.

(a) A taxpayer making two or more changes in method of accounting pursuant to this section 11.08 should file a single Form 3115 for all of these changes and must enter the designated automatic accounting method change numbers for all of these changes on the appropriate line on the Form 3115.

(b) A taxpayer making both one or more changes in method of accounting pursuant to this section 11.08 and a change to a UNICAP method under section 12 of this revenue procedure (as applicable) for the same year of change should file a single Form 3115 that includes all of these changes and must enter the designated automatic accounting method change numbers for all of these changes on the appropriate line on that Form 3115. See section 6.03(1)(b) of Rev. Proc. 2015-13 for information on making concurrent changes. For example, a qualified small taxpayer, as

defined in section 6.01(4)(b) of this revenue procedure, must include on the single Form 3115 the information required by section 11.08(3)(b) of this revenue procedure for this change and the information required by the lines on Form 3115, applicable to the UNICAP method change, including Part II lines 14 and 15, Part IV, and Schedule D, and must include a separate response to each line on Form 3115 that is applicable to both changes (such as Part II lines 6b, 7, 8b, 14, and, as applicable for this change, Part IV) for which the taxpayer's response is different for this change and the change to a UNICAP method.

(5) Section 481(a) adjustment.

(a) In general. Except as provided in section 11.08(5)(b) of this revenue procedure, a taxpayer changing to a method of accounting provided in this section 11.08 must apply § 481(a) and take into account any applicable § 481(a) adjustment in the manner provided in section 7.03 of Rev. Proc. 2015-13.

(b) Limited adjustment for certain changes.

(i) Final tangible property regulations. A taxpayer changing to a method of accounting under § 1.162-3 (except § 1.162-3(e)), § 1.263(a)-2(f)(2)(iii), § 1.263(a)-2(f)(3)(ii), § 1.263(a)-3(m), § 1.263A-1(e)(2)(i)(A), and § 1.263A-1(e)(3)(ii)(E) is required to calculate a § 481(a) adjustment as of the first day of the taxpayer's taxable year of change that takes into account only amounts paid or incurred in taxable years beginning on or after January 1, 2014. Optionally, a taxpayer may take into account amounts paid or incurred in taxable years beginning on or after January 1, 2012.

(ii) Small business exception. A taxpayer that met the scope requirements of section 4 of Rev. Proc. 2015-20, 2015-9 I.R.B. 694, and that changed

its method of accounting under section 10.11(3)(a) of Rev. Proc. 2015-14 (which is now section 11.08(2) of this revenue procedure) by following section 5 of Rev. Proc. 2015-20 is required to calculate a § 481(a) adjustment as of the first day of the year of change that takes into account only amounts paid or incurred in taxable years beginning on or after January 1, 2014.

(c) Itemized listing on Form 3115. A taxpayer changing to a method of accounting provided in this section 11.08 must include on Form 3115 (Rev. December 2022), Part IV, line 26, the total § 481(a) adjustment for each change in method of accounting being made. If the taxpayer is making more than one change in method of accounting under the final tangible property regulations, the taxpayer (including a qualified small taxpayer) must include on an attachment to Form 3115:

(i) The information required by Part IV, line 26 of Form 3115 (Rev. December 2022) for each change in method of accounting (including the amount of the § 481(a) adjustment for each change in method of accounting, which includes the portion of the § 481(a) adjustment attributable to UNICAP);

(ii) The information required by Part II, line 14 of Form 3115 (Rev. December 2022) for each change; and

(iii) The citation to the paragraph of the final tangible property regulations that provides for each proposed method of accounting.

(d) Repair allowance property. A taxpayer changing to a method of accounting provided by § 1.263(a)-3 under this section 11.08 must not include in the § 481(a) adjustment any amount attributable to property for which the taxpayer elected to apply the repair allowance under § 1.167(a)-11(d)(2) for any taxable year in which the repair allowance election was made.

(e) Statistical Sampling. Except for any change in accounting method for which a taxpayer is required to compute a § 481(a) adjustment under section 11.08(5)(b) of this revenue procedure, a taxpayer changing its method of accounting under this section 11.08 may use statistical sampling in determining the § 481(a) adjustment by following the guidance provided in Rev. Proc. 2011-42, 2011-37 I.R.B. 318.

(6) No audit protection. A taxpayer calculating a § 481(a) adjustment under section 11.08(5)(b)(ii) of this revenue procedure that takes into account only amounts paid or incurred in taxable years beginning on or after January 1, 2014, does not receive audit protection under section 8.01 of Rev. Proc. 2015-13 for amounts subject to a change under this section 11.08 that are paid or incurred in taxable years beginning before January 1, 2014. See section 5.02 of Rev. Proc. 2015-20.

(7) Designated automatic accounting method change number. See the following table for the designated automatic accounting method change numbers (DCN) for the changes in method of accounting under this section 11.08.



**(a) Changes under the final tangible property regulations.**

<b>Description of Change</b>	<b>DCN</b>	<b>Citation</b>
A change to deducting amounts paid or incurred for repair and maintenance or a change to capitalizing amounts paid or incurred for improvements to tangible property and, if depreciable, to depreciating such property under § 167 or § 168. Includes a change, if any, in the method of identifying the unit of property, or in the case of a building, identifying the building structure or building systems for the purpose of making this change.	184	§§ 1.162-4, 1.263(a)-3
Change to the regulatory accounting method.	185	§ 1.263(a)-3(m)
Change to deducting non-incidental materials and supplies when used or consumed.	186	§ 1.162-3(a)(1), (c)(1)
Change to deducting incidental materials and supplies when paid or incurred.	187	§ 1.162-3(a)(2), (c)(1)
Change to deducting non-incidental rotatable and temporary spare parts when disposed of.	188	§ 1.162-3(a)(3), (c)(2)
Change to the optional method for rotatable and temporary spare parts.	189	§ 1.162-3(e)
Change by a dealer in property to deduct commissions and other costs that facilitate the sale of property.	190	§ 1.263(a)-1(e)(2)
Change by a non-dealer in property to capitalizing commissions and other costs that facilitate the sale of property.	191	§ 1.263(a)-1(e)(1)
Change to capitalizing acquisition or production costs and, if depreciable, to depreciating such property under § 167 or § 168.	192	§ 1.263(a)-2
Change to deducting certain costs for investigating or pursuing the acquisition of real property (whether and which).	193	§ 1.263(a)-2(f)(2)(iii)

(8) Contact information. For further information regarding a change under this section, contact Douglas Kim at (202) 317-7003 (not a toll-free number).

**.09 Railroad track structure expenditures.**

(1) Description of change. This change applies to a taxpayer that wants to change its method of accounting for railroad track structures to:

(a) the safe harbor method provided in Rev. Proc. 2002-65, 2002-2 C.B. 700; or

(b) the safe harbor method provided in Rev. Proc. 2001-46, 2001-2 C.B. 263.

(2) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 11.09 is “213.”

(3) Contact information. For further information regarding a change under this section, contact Douglas Kim at (202) 317-7003 (not a toll-free number).

.10 Remodel-refresh safe harbor method.

(1) Description of change.

(a) Applicability. This change applies to a qualified taxpayer as defined in section 4.01 of Rev. Proc. 2015-56, 2015-49 I.R.B. 827, and within the scope of Rev. Proc. 2015-56 that wants to change to the remodel-refresh safe harbor method of accounting provided in section 5.02 of Rev. Proc. 2015-56, as modified by Rev. Proc. 2020-25, 2020-19 I.R.B. 785, for its qualified costs, including the making of a late general asset account election as provided under section 5.02(6)(d) of Rev. Proc. 2015-56.

(b) Inapplicability. This change does not apply to the following:

(i) The revocation of a partial disposition election that is made pursuant to section 5.02(4)(b)(ii)(B) of Rev. Proc. 2015-56;

(ii) A change in determination of the asset disposed of described in section 5.02(5) of Rev. Proc. 2015-56 (which is made under section 6.13(3)(a) or 6.15(3)(a) of this revenue procedure, as applicable). See section 11.10(5)(b) of this revenue

procedure for making the change under section 6.13(3)(a) or 6.15(3)(a) of this revenue procedure as a concurrent change;

(iii) The making of a late general asset account election not provided under section 5.02(6)(d) of Rev. Proc. 2015-56;

(iv) If section 5.02(4)(c) of Rev. Proc. 2015-56 applies to a qualified building (partial disposition election made in a prior year and the qualified taxpayer did not revoke such election within the time and in the manner provided in section 5.02(4)(b)(ii) of Rev. Proc. 2015-56), any qualified costs paid for that qualified building prior to the year of change for a Form 3115 filed to make the change to the remodel-refresh safe harbor method of accounting under this section 11.10; or

(v) If section 5.02(5)(b) of Rev. Proc. 2015-56 applies to a qualified building (recognized gain or loss under § 1.168(i)-1 or § 1.168(i)-8, or in a taxable year beginning before January 1, 2012, for disposition of a component of a qualified building) and the qualified taxpayer did not make the required change in method of accounting to be in accord with § 1.168(i)-1(e)(2)(viii) or § 1.168-8(c)(4), as applicable, on or before the first taxable year that the qualified taxpayer uses the remodel-refresh safe harbor and takes the entire amount of the § 481(a) adjustment into account in computing the qualified taxpayer's taxable income for that year of change, any qualified costs paid for that qualified building prior to the first taxable year that the qualified taxpayer or the IRS makes the change specified in section 6.13(3)(a) or 6.15(3)(a) of this revenue procedure, as applicable, for that qualified building and takes into account the entire amount of the § 481(a) adjustment in computing taxable income for the year of change.

(2) No audit protection. If section 5.02(4)(c) or 5.02(5)(b) of Rev. Proc. 2015-56 applies to a qualified building (and, in the case of section 5.02(5)(b), the qualified

taxpayer does not make the required change on or before the first taxable year that the qualified taxpayer uses the remodel-refresh safe harbor), the qualified taxpayer does not receive audit protection under section 8.01 of Rev. Proc. 2015-13 in connection with this change for that qualified building. See section 8.02(2) of Rev. Proc. 2015-13.

(3) Manner of making change.

(a) Reduced filing requirement for qualified small taxpayers. A qualified small taxpayer, as defined in section 6.01(4)(b) of this revenue procedure, may complete only the following information on Form 3115 (Rev. December 2022):

- (i) The identification section of page 1 (above Part I);
- (ii) The signature section at the bottom of page 1;
- (iii) Part I, line 1(a);
- (iv) Part II, all lines except lines 5, 13, 15, 16, 17, and 19;
- (v) Part IV, lines 25, 26, and 27;
- (vi) Schedule E; and
- (vii) If applicable, the election statement described in section 11.10(3)(b)(ii).

(b) Late general asset account election.

(i) In general. If under section 5.02(6)(d) of Rev. Proc. 2015-56 the qualified taxpayer is required to make a late general asset account election, the late general asset account election change is made using a modified cut-off method under which the unadjusted depreciable basis and the depreciation reserve of the asset as of the beginning of the year of change are accounted for using the new method of accounting. The late general asset account election change requires the general asset account to include a beginning balance for both the unadjusted depreciable basis and the depreciation reserve. The beginning balance for the unadjusted depreciable basis

of each general asset account is equal to the sum of the unadjusted depreciable bases as of the beginning of the year of change for all assets included in that general asset account. The beginning balance of the depreciation reserve of each general asset account is equal to the sum of the greater of the depreciation allowed or allowable as of the beginning of the year of change for all assets included in that general asset account.

(ii) Election statement. The qualified taxpayer (including a qualified small taxpayer) must attach to its Form 3115 a statement providing that the qualified taxpayer agrees to the following additional terms and conditions:

(A) The qualified taxpayer consents to, and agrees to apply, all of the provisions of § 1.168(i)-1 to the assets that are subject to the election specified in section 5.02(6)(d) of Rev. Proc. 2015-56; and

(B) Except as provided in § 1.168(i)-1(c)(1)(ii)(A), (e)(3), (g), or (h), the election made by the qualified taxpayer under section 5.02(6)(d) of Rev. Proc. 2015-56 is irrevocable and will be binding on the qualified taxpayer for computing taxable income for the year of change and for all subsequent taxable years with respect to the assets that are subject to this election.

(c) Cut-off method required for certain changes.

(i) If section 5.02(4)(c) of Rev. Proc. 2015-56 applies to a qualified building, the change to the remodel-refresh safe harbor method of accounting for that qualified building, and any improvements to that qualified building, is made using a cut-off method and applies only to qualified costs paid or incurred for that qualified building, and any improvements to that qualified building, beginning in the year of change for the change made to the remodel-refresh safe harbor method of accounting.

(ii) If section 5.02(5)(b) of Rev. Proc. 2015-56 applies to a qualified building and the qualified taxpayer does not change its present method of accounting to be in accord with § 1.168(i)-1(e)(2)(viii) or § 1.168(i)-8(c)(4), as applicable, on or before the first taxable year that the qualified taxpayer used the remodel-refresh safe harbor and take the entire amount of the § 481(a) adjustment into account in computing the qualified taxpayer's taxable income for that year of change, the change to the remodel-refresh safe harbor method of accounting for that qualified building, and any improvements to that qualified building, is made using a cut-off method and applies only to qualified costs paid or incurred for that qualified building, and any improvements to that qualified building, beginning in the year of change for the change made to comply with § 1.168(i)-1(e)(2)(viii) or § 1.168(i)-8(c)(4), as applicable. See section 6.13(3)(a) and section 6.15(3)(a) of this revenue procedure, as applicable.

(4) Section 481(a) adjustment.

(a) In general. A qualified taxpayer changing its method of accounting under this section 11.10 must apply § 481(a) and take into account any applicable § 481(a) adjustment in the manner provided in section 7.03 of Rev. Proc. 2015-13. However, a § 481(a) adjustment is neither required nor permitted for the late general asset account election under section 5.02(6)(d) of Rev. Proc. 2015-56 or, if section 5.02(4)(c) or 5.02(5)(b) of Rev. Proc. 2015-56 applies to a qualified building, and an improvement to a qualified building (and, in the case of section 5.02(5)(b) of Rev. Proc. 2015-56, the qualified taxpayer did not make the required change on or before the first taxable year that the qualified taxpayer uses the remodel-refresh safe harbor), for the change to the remodel-refresh safe harbor method of accounting for that qualified building and an improvement to that qualified building.

(b) Repair allowance property. A qualified taxpayer changing to the method of accounting provided under this section 11.10 must not include in the § 481(a) adjustment any amount attributable to property for which the qualified taxpayer elected to apply the repair allowance under § 1.167(a)-11(d)(2) for any taxable year in which the repair allowance election was made.

(c) Statistical sampling. A qualified taxpayer changing its method of accounting under this section 11.10 may use statistical sampling in determining the § 481(a) adjustment only by following the sampling procedures provided in Rev. Proc. 2011-42, 2011-37 I.R.B. 318.

(5) Concurrent automatic change.

(a) A qualified taxpayer making this change for more than one asset for the same year of change should file a single Form 3115 for all such assets. The single Form 3115 must provide a single net § 481(a) adjustment for all such changes.

(b) A qualified taxpayer making this change, a change under section 6.13(3)(a) of this revenue procedure, and any change listed in section 6.12(3)(b) or section 6.15 of this revenue procedure for the same year of change should file a single Form 3115 for all such changes and must enter the designated automatic accounting method change numbers for the changes on the appropriate line on the Form 3115. See section 6.03(1)(b) of Rev. Proc. 2015-13 for information on making concurrent changes.

(6) Designated automatic accounting method change number. The designated automatic accounting method change number for a change to the method of accounting under this section 11.10 is “222.”

(7) Contact information. For further information regarding a change under this section, contact Samuel Terhaar at (202) 317-5100 (not a toll-free number).

## SECTION 12. UNIFORM CAPITALIZATION (UNICAP) METHODS (§ 263A)

.01 Certain uniform capitalization (UNICAP) methods used by resellers and reseller-producers.

### (1) Description of change.

(a) Applicability. This change applies to:

(i) a reseller that is a former small business taxpayer, or a reseller-producer that is a former small business taxpayer, that wants to change from a permissible non-UNICAP inventory capitalization method to a permissible UNICAP method specifically described in the regulations in the first taxable year that it does not qualify as a small business taxpayer;

(ii) a reseller-producer that wants to change from a permissible UNICAP method for both its production and resale activities to a permissible simplified resale method described in § 1.263A-3(d)(3) in any taxable year that it qualifies to use a simplified resale method for both its production and resale activities under § 1.263A-3(a)(4) (resellers with de minimis production activities);

(iii) a reseller-producer that wants to change from a permissible simplified resale method described in § 1.263A-3(d)(3) for both its production and resale activities to a permissible UNICAP method specifically described in the regulations for both its production and resale activities in the first taxable year that it does not qualify to use a simplified resale method for both its production and resale activities under § 1.263A-3(a)(4);



(iv) a reseller that wants to change its permissible UNICAP method to include a special reseller cost allocation rule;

(v) a reseller or reseller-producer that wants to change to a UNICAP method (or methods) specifically described in the regulations, including any necessary changes in the identification of costs subject to § 263A that will be accounted for using the proposed method, in any taxable year other than the first taxable year that it does not qualify as a small business taxpayer; or

(vi) a reseller or reseller-producer that wants to change from not capitalizing a cost subject to § 263A to capitalizing that cost under a UNICAP method (or methods) specifically described in the regulations that the reseller or reseller-producer is already using.

(b) Inapplicability.

(i) Self constructed assets. This change does not apply to a taxpayer that wants to use either the simplified service cost method, the simplified production method, or the modified simplified production method for self-constructed assets under §§ 1.263A-1(h)(2)(i)(D), 1.263A-2(b)(2)(i)(D), and 1.263A-2(c)(2), respectively.

(ii) Election or revocation of election to use a historic absorption ratio.

This change does not apply to a taxpayer that (1) wants to make a historic absorption ratio election with the simplified production method, the modified simplified production method, or the simplified resale method under §§ 1.263A-2(b)(4), 1.263A-2(c)(4), or 1.263A-3(d)(4), respectively; or (2) wants to revoke an election to use a historic absorption ratio with the simplified production method, the modified simplified

production method, or the simplified resale method (see §§ 1.263A-2(b)(4)(iii)(B), 1.263A-2(c)(4), or 1.263A-3(d)(4)(iii)(B), respectively).

(iii) Interest capitalization. This change does not apply to a change in method of accounting for interest capitalization (but see section 12.14 of this revenue procedure).

(iv) Recharacterizing costs under the simplified resale method, simplified production method, or modified simplified production method. This change does not include a change to recharacterize section 471 costs, as defined in § 1.263A-1(d)(2), as additional section 263A costs, as defined in § 1.263A-1(d)(3) (or vice versa) for a taxpayer that uses or is changing to the simplified resale method, the simplified production method, or the modified simplified production method. See section 12.17 of this revenue procedure for certain changes to recharacterize section 471 costs as additional section 263A costs (or vice versa).

(v) Revocation of election under § 263A(d)(3). This change does not apply to a taxpayer that wants to revoke its election under § 263A(d)(3) not to have § 263A apply to certain plants produced by the taxpayer in a farming business. But see Rev. Proc. 2020-13, 2020-11 I.R.B. 515, for the procedures to revoke an election under § 263A(d)(3).

(vi) Direct reallocation or step-allocation methods. This change does not apply to a taxpayer that wants to change either to or from the direct reallocation method or the step-allocation method under §§ 1.263A-1(g)(4)(iii)(A) and 1.263A-1(g)(4)(iii)(B), respectively.

(vii) Election or revocation of election to use 90-10 de minimis rule. This change does not apply to a taxpayer that presently uses the direct reallocation

method or the step-allocation method under §§ 1.263A-1(g)(4)(iii)(A) and 1.263A-1(g)(4)(iii)(B), respectively, and (1) wants to elect the 90-10 de minimis rule, under § 1.263A-1(g)(4)(ii), to allocate a mixed service department's costs to resale activities; or (2) wants to revoke an election to use the 90-10 de minimis rule to allocate a mixed service department's costs to resale activities.

(2) Eligibility rule inapplicable. The eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, does not apply to the change described in section 12.01(1)(a)(i) of this revenue procedure.

(3) Definitions.

(a) "Reseller" means a taxpayer that acquires real or personal property described in § 1221(a)(1) for resale.

(b) "Producer" means a taxpayer that produces real or tangible personal property.

(c) "Reseller-producer" means a taxpayer that is both a producer and a reseller.

(d) "Permissible UNICAP method" means a method of capitalizing costs that is permissible under § 263A.

(e) "A UNICAP method specifically described in the regulations" does not include any other reasonable allocation method within the meaning of § 1.263A-1(f)(4). However, a "UNICAP method specifically described in the regulations" includes:

(i) the 90-10 de minimis rule to allocate a mixed service department's costs to resale activities (§ 1.263A-1(g)(4)(ii)) (but see paragraph (1)(b)(vii) of this section);

- (ii) the 1/3 - 2/3 rule to allocate labor costs of personnel to purchasing activities (§ 1.263A-3(c)(3)(ii)(A));
- (iii) the 90-10 de minimis rule to allocate a dual-function storage facility's costs to property acquired for resale (§ 1.263A-3(c)(5)(iii)(C));
- (iv) the specific identification method (§ 1.263A-1(f)(2));
- (v) the burden rate method (§ 1.263A-1(f)(3)(i));
- (vi) the standard cost method (§ 1.263A-1(f)(3)(ii));
- (vii) the direct reallocation method (§ 1.263A-1(g)(4)(iii)(A)) (but see paragraphs (1)(b)(vi) and (vii) of this section);
- (viii) the step-allocation method (§ 1.263A-1(g)(4)(iii)(B)) (but see paragraphs (1)(b)(vi) and (vii) of this section);
- (ix) the simplified service cost method (§ 1.263A-1(h)) (with either a labor-based allocation ratio or a production cost allocation ratio);
- (x) the simplified resale method without a historic absorption ratio election (§ 1.263A-3(d));
- (xi) the alternative method to determine amounts of section 471 costs by using a taxpayer's financial statement (§ 1.263A-1(d)(2)(iii));
- (xii) the method to determine amounts of section 471 costs by using the amounts incurred in the taxable year for federal income tax purposes (§ 1.263A-1(d)(2)(i));
- (xiii) the safe harbor method for certain variances and under- or over-applied burdens (§ 1.263A-1(d)(2)(v));
- (xiv) the removal of one or more costs from section 471 costs as required in § 1.263A-1(d)(2)(vi);

(xv) the removal of one or more costs from section 471 costs using negative adjustments to additional section 263A costs as permitted in § 1.263A-

1(d)(3)(ii)(B);

(xvi) the de minimis rule for certain direct labor costs (§ 1.263A-1(d)(2)(iv)(B));

(xvii) the de minimis rule for certain direct material costs (§ 1.263A-1(d)(2)(iv)(C));

(xviii) the simplified production method without a historic absorption ratio election (§ 1.263A-2(b));

(xix) the modified simplified production method without a historic absorption ratio election (§ 1.263A-2(c));

(xx) the direct material costs or pre-production labor costs allocation methods for capitalizable mixed service costs under the modified simplified production method (§ 1.263A-2(c)(3)(iii)(B)); and

(xxi) the 90-10 de minimis rule to allocate capitalizable mixed service costs under the modified simplified production method (§ 1.263A-2(c)(3)(iii)(C)).

(f) “Special reseller cost allocation rule” means the 90-10 de minimis rule to allocate a mixed service department’s costs to property acquired for resale (§ 1.263A-1(g)(4)(ii)), the 1/3 – 2/3 rule to allocate labor costs of personnel to purchasing activities (§ 1.263A-3(c)(3)(ii)(A)), and the 90-10 de minimis rule to allocate a dual-function storage facility’s costs to property acquired for resale (§ 1.263A-3(c)(5)(iii)(C)).

(g) “Permissible non-UNICAP inventory capitalization method” means a method of capitalizing inventory costs that is permissible under § 471.

(h) “Small business taxpayer” means a taxpayer, other than a tax shelter under § 448(d)(3), proposed § 1.448-2(b)(2), or § 1.448-2(b)(2), as applicable, that meets the § 448(c) gross receipts test as provided in § 448(c), proposed § 1.263A-1(j), or § 1.263A-1(j), as applicable. The § 448(c) gross receipts test is met if a taxpayer has average annual gross receipts for the three prior taxable years of \$25,000,000 or less (adjusted for inflation), as described in § 448(c), proposed §§ 1.448-2(c), or § 1.448-2(c), as applicable. For taxable years beginning in 2019, 2020 and 2021, the inflation-adjusted amount is \$26,000,000. See Rev. Proc. 2018-57, 2018-49 I.R.B. 827, Rev. Proc. 2019-44, 2019-47 I.R.B. 1093, or Rev. Proc. 2020-45, 2020-46 I.R.B. 1016, as applicable. For a taxable year beginning in 2022, the inflation-adjusted amount is \$27,000,000. See Rev. Proc. 2021-45, 2021-48 I.R.B. 764. For a taxable year beginning in 2023, the inflation-adjusted amount is \$29,000,000. See Rev. Proc. 2022-38, 2022-45 I.R.B. 445. For a taxable year beginning in 2024, the inflation-adjusted amount is \$30,000,000. See Rev. Proc. 2023-34, 2023-48 I.R.B. 1287.

(i) “Former small business taxpayer” means a taxpayer that no longer qualifies as a small business taxpayer. A former small business taxpayer includes a taxpayer that no longer qualifies as a small business taxpayer for the year of change because it is a tax shelter under § 448(d)(3), proposed § 1.448-2(b)(2), or § 1.448-2(b)(2), as applicable.

(4) Section 481(a) adjustment period. Except as otherwise provided in this section 12.01(4), beginning with the year of change, a taxpayer changing its method of accounting for costs under section 12.01(1)(a)(ii) or 12.01(1)(a)(iii) of this revenue procedure generally must take any applicable net positive § 481(a) adjustment for such change into account ratably over the same number of taxable years, not to exceed four,

that the taxpayer used its former method of accounting. A taxpayer changing its method of accounting for costs under section 12.01(1)(a)(i), 12.01(1)(a)(iv), 12.01(1)(a)(v), or 12.01(1)(a)(vi) of this revenue procedure must take any applicable net positive § 481(a) adjustment for such change into account as provided in section 7.03 of Rev. Proc. 2015-13.

(5) Multiple changes. A taxpayer making both this change and another change in method of accounting for the same year of change must comply with the ordering rules of § 1.263A-7(b)(2).

(6) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 12.01 is “22.”

(7) Example. The following example illustrates the principles of this section 12.01 and 12.16 for small business taxpayers and former small business taxpayers.

X is a C corporation incorporated on January 2, 2017, that adopted a taxable year ending December 31 and an overall accrual method of accounting. X is a reseller of personal property. To determine whether X is a small business taxpayer, as provided in section 12.01(3)(h) of this revenue procedure, X calculated its average annual gross receipts for the three taxable years (or fewer, if applicable) immediately preceding the taxable year being analyzed as shown in the table below, in accordance with § 1.263A-1(j):

#### **Example – Average AGR Calculation**

<b>Current Taxable Year</b>	<b>Average Annual Gross Receipts for the Three Taxable Years Immediately Preceding the Current Taxable Year</b>
2017	0
2018	24,000,000
2019	27,000,000
2020	27,000,000
2021	25,000,000

Furthermore, X adopted the dollar-value LIFO inventory method and has the following LIFO inventory balances determined without considering the effects of the UNICAP method:

### Example – Inventory Balance Calculation

Year	Beginning	Ending
2017	\$10,000,000	\$11,000,000
2018	11,000,000	12,000,000
2019	12,000,000	13,000,000
2020	13,000,000	14,000,000
2021	14,000,000	15,000,000

X was not required to use the UNICAP method for 2017 and 2018 because its average annual gross receipts for such years made X a small reseller, as described in section 12.01(3)(b) of Rev. Proc. 2019-43, prior to modification by Rev. Proc. 2022-9, 2022-2 I.R.B. 310 for 2017, and a small business taxpayer, as described in section 12.01(3)(h) of this revenue procedure, for 2018. X was required by § 263A to change to the UNICAP method for 2019 because its average annual gross receipts for the three taxable years immediately preceding 2019 were \$27,000,000, which exceeded the \$26,000,000 threshold permitted by the small business taxpayer exemption under § 263A(i). Assume that X was required to capitalize \$800,000 of “additional § 263A costs” to the cost of its 2019 beginning inventory because of this change in inventory method. In addition, X was required to include one-fourth of the § 481(a) adjustment when computing taxable income for each of the four taxable years beginning with 2019. Thus, X was required to include a \$200,000 positive § 481(a) adjustment in its 2019 taxable income.

X elected to use the simplified resale method without a historic absorption ratio election under § 1.263A-3(d)(3) for determining the amount of additional § 263A costs to be capitalized to each LIFO layer. Assume that X was required to add \$100,000 of additional § 263A costs to the cost of its 2019 ending inventory because of the \$1,000,000 increment for 2019.

### X's 2019 Ending Inventory:

Description	Amount
Beginning Inventory (Without UNICAP costs)	\$12,000,000
2019 Increment	1,000,000
Additional § 263A Costs in Beginning Inventory	800,000
Additional § 263A Costs in 2019 Increment	<u>100,000</u>
Total 2019 Ending Inventory	<u>\$13,900,000</u>



**X's Unamortized 2019 § 481(a) Adjustment:**

<b>Description</b>	<b>Amount</b>
2019 § 481(a) Adjustment	\$800,000
Amount included in 2019 Taxable Income	<200,000>
Unamortized 2019 § 481(a) Adjustment—12/31/19	<u>\$600,000</u>

Because X's average annual gross receipts of \$27,000,000 for the three taxable years immediately preceding 2020 exceeded the \$26,000,000 threshold, X failed to qualify for the small business taxpayer exemption for 2020 and was required to continue using the UNICAP method for its inventory costs. Furthermore, X was required to include \$200,000 of the unamortized 2019 positive § 481(a) adjustment in its 2020 taxable income. Assume that X was required to add \$100,000 of additional § 263A costs to the cost of its 2020 ending inventory because of the \$1,000,000 increment for 2020.

**X's 2020 Ending Inventory:**

<b>Description</b>	<b>Amount</b>
<b>Beginning Inventory (With UNICAP costs)</b>	<b>\$13,900,000</b>
2020 Increment	1,000,000
Additional § 263A Costs in 2020 Increment	<u>100,000</u>
Total 2020 Ending Inventory	<u>\$15,000,000</u>

**X's Unamortized 2019 § 481(a) Adjustment:**

<b>Description</b>	<b>Amount</b>
Unamortized 2019 § 481(a) Adjustment—12/31/19	\$600,000
Amount Included in 2020 Taxable Income	<200,000>
Unamortized 2019 § 481(a) Adjustment—12/31/20	<u>\$400,000</u>

Because X's average annual gross receipts of \$25,000,000 for the three taxable years immediately preceding 2021 did not exceed the \$26,000,000 threshold, X

satisfied the small business taxpayer exemption under section 263A(i) for 2021 and may change voluntarily from the UNICAP method to a method that no longer capitalizes costs under § 263A for 2021, as provided in section 12.16 of this revenue procedure. To reflect the removal of the additional § 263A costs from the cost of its 2021 beginning inventory, X must compute a corresponding § 481(a) adjustment, which is a negative \$1,000,000 (\$14,000,000 - \$15,000,000). The entire amount of this negative § 481(a) adjustment is included in X's taxable income for 2021. In addition, X must take the \$400,000 remaining portion of the unamortized 2019 § 481(a) adjustment into account in its taxable income for 2021, as provided in section 12.16(5) of this revenue procedure.

**X's 2021 Ending Inventory:**

<b>Description</b>	<b>Amount</b>
Inventory (With UNICAP costs) Beginning	\$15,000,000
2021 Increment	1,000,000
2021 § 481(a) Adjustment <Negative>	<1,000,000>
Total 2021 Ending Inventory	<u>\$15,000,000</u>

**X's Unamortized 2019 § 481(a) Adjustment:**

<b>Description</b>	<b>Amount</b>
Unamortized 2019 § 481(a) Adjustment—12/31/20	\$400,000
Amount included in 2021 Taxable Income	<400,000>
Unamortized 2019 § 481(a) Adjustment—12/31/21	<u>\$ 0</u>

**X's Unamortized 2021 § 481(a) Adjustment:**

<b>Amount</b>	<b>Description</b>
2021 § 481(a) Adjustment <Negative>	\$<1,000,000>
Amount included in 2021 Taxable Income	<u>1,000,000</u>
Unamortized 2021 § 481(a) Adjustment—12/31/21	<u>\$ 0</u>

(8) Contact information. For further information regarding a change under this section, contact Livia Piccolo at (202) 317-7007 (not a toll-free number).

.02 Certain uniform capitalization (UNICAP) methods used by producers and reseller-producers.

(1) Description of change.

(a) Applicability. This change applies to:

(i) a producer as defined in section 12.01(3)(b) of this revenue procedure or a reseller-producer as defined in section 12.01(3)(c) of this revenue procedure that wants to change to a UNICAP method (or methods) specifically described in the regulations, including any necessary changes in the identification of costs subject to § 263A that will be accounted for using the proposed method, in any taxable year other than the first taxable year that it does not qualify as a small business taxpayer as defined in section 12.01(3)(h) of this revenue procedure. This change includes a change from not capitalizing a cost subject to § 263A to capitalizing that cost for a producer or a reseller-producer under a UNICAP method (or methods) specifically described in the regulations that the producer or reseller-producer is already using; or

(ii) a producer or reseller-producer that is a former small business taxpayer, as defined in section 12.01(3)(i) of this revenue procedure, that wants to change from not capitalizing costs under § 263A(i) to capitalizing costs under a UNICAP method (or methods) specifically described in the regulations in the first taxable year that the taxpayer does not qualify as a small business taxpayer as defined in section 12.01(3)(h) of this revenue procedure.

(b) Inapplicability.

(i) Self-constructed assets. This change does not apply to a taxpayer that wants to use either the simplified service cost method, the simplified production method, or the modified simplified production method for self-constructed

assets under §§ 1.263A-1(h)(2)(i)(D), 1.263A-2(b)(2)(i)(D), and 1.263A-2(c)(2), respectively.

(ii) Election or revocation of election to use a historic absorption ratio. This change does not apply to a taxpayer that (1) wants to make a historic absorption ratio election with the simplified production method or the modified simplified production method under §§ 1.263A-2(b)(4) or 1.263A-2(c)(4), respectively; or (2) wants to revoke an election to use a historic absorption ratio with the simplified production method or the modified simplified production method (see §§ 1.263A-2(b)(4)(iii)(B) or 1.263A-2(c)(4), respectively).

(iii) Interest capitalization. This change does not apply to a change in method of accounting for interest capitalization (but see section 12.14 of this revenue procedure).

(iv) Recharacterizing costs under the simplified production method or modified simplified production method. This change does not include a change to recharacterize section 471 costs, as defined in § 1.263A-1(d)(2), as additional section 263A costs, as defined in § 1.263A-1(d)(3), (or vice versa) for a taxpayer that uses or is changing to the simplified production method or the modified simplified production method. See section 12.17 of this revenue procedure for certain changes to recharacterize section 471 costs as additional section 263A costs (or vice versa).

(v) Reseller-producer using the simplified resale method. This change does not apply to a reseller-producer that uses or is changing to the simplified resale method under § 1.263A-3(d) (but see section 12.01(1) of this revenue procedure for certain changes that may be made by a reseller-producer).

(vi) Direct reallocation or step-allocation methods. This change does not apply to a taxpayer that wants to change either to or from the direct reallocation method or the step-allocation method under §§ 1.263A-1(g)(4)(iii)(A) and 1.263A-1(g)(4)(iii)(B), respectively.

(vii) Election or revocation of election to use 90-10 de minimis rule. This change does not apply to a taxpayer that presently uses the direct reallocation method or the step-allocation method under §§ 1.263A-1(g)(4)(iii)(A) and 1.263A-1(g)(4)(iii)(B), respectively, and (1) wants to elect the 90-10 de minimis rule, under § 1.263A-1(g)(4)(ii), to allocate a mixed service department's costs to production or resale activities; or (2) wants to revoke an election to use the 90-10 de minimis rule to allocate a mixed service department's costs to production or resale activities.

(2) Definitions. A "UNICAP method specifically described in the regulations" does not include the simplified resale method under § 1.263A-3(d)(4) or any other reasonable allocation method within the meaning of § 1.263A-1(f)(4). However, a "UNICAP method specifically described in the regulations" includes:

(a) the 90-10 de minimis rule to allocate a mixed service department's costs to production or resale activities (§ 1.263A-1(g)(4)(ii)) (but see paragraph (1)(b)(vii) of this section);

(b) the 1/3 - 2/3 rule to allocate labor costs of personnel to purchasing activities (§ 1.263A-3(c)(3)(ii)(A));

(c) the 90-10 de minimis rule to allocate a dual-function storage facility's costs to property acquired for resale (§ 1.263A-3(c)(5)(iii)(C));

(d) the specific identification method (§ 1.263A-1(f)(2));

(e) the burden rate method (§ 1.263A-1(f)(3)(i));

(f) the standard cost method (§ 1.263A-1(f)(3)(ii));

(g) the direct reallocation method (§ 1.263A-1(g)(4)(iii)(A)) (but see paragraphs (1)(b)(vi) and (vii) of this section);

(h) the step-allocation method (§ 1.263A-1(g)(4)(iii)(B)) (but see paragraphs (1)(b)(vi) and (vii) of this section);

(i) the simplified service cost method (§ 1.263A-1(h)) (with either a labor-based allocation ratio or a production cost allocation ratio);

(j) the simplified production method without a historic absorption ratio election (§ 1.263A-2(b));

(k) the alternative method to determine amounts of section 471 costs by using a taxpayer's financial statement (§ 1.263A-1(d)(2)(iii));

(l) the method to determine amounts of section 471 costs by using the amounts incurred in the taxable year for federal income tax purposes (§ 1.263A-1(d)(2)(i));

(m) the safe harbor method for certain variances and under- or over-applied burdens (§ 1.263A-1(d)(2)(v));

(n) the removal of one or more costs from section 471 costs as required in § 1.263A-1(d)(2)(vi);

(o) the removal of one or more costs from section 471 costs using negative adjustments to additional section 263A costs as permitted in § 1.263A-1(d)(3)(ii)(B);

(p) the de minimis rule for certain direct labor costs (§ 1.263A-1(d)(2)(iv)(B));

(q) the de minimis rule for certain direct material costs (§ 1.263A-1(d)(2)(iv)(C));

(r) the modified simplified production method without a historic absorption ratio election (§ 1.263A-2(c)(3));

(s) the direct material costs or pre-production labor costs allocation methods for capitalizable mixed service costs under the modified simplified production method (§ 1.263A-2(c)(3)(iii)(B)); and

(t) the 90-10 de minimis rule to allocate capitalizable mixed service costs under the modified simplified production method (§ 1.263A-2(c)(3)(iii)(C)).

(3) Multiple changes. A taxpayer making both this change and another change in method of accounting in the same year of change must comply with the ordering rules of § 1.263A-7(b)(2).

(4) Eligibility rule inapplicable. The eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, does not apply to a change described in section 12.02(1)(a)(ii) of this revenue procedure.

(5) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 12.02 is “23.”

(6) Contact information. For further information regarding a change under this section, contact Livia Piccolo at (202) 317-7007 (not a toll-free number).

### .03 Impact fees.

(1) Description of change. This change applies to a taxpayer that incurs impact fees as defined in Rev. Rul. 2002-9, 2002-1 C.B. 614, in connection with the

construction of a new residential rental building that wants to capitalize the costs to the building under §§ 263(a) and 263A. See Rev. Rul. 2002-9 for further information.

(2) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 12.03 is “25.”

(3) Contact information. For further information regarding a change under this section, contact Livia Piccolo at (202) 317-7007 (not a toll-free number).

.04 Change to capitalizing environmental remediation costs under § 263A.

(1) Description of change. This change applies to a taxpayer that wants to change its method of accounting for environmental remediation costs from a method that does not comply with the holding in Rev. Rul. 2004-18, 2004-1 C.B. 509, to capitalizing them to inventory under § 263A.

(2) Concurrent automatic changes. A taxpayer making both this change and another automatic change under § 263A for the same year of change may file a single Form 3115 for both changes, provided the taxpayer enters the designated automatic change numbers for both changes on the appropriate line on that Form 3115, and complies with the ordering rules of § 1.263A-7(b)(2). See section 6.03(1)(b) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, for information on making concurrent changes.

(3) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 12.04 is “77.”

(4) Contact information. For further information regarding a change under this section, contact Livia Piccolo at (202) 317-7007 (not a toll-free number).

.05 Change in allocating environmental remediation costs under § 263A.



(1) Description of change. This change applies to a taxpayer that capitalizes environmental remediation costs to inventory under § 263A, but allocates these costs to inventory using a method of accounting that does not comply with the holding in Rev. Rul. 2005-42, 2005-2 C.B. 67, and wants to change to allocating these costs to inventory produced during the taxable year in which the costs are incurred under § 263A. See Rev. Rul. 2005-42 for further information.

(2) Concurrent automatic changes. A taxpayer making both this change and another automatic change under § 263A for the same year of change may file a single Form 3115 for both changes, provided the taxpayer enters the designated automatic accounting method change numbers for both changes on the appropriate line on that Form 3115, and complies with the ordering rules of § 1.263A-7(b)(2). See section 6.03(1)(b) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, for information on making concurrent changes.

(3) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 12.05 is “92.”

(4) Contact information. For further information regarding a change under this section, contact Livia Piccolo at (202) 317-7007 (not a toll-free number).

#### .06 Safe harbor methods under § 263A for certain dealerships of motor vehicles.

(1) Description of change. This change applies to a motor vehicle dealership, as defined in section 4 of Rev. Proc. 2010-44, 2010-49 I.R.B. 811, that is within the scope of section 3 of Rev. Proc. 2010-44 and wants to change its method of accounting to (1) treat its sales facility as a retail sales facility or (2) be treated as a reseller without production activities, as described in section 5 of Rev. Proc. 2010-44. A

motor vehicle dealership that wants to make an automatic change in method of accounting to use one or both safe harbor methods described in section 5 of Rev. Proc. 2010-44 may make any corresponding changes in the identification of costs subject to § 263A that will be accounted for using the proposed method (for example, to remove internal profit from inventory costs) or to no longer include negative amounts as additional § 263A costs in the numerator of the simplified resale method formula or the simplified production method formula. However, except as provided in the preceding sentence, a change under this section does not include a change for purposes of recharacterizing “§ 471 costs” as “additional § 263A costs” (or vice versa) under the simplified resale method or the simplified production method.

(2) Concurrent automatic changes. A motor vehicle dealership making an automatic change to one or both safe harbor methods described in section 5 of Rev. Proc. 2010-44 and another automatic change under § 263A for the same taxable year may file one Form 3115 to make both changes, provided the dealership enters the designated automatic change numbers for all such changes in Part I on that Form 3115, and complies with the ordering rules of § 1.263A-7(b)(2). See section 6.03(1)(b) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, for information on making concurrent changes.

(3) Multiple adjustments. In the event that a motor vehicle dealership is taking into account a § 481(a) adjustment from another accounting method change in addition to the § 481(a) adjustment required by a change to a safe harbor method described in section 5 of Rev. Proc. 2010-44, the § 481(a) adjustments must be taken into account separately. For example, a motor vehicle dealership that changed to comply with § 263A in 2009 and was required to take its § 481(a) adjustment into account over four years must continue to take into account that adjustment over the

remainder of that four year § 481(a) adjustment period even though the dealership changed to a safe harbor method described in section 5 of Rev. Proc. 2010-44 in 2010 and has an additional § 481(a) adjustment required by that change.

(4) Designated automatic accounting method change numbers. The designated automatic accounting method change number for a change to treat certain sales facilities as retail sales facilities as described in section 5.01 of Rev. Proc. 2010-44 is “150.” The designated automatic accounting method change number for a change to be treated as a reseller without production activities as described in section 5.02 of Rev. Proc. 2010-44 is “151.”

(5) Contact information. For further information regarding a change under this section, contact Livia Piccolo at (202) 317-7007 (not a toll-free number).

.07 Change to not apply § 263A to one or more plants removed from the list of plants that have a preproductive period in excess of 2 years.

(1) Description of change. This change, as described in Rev. Proc. 2013-20, 2013-14 I.R.B. 744, applies to a taxpayer that is not a corporation, partnership, or tax shelter required to use an accrual method of accounting under § 447 or § 448(a)(3), and either (a) wants to not apply § 263A, pursuant to § 263A(d)(1) and § 1.263A-4(a)(2), to the production of one or more plants that the IRS and the Treasury Department have removed from the list of plants that have a nationwide weighted average preproductive period in excess of 2 years, or (b) properly elected, pursuant to § 263A(d)(3) and § 1.263A-4(d), to not apply § 263A to the production of a plant or plants that have been removed from the list of plants that have a nationwide weighted average preproductive period in excess of 2 years, and wishes to revoke its § 263A(d)(3) election with respect to those plants. See Notice 2013-18, 2013-14 I.R.B. 742, or its successor.

(2) Manner of making change. A change under this section 12.07 is made with any necessary adjustments under § 481(a). For example, the revocation of an election under § 263A(d)(3) results in a § 481(a) adjustment that must take into account the change in depreciation from the alternative depreciation system to the general depreciation system included within such revocation.

(3) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 12.07 is “181.”

(4) Contact information. For further information regarding a change under this section, contact Patrick Clinton at (202) 317-7005 (not a toll-free number).

.08 Change to a reasonable allocation method described in § 1.263A-1(f)(4) for self-constructed assets.

(1) Description of change.

(a) Applicability. This change, as described in Rev. Proc. 2014-16, 2014-9 I.R.B. 606, applies to a producer (as defined in section 12.01(3)(b) of this revenue procedure) or a reseller-producer (as defined in section 12.01(3)(c) of this revenue procedure) that wants to change to a reasonable allocation method within the meaning of § 1.263A-1(f)(4), other than the methods specifically described in § 1.263A-1(f)(2) or (3), for self-constructed assets produced during the taxable year, including any necessary changes in the identification of costs subject to § 263A that will be accounted for using the proposed method. This section 12.08 also includes a change from not capitalizing a cost subject to § 263A to capitalizing that cost for a producer or reseller-producer under a reasonable allocation method within the meaning of § 1.263A-1(f)(4) that the producer or reseller-producer is already using for self-constructed assets, other

than the methods specifically described in § 1.263A-1(f)(2) or (3). See section 12.02 of this revenue procedure for a producer or reseller-producer that wants to change to a method described in § 1.263A-1(f)(2) or (3).

(b) Inapplicability. This change does not apply to an allocation method based on the number of units produced or an allocation method that does not allocate costs to the units of property produced. This change does not apply to a change described in another section of this revenue procedure or in other guidance published in the Internal Revenue Bulletin. For example, this change does not apply to a change described in section 12.01 or 12.02 of this revenue procedure.

(2) No ruling on reasonableness of method. The consent granted in section 9 of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, for this change is not a determination by the Commissioner that the taxpayer is using a reasonable allocation method for costs subject to § 263A and does not create any presumption that the proposed allocation method is permissible. The director will ascertain whether the taxpayer's allocation method is reasonable within the meaning of § 1.263A-1(f)(4).

(3) Multiple changes. A taxpayer making both this change and another change in method of accounting under section 11.08 of this revenue procedure for the same year of change must comply with the ordering rules of § 1.263A-7(b)(2).

(4) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 12.08 is "194."

(5) Contact information. For further information regarding a change under this section, contact Livia Piccolo at (202) 317-7007 (not a toll-free number).

.09 Real property acquired through foreclosure.

(1) Applicability. This change, as described in Rev. Proc. 2014-16, 2014-9 I.R.B. 606, applies to a taxpayer that capitalizes costs under § 263A(b)(2) and § 1.263A-3(a)(1) to real property acquired through foreclosure, or similar transaction, where the taxpayer wants to change its method of accounting to an otherwise permissible method of accounting under which the acquisition and holding costs for real property acquired through foreclosure, or similar transaction, are not capitalized under § 263A(b)(2) and § 1.263A-3(a)(1). To qualify for this change in method of accounting, a taxpayer must:

- (a) originate, or acquire and hold for investment, loans that are secured by real property; and
- (b) acquire the real property that secures the loans at a foreclosure sale, by deed in lieu of foreclosure, or in another similar transaction.

(2) Inapplicability. This change does not apply to costs capitalized under § 263A(b)(1) and § 1.263A-2(a)(1) by the taxpayer to the acquired real property as a result of production activities.

(3) Designated automatic accounting method change numbers. The designated automatic accounting method change number for a change under this section 12.09 is “195.”

(4) Contact information. For further information regarding a change under this section, contact Roy Hirschhorn at (202) 317-7007 (not a toll-free number).

#### .10 Sales-Based Royalties.

(1) Description of change. This change, as described in Rev. Proc. 2014-33, 2014-22 I.R.B. 1060, applies to a taxpayer that wants to change its method of

accounting for sales-based royalties (as described in § 1.263A-1(e)(3)(ii)(U)(2)) that are properly allocable to inventory property:

(a) From not capitalizing sales-based royalties to capitalizing these costs and allocating them entirely to cost of goods sold under a taxpayer's method of accounting;

(b) From not capitalizing sales-based royalties to capitalizing these costs and allocating them to inventory property under a taxpayer's method of accounting;

(c) From capitalizing sales-based royalties and allocating these costs to inventory property to allocating them entirely to cost of goods sold; or

(d) From capitalizing sales-based royalties and allocating these costs entirely to cost of goods sold to allocating them to inventory property.

(2) Limitations.

(a) A taxpayer may not make a change in method of accounting under this section 12.10 if the taxpayer wants to change to capitalizing sales-based royalties and allocating them to inventory property using another reasonable allocation method within the meaning of § 1.263A-1(f)(4).

(b) A taxpayer making the changes described in section 12.10(1)(a) or 12.10(1)(c) of this revenue procedure that uses a simplified method to determine the additional § 263A costs allocable to inventory property on hand at year end must remove sales-based royalties allocated to cost of goods sold from the formulas used to allocate additional § 263A costs to ending inventory in the same manner that the taxpayer included these amounts in the formulas.

(c) A taxpayer making a change in method of accounting under this section 12.10 that uses a simplified method with an historic absorption ratio election

(see §§ 1.263A-2(b)(4) and 1.263A-3(d)(4)) and currently includes, or is changing its method to include, sales-based royalties in any part of its historic absorption ratio must revise its previous and current historic absorption ratios. To revise its historic absorption ratios, the taxpayer must apply its proposed method of accounting during the test period, during all recomputation years, and during all updated test periods to determine the § 471 costs and additional § 263A costs that were incurred. The revised historic absorption ratios must be used to revalue beginning inventory and must be accounted for in the taxpayer's § 481(a) adjustment. The taxpayer must use a method described in § 1.263A-7(c) to revalue beginning inventory.

(3) Concurrent automatic changes. A taxpayer making a change under this section 12.10 and one or more automatic changes in method of accounting under § 263A for the same year of change may file a single Form 3115 for all changes, provided the taxpayer enters the designated automatic change numbers for all changes on the appropriate line on the Form 3115 and complies with the ordering rules of § 1.263A-7(b)(2). See section 6.03(1)(b) of Rev. Proc. 2015-13 for information on making concurrent changes.

(4) Designated automatic accounting method change number. The designated automatic accounting method change number for changes in method of accounting under this section 12.10 is "201."

(5) Contact information. For further information regarding a change under this section, contact Mia Romano at (202) 317-7007 (not a toll-free number).

#### .11 Treatment of Sales-Based Vendor Chargebacks under a Simplified Method.

(1) Description of change. This change, as described in Rev. Proc. 2014-33, 2014-22 I.R.B. 1060, applies to a taxpayer that wants to change its method of



accounting to no longer include cost adjustments for sales-based vendor chargebacks described in § 1.471-3(e)(1) in the formulas used to allocate additional § 263A costs to ending inventory under a simplified method.

(2) Limitations.

(a) A taxpayer making this change that uses a simplified method to determine the additional § 263A costs allocable to inventory property on hand at year end must remove sales-based vendor chargebacks from the formulas used to allocate additional § 263A costs to ending inventory in the same manner that the taxpayer included these amounts in the formulas.

(b) A taxpayer making a change in method of accounting under this section 12.11 that uses a simplified method with an historic absorption ratio election (see §§ 1.263A-2(b)(4) and 1.263A-3(d)(4)) and currently includes sales-based vendor chargebacks in any part of its historic absorption ratio must revise its previous and current historic absorption ratio(s). To revise its historic absorption ratios, the taxpayer must apply its proposed method of accounting during the test period, during all recomputation years, and during all updated test periods to determine the § 471 costs and additional § 263A costs that were incurred. The revised historic absorption ratios must be used to revalue beginning inventory and must be accounted for in the taxpayer's § 481(a) adjustment. The taxpayer must use a method described in § 1.263A-7(c) to revalue beginning inventory.

(3) Concurrent automatic changes. A taxpayer making both this change and one or more automatic changes under § 263A, or both this change and the change described in section 21.15 of this revenue procedure for the same taxable year of change may file a single Form 3115 for both changes, provided the taxpayer enters the

designated automatic change numbers for all changes on the appropriate line on the Form 3115 and complies with the ordering rules of § 1.263A-7(b)(2). See section 6.03(1)(b) of Rev. Proc. 2015-13 for information on making concurrent changes.

(4) Designated automatic accounting method change number. The designated automatic accounting method change number for changes in method of accounting under this section 12.11 is “202.”

(5) Contact information. For further information regarding a change under this section, contact Michael Supanick at (202) 317-7007 (not a toll-free number).

.12 U.S. ratio method.

(1) Change to the U.S. ratio method.

(a) Description of change. This change applies to a foreign person, as defined in Notice 88-104, 1988-2 C.B. 443, as modified by Notice 89-67, 1989-1 C.B. 723, that is required to capitalize costs under § 263A and wants to change its method of accounting to the U.S. ratio method, as described in Notice 88-104.

(b) Manner of making change. A taxpayer requesting a change on behalf of a foreign person under section 12.12(1) of this revenue procedure must make the change in accordance with the requirements set forth in section 12.12(1)(c) of this revenue procedure, and must attach a statement to the Form 3115 providing the following information:

(i) Foreign person requirement. A representation that the foreign person is a qualified business unit (QBU), as defined in § 1.989(a)-1(b), of a foreign person, or the foreign branch of a U.S. person that constitutes a separate QBU, within the meaning of Notice 88-104. If the taxpayer is requesting a change in method of accounting on behalf of multiple foreign persons, please provide a representation that

each foreign person is a QBU, as defined in § 1.989(a)-1(b), of a foreign person or the foreign branch of a U.S. person that constitutes a separate QBU, within the meaning of Notice 88-104;

(ii) Description of trade or business. The name and employer identification number (if applicable) for each foreign person and an explanation of each trade or business, as defined in § 1.446-1(d), for which a request to change to the U.S. ratio method is being made under this section 12.12(1);

(iii) Applicable U.S. trade or business requirement. The identity of the “applicable U.S. trade or business,” as defined in Notice 88-104, that the foreign person wishes to use and an explanation of how this U.S. trade or business is “the same as, or most similar to” the trade or business conducted by the foreign person. If the taxpayer is requesting a change in method of accounting for multiple foreign persons, the taxpayer must identify the “applicable U.S. trade or business” for each foreign person, and explain how the respective U.S. trade or business is “the same as, or most similar to” the trade or business conducted by the foreign person; and

(iv) Relationship requirement. An explanation of how the “applicable U.S. trade or business” identified in section 12.12(1)(b)(iii) of this revenue procedure is a trade or business conducted in the United States by a “related person,” as defined in Notice 88-104, with respect to the foreign person requesting a change under this section. If the taxpayer is requesting a change in method of accounting for multiple foreign persons, the taxpayer must explain how the “applicable U.S. trade or business” identified in section 12.12(1)(b)(iii) of this revenue procedure is a trade or business conducted in the United States by a “related person” for purposes of Notice 88-104 for

each foreign person requesting a change in method of accounting. Use § 267(b) or § 707(b), as applicable, to explain the relationship.

(c) Additional requirements.

(i) A foreign person must continue to use the U.S. ratio of the applicable U.S. trade or business identified in section 12.12(1)(b)(iii) of this revenue procedure unless consent of the Commissioner is obtained to use the U.S. ratio of a different applicable U.S. trade or business under § 446(e) (see section 12.12(2) of this revenue procedure);

(ii) In the case of a controlled foreign corporation, the controlling U.S. shareholder, or in the case of a foreign branch of a U.S. person, the U.S. person, must maintain records of the U.S. ratio used by each foreign person to calculate the additional § 263A costs capitalized to property produced and property acquired for resale for the year of change and for subsequent taxable years for each foreign person requesting a change in method of accounting under this section 12.12. In the case of a controlled foreign partnership, the U.S. partner must maintain records of the U.S. ratio used by each foreign person to calculate the additional § 263A costs capitalized to property produced and property acquired for resale for the year of change and for subsequent taxable years for each foreign person requesting a change in method of accounting under this section 12.12(1).

(iii) The § 481(a) adjustment is computed in the manner provided in Notice 88-104;

(iv) The U.S. ratio is determined, and the ratio is applied to the costs of property produced or property acquired for resale incurred by the foreign person, in accordance with Notice 88-104; and

(v) If any foreign person is unable to obtain a U.S. ratio from the applicable U.S. trade or business identified in section 12.12(1)(b)(iii) of this revenue procedure, or is otherwise no longer eligible to use the U.S. ratio method, the foreign person is no longer permitted to use the U.S. ratio method. However, the foreign person is not ineligible to use the U.S. ratio method if the foreign person is able to obtain a U.S. ratio from a different applicable U.S. trade or business, and changes the applicable U.S. trade or business pursuant to section 12.12(2) of this revenue procedure or under the non-automatic change procedures of this revenue procedure, as applicable. If a foreign person is no longer eligible to use the U.S. ratio method, it is required to change its method of accounting to a method that complies with §§ 263A and 471 using either the automatic change procedures of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, and sections 12.01, 12.02, or 12.08, as applicable, of this revenue procedure or the non-automatic change procedures of Rev. Proc. 2015-13.

(2) Change within U.S. ratio method. This change applies to a foreign person currently using the U.S. ratio method that wants to use the U.S. ratio of a different applicable U.S. trade or business for purposes of applying the U.S. ratio method as described in section 12.12(2)(a) or 12.12(2)(b) of this revenue procedure.

(a) Required change in the applicable U.S. trade or business.

(i) In general. A foreign person is permitted to change its method of accounting under this section 12.12(2)(a) to use the U.S. ratio of a different applicable U.S. trade or business, as defined in Notice 88-104, if the foreign person is no longer able to obtain the U.S. ratio from the applicable U.S. trade or business previously identified and if: (A) the U.S. person or related person in which the applicable U.S. trade or business is conducted terminates its existence; (B) the foreign person is no longer

related, within the meaning of § 267(b) or § 707(b), to the U.S. person or related person in which the applicable U.S. trade or business is conducted; or (C) the U.S. person or related person ceases to conduct the applicable U.S. trade or business.

(ii) Certain eligibility rule inapplicable. The eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13 does not apply to the change described in section 12.12(2)(a) of this revenue procedure.

(iii) Manner of making change. A foreign person making a change in method of accounting under this section 12.12(2)(a) must make the change in accordance with the requirements set forth in section 12.12(2)(c) and (d) of this revenue procedure.

(b) Other changes in the applicable U.S. trade or business.

(i) In general. If the foreign person cannot make the change in method of accounting described in section 12.12(2)(a) of this revenue procedure, or there is more than one U.S. trade or business that can reasonably be considered the “same as, or most similar to” the foreign person’s trade or business, the foreign person is permitted to change its method of accounting under this section 12.12(2)(b) to use the U.S. ratio of a different applicable U.S. trade or business.

(ii) Manner of making change. A foreign person making a change in method of accounting under this section 12.12(2)(b) must make the change in accordance with the requirements set forth in section 12.12(2)(c) and (d) of this revenue procedure.

(c) Section 481(a) adjustment. The § 481(a) adjustment is computed in the manner provided in Notice 88-104.

(d) Short Form 3115 in lieu of a standard Form 3115. In accordance with § 1.446-1(e)(3)(ii), the requirement of § 1.446-1(e)(3)(i) to file a standard Form 3115 is waived and pursuant to section 6.02(2) of Rev. Proc. 2015-13, a short Form 3115 is authorized for a change described in section 12.12(2)(a) or 12.12(2)(b) of this revenue procedure. The short Form 3115 (Rev. December 2022) must include the following information:

- (i) the identification section of page 1 (above Part I);
- (ii) the signature section at the bottom of page 1;
- (iii) Part I, line 1(a);
- (iv) Part IV, all lines except Line 25;
- (v) the information required under section 12.12(1)(b) of this revenue procedure; and
- (vi) a statement that the change in method of accounting is made under section 12.12(2)(a) or 12.12(2)(b) of Rev. Proc. 2024-23, as applicable.

(3) Designated automatic accounting method change numbers. The designated automatic accounting method change number for a change under this section 12.12 is “214.”

(4) Contact information. For further information regarding a change under this section, contact Livia Piccolo at (202) 317-7007 (not a toll-free number).

### .13 Depletion.

(1) Description of change. This change applies to a taxpayer that wants to change its method of accounting for depletion to treat these amounts as an indirect cost that is only properly allocable to property that has been sold (that is, for purposes of determining gain or loss on the sale of the property) under § 1.263A-1(e)(3)(ii)(J).

(2) Limitation.

(a) A taxpayer making this change in method of accounting that uses a simplified method to determine the additional § 263A costs allocable to inventory property on hand at year end must remove depletion allocated to cost of goods sold from the formulas used to allocate additional § 263A costs to ending inventory in the same manner that the taxpayer included these amounts in the formulas.

(b) A taxpayer making this change in method of accounting that uses a simplified method with an historic absorption ratio election (see §§ 1.263A-2(b)(4) and 1.263A-3(d)(4)) and currently includes depletion in any part of its historic absorption ratio must revise its previous and current historic absorption ratios. To revise its historic absorption ratios, the taxpayer must apply its proposed method of accounting during the test period, during all recomputation years, and during all updated test periods to determine the § 471 costs and additional § 263A costs that were incurred. The revised historic absorption ratios must be used to revalue beginning inventory and must be accounted for in the taxpayer's § 481(a) adjustment. The taxpayer must use a method described in § 1.263A-7(c) to revalue beginning inventory.

(3) Certain eligibility rule inapplicable. The eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, does not apply to this change.

(4) Concurrent automatic changes. A taxpayer making both this change and another automatic change under § 263A for the same year of change may file a single Form 3115 for both changes, provided the taxpayer enters the designated automatic change numbers for both changes on the appropriate line on that Form 3115 and complies with the ordering rules of § 1.263A-7(b)(2). See section 6.03(1)(b) of Rev. Proc. 2015-13 for information on making concurrent changes.



(5) Designated automatic accounting method change number. The designated automatic accounting method change number for a change in method of accounting under this section 12.13 is “215.”

(6) Contact information. For further information regarding a change under this section, contact Michael Supanick at (202) 317-7007 (not a toll-free number).

.14 Interest capitalization.

(1) Description of change.

(a) Applicability. This change applies to a taxpayer that wants to change its method of accounting for interest from not capitalizing any interest, capitalizing interest in accordance with its method of accounting for financial reporting purposes, or applying an improper method of capitalizing interest under §§ 1.263A-8 through -14, with respect to the production of designated property, to capitalizing interest with respect to the production of designated property in accordance with §§ 1.263A-8 through -14.

(b) Inapplicability. This change does not apply to a taxpayer that wants to change its method of accounting for interest from either capitalizing interest to not capitalizing interest or not capitalizing interest to capitalizing interest for improvements that involve the associated property rules in § 1.263A-11(e)(1)(ii)(B).

(2) Manner of making change. A taxpayer requesting a change under this section 12.14 must attach a statement to the Form 3115 with the following information:

(a) Representations as to the following:

(i) The taxpayer's method is in accordance with the avoided cost method under § 1.263A-9; and

(ii) The taxpayer will comply with § 1.263A-14 and Notice 88-99, 1988-2 C.B. 422, should the taxpayer incur average excess expenditures allocable to related persons; and

(b) Details with respect to the taxpayer's sub-methods of accounting for determining capitalizable interest in accordance with §§ 1.263A-8 through -14 (for example, whether the taxpayer elects to not trace debt under § 1.263A-9(d); the computation period(s) used under the new method; and whether the taxpayer will suspend the capitalization of interest for units of property for which production has ceased for at least 120 consecutive days as determined under § 1.263A-12(g)).

(3) Concurrent automatic changes. A taxpayer making a change under this section 12.14 and one or more automatic changes in method of accounting under § 263A for the same year of change may file a single Form 3115 for all changes, provided the taxpayer enters the designated automatic change numbers for all changes on the appropriate line on the Form 3115 and complies with the ordering rules of § 1.263A-7(b)(2). See section 6.03(1)(b) of Rev. Proc. 2015-13 for information on making concurrent changes.

(4) Designated automatic accounting method change number. The designated automatic accounting method change number for a change in method of accounting under this section 12.14 is "224."

(5) Contact information. For further information regarding a change under this section, contact Livia Piccolo at (202) 317-7007 (not a toll-free number).

.15 Change to not apply § 263A to replanting costs for lost or damaged citrus plants pursuant to § 263A(d)(2)(C).

(1) Description of change.

(a) In general. This change, as described in Rev. Proc. 2018-35, 2018-28 I.R.B. 204, applies to a taxpayer, other than the owner described in § 263A(d)(2)(A), that: (i) paid or incurred replanting costs of citrus plants after the loss or damage of citrus plants by reason of freezing temperatures, disease, drought, pests, or casualty, as described in § 263A(d)(2)(A); (ii) paid or incurred the replanting costs after December 22, 2017, and on or before December 22, 2027; (iii) satisfies the ownership test provided in section 12.15(1)(b) of this revenue procedure; and (iv) wants to change its method of accounting from applying § 263A to citrus plant replanting costs to not applying § 263A to those costs, pursuant to § 263A(d)(2)(C).

(b) Ownership test. The taxpayer satisfies the ownership test if either: (i) the owner described in § 263A(d)(2)(A) has an equity interest of not less than 50 percent in the replanted citrus plants at all times during the taxable year in which the taxpayer paid or incurred amounts for replanting costs, and the taxpayer holds any part of the remaining equity interest; or (ii) the taxpayer acquired the entirety of the equity interest of the owner described in § 263A(d)(2)(A) in the land on which the lost or damaged citrus plants were located at the time of the loss or damage, and the replanting is on such land.

(2) Certain eligibility rule inapplicable. The eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, does not apply to this change.

(3) Section 481(a) adjustment. A taxpayer making a change under this section 12.15 calculates a § 481(a) adjustment by taking into account only amounts paid or incurred after December 22, 2017, and on or before December 22, 2027.

(4) Multiple changes. A taxpayer making both this change and another change in method of accounting in the same year of change must comply with the ordering rules of § 1.263A-7(b)(2).

(5) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 12.15 is “232.”

(6) Contact information. For further information regarding a change under this section, contact Livia Piccolo at (202) 317-7007 (not a toll-free number).

.16 Small business taxpayer exception from requirement to capitalize costs under § 263A.

(1) Description of change. This change applies to a small business taxpayer, as defined in section 12.01(3)(h) of this revenue procedure, that chooses to no longer capitalize costs under § 263A, including for self-constructed assets, pursuant to § 263A(i) and § 1.263A-1(j).

(2) Inapplicability.

(a) Home construction contracts. This change does not apply to a taxpayer not required by § 460(e)(1) to capitalize costs under § 263A for home construction contracts, and that wants to make a change to no longer capitalize costs under section 263A. See section 19.01 of this revenue procedure to make this change.

(b) Election under § 263A(d)(3). This change does not apply to a small business taxpayer, as defined in section 12.01(3)(h) of this revenue procedure, that elected under § 263A(d)(3) not to have § 263A apply to certain plants produced by the taxpayer in a farming business and wants to revoke its § 263A(d)(3) election and

change to a method of accounting that no longer capitalizes costs under § 263A. But see Rev. Proc. 2020-13, 2020-11 I.R.B. 511.

(3) Eligibility rule inapplicable. For a change described in section 12.16(1) of this revenue procedure, if the taxpayer changed from not capitalizing costs under § 263A in accordance with § 263A(i) and § 1.263A-1(j) to capitalizing costs under § 263A and the accompanying regulations within the prior five taxable years ending with the year of change, and such change was made in the first taxable year that the taxpayer did not qualify as a small business taxpayer, then such change is disregarded for purposes of section 5.01(1)(f) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419.

(4) Reduced filing requirement. A taxpayer is required to complete only the following information on Form 3115 (Rev. December 2022) to make this change:

- (a) The identification section of page 1 (above Part I);
- (b) The signature section at the bottom of page 1;
- (c) Part I;
- (d) Part II, all lines except line 16; and
- (e) Part IV, all lines except line 25.

(5) Acceleration of § 481 adjustment. If a taxpayer making a change described in section 12.16(1) of this revenue procedure has a § 481(a) adjustment remaining on a prior change in method of accounting from not capitalizing costs under § 263A in accordance with § 263A(i) and § 1.263A-1(j) to capitalizing costs under § 263A and the accompanying regulations, then it must take the remaining portion of such prior § 481(a) adjustment into account in the year of change.

(6) Concurrent automatic changes. A small business taxpayer making a change under this section 12.16 and a change under sections 15.17, 22.18 and/or

22.19 of this revenue procedure for the same year of change may file a single Form 3115 for such changes, provided the taxpayer enters the designated automatic accounting method change number for each change on the appropriate line of the Form 3115. See section 6.03(1)(b) of Rev. Proc. 2015-13 for information on making concurrent changes.

(7) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 12.16 is “234.”

(8) Contact information. For further information regarding a change under this section, contact Livia Piccolo at (202) 317-7007 (not a toll-free number).

.17 Recharacterizing costs under the simplified resale method, simplified production method, or the modified simplified production method.

(1) Description of change.

(a) Applicability. This change applies to a taxpayer that uses or is changing to the simplified production method, the modified simplified production method, or the simplified resale method under §§ 1.263A-2(b), 1.263A-2(c), and 1.263A-3(d), respectively, and that wants to recharacterize a section 471 cost, as defined in § 1.263A-1(d)(2), as an additional section 263A cost, as defined in § 1.263A-1(d)(3), or vice versa, in accordance with the characterization requirements of § 1.263A-1(d)(2) and (d)(3). For example, this change applies to a taxpayer using the modified simplified production method that treats a direct cost of property produced or property acquired for resale as an additional section 263A cost and that wants to change to characterize the direct cost as a section 471 cost, as required by § 1.263A-1(d)(2)(ii).

(b) Inapplicability. This change does not apply to a change in method of accounting that is described in another section of this revenue procedure or in other guidance published in the IRB. For example, this change does not apply to a taxpayer that wants to make a change described in section 12.01 or 12.02 of this revenue procedure, such as a change to use the methods described in § 1.263A-1(d)(2)(iv), (v), or (vi), § 1.263A-2(b), § 1.263A-2(c), or § 1.263A-3(d).

(2) Restatement of financial statement. A taxpayer's restatement of its financial statement does not invalidate the taxpayer's method of accounting or change its determination of section 471 costs in earlier taxable years.

(3) Reduced filing requirement. A taxpayer is required to complete only the following information on Form 3115 (Rev. December 2022) to make this change:

- (a) The identification section of page 1 (above Part I);
- (b) The signature section at the bottom of page 1;
- (c) Part I;
- (d) Part II, all lines except lines 13, 15b, 16c, and 19;
- (e) Part IV, all lines except line 25; and
- (f) Schedule D, all Parts except Part I.

(4) Limitation. If a taxpayer making this change in method of accounting uses a historic absorption ratio election under §§ 1.263A-2(b)(4), 1.263A-2(c)(4), or 1.263A-3(d)(4)), and the change in the characterization of cost(s) under this section 12.17 affects any part of the taxpayer's historic absorption ratio, the taxpayer must revise its previous and current historic absorption ratios. To revise its historic absorption ratios, the taxpayer must apply its proposed method of accounting during the test period, during all recomputation years, and during all updated test periods to

determine the section 471 costs and additional section 263A costs that were incurred. The revised historic absorption ratios must be used to revalue beginning inventory and must be accounted for in the taxpayer's § 481(a) adjustment. The taxpayer must use a method described in § 1.263A-7(c) to revalue beginning inventory.

(5) Concurrent automatic changes. A taxpayer making both this change and another automatic change under § 263A for the same year of change may file a single Form 3115 for both changes, provided the taxpayer enters the designated automatic change numbers for both changes on the appropriate line of that Form 3115 and complies with the ordering rules of § 1.263A-7(b)(2). See section 6.03(1)(b) of Rev. Proc. 2015-13 for information on making concurrent changes.

(6) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 12.17 is "237."

(7) Contact information. For further information regarding a change under this section, contact Livia Piccolo at (202) 317-7007 (not a toll-free number).

## SECTION 13. LOSSES, EXPENSES AND INTEREST WITH RESPECT TO TRANSACTIONS BETWEEN RELATED TAXPAYERS (§ 267)

### .01 Change to comply with § 267.

(1) Description of change. This change applies to a taxpayer that wants to change its method or methods of accounting to comply with the requirements of § 267, and, to clarify, this change also applies to a taxpayer that, by reason of the exception in § 1.267(a)-3(c)(4), wants to change its method of accounting with respect to the deduction of amounts owed to a controlled foreign corporation (as defined in § 957) (CFC) that does not have any United States shareholders (as defined in § 951(b))



owning stock of the CFC within the meaning of § 958(a). However, this change does not apply to a change for original issue discount (OID), including stated interest that is OID because it is not qualified stated interest (as defined in § 1.1273-1(c)). See section 5.02 of this revenue procedure for a change to comply with § 163(e)(3) for OID on an obligation held by a related foreign person.

(2) Certain eligibility rules inapplicable. The eligibility rules in sections 5.01(1)(e) and (f) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, do not apply to this change to comply with § 267(a)(3), including a change by reason of the exception in § 1.267(a)-3(c)(4).

(3) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 13.01 is “26.”

(4) Contact information. For further information regarding a change under this section, contact Livia Piccolo at (202) 317-7007 (not a toll-free number). For further information regarding a change to comply with § 267(a)(3), contact Anisa Afshar at (202) 317-6934 (not a toll-free number).

## SECTION 14. DEFERRED COMPENSATION (§ 404)

### .01 Deferred compensation.

(1) Description of change. This change applies to a taxpayer using an overall accrual method of accounting that wants to change its method of accounting to treat bonuses or vacation pay as follows (see § 404(a)(5) and § 1.404(b)-1T, Q&A 2):

(a) Applicability.

(i) Bonuses.

(A) Bonuses not subject to capitalization under § 263A. If by the end of the taxable year all the events have occurred that establish the fact of the liability to pay a bonus and the amount of the liability can be determined with reasonable accuracy (see § 1.446-1(c)(1)(ii)), and the bonus is otherwise deductible, but the bonus is received by the employee after the 15<sup>th</sup> day of the 3<sup>rd</sup> calendar month after the end of that taxable year, to treat the bonus as deductible in the taxable year of the employer in which or with which ends the taxable year of the employee in which the bonus is includible in the gross income of the employee; or

(B) Bonuses that are subject to capitalization under § 263A. If by the end of the taxable year all the events have occurred that establish the fact of the liability to pay a bonus and the amount of the liability can be determined with reasonable accuracy (see § 1.446-1(c)(1)(ii)), and the bonus is otherwise deductible (without regard to § 263A), but the bonus is received by the employee after the 15<sup>th</sup> day of the 3<sup>rd</sup> calendar month after the end of that taxable year, to treat the bonus as capitalizable (within the meaning of § 1.263A-1(c)(3)) in the taxable year of the employer in which or with which ends the taxable year of the employee in which the bonus is includible in the gross income of the employee.

(ii) Vacation pay.

(A) Vacation pay not subject to capitalization under § 263A. If by the end of the taxable year all the events have occurred that establish the fact of the liability to pay vacation pay and the amount of the liability can be determined with reasonable accuracy (see § 1.446-1(c)(1)(ii)), and the vacation pay is otherwise deductible but the vacation pay is received by the employee after the 15<sup>th</sup> day of the 3<sup>rd</sup>

calendar month after the end of that taxable year, to treat the vacation pay as deductible in the taxable year of the employer in which the vacation pay is paid to the employee; or

(B) Vacation pay that is subject to capitalization under § 263A. If by the end of the taxable year all the events have occurred that establish the fact of the liability to pay vacation pay and the amount of the liability can be determined with reasonable accuracy (see § 1.446-1(c)(1)(ii)), and the vacation pay is otherwise deductible (without regard to § 263A), but the vacation pay is received by the employee after the 15<sup>th</sup> day of the 3<sup>rd</sup> calendar month after the end of that taxable year, to treat the vacation pay as capitalizable (within the meaning of § 1.263A-1(c)(3)) in the taxable year of the employer in which the vacation pay is paid to the employee.

(b) Inapplicability. This change does not apply to a taxpayer that is required under § 263A and the regulations thereunder to capitalize the costs with respect to which the taxpayer wants to change its method of accounting under this section 14.01 if the taxpayer is not capitalizing these costs, unless the taxpayer concurrently changes its method to capitalize these costs in conjunction with a change to a UNICAP method under section 12.01, 12.02, 12.08, or 12.12 of this revenue procedure (as applicable).

(2) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 14.01 is “28.”

(3) Contact information. For further information regarding a change under this section, contact Thomas Scholz at (202) 317-5600 (not a toll-free number).

.02 Grace period contributions.

(1) Description of change. This change applies to a taxpayer that wants to cease deducting contributions made during the § 404(a)(6) grace period to a qualified cash or deferred arrangement within the meaning of § 401(k) or to a defined contribution plan as matching contributions with the meaning of § 401(m) when the contributions are attributable to compensation earned by plan participants after the end of a taxable year as required by Rev. Rul. 2002-46, 2002-2 C.B. 117, as modified by Rev. Rul. 2002-73, 2002-2 C.B. 805.

(2) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 14.02 is “29.”

(3) Contact information. For further information regarding a change under this section, contact John Ricotta at 202-317-4102 or Joyce Kahn at 202-317-4148 (not toll-free numbers).

## SECTION 15. METHODS OF ACCOUNTING (§ 446)

.01 Change in overall method from the cash method, or from an accrual method with regard to purchases and sales of inventories and the cash method for all other items, to an accrual method.

(1) Description of change.

(a) Applicability. This change applies to a taxpayer that wants to change its overall method of accounting from the cash receipts and disbursements method (cash method), or from an accrual method with regard to purchases and sales of inventories and the cash method for computing all other items of income and expense, to an accrual method. A change under this section 15.01 applies to (1) a taxpayer required to make this change by § 448, any other section of the Code or regulations, or

in other guidance published in the Internal Revenue Bulletin (IRB), and (2) a taxpayer that wants to make this change but is not required to do so by § 448, any other section of the Code or regulations, or in other guidance published in the IRB. A taxpayer changing its overall method of accounting to an accrual method because it is prohibited from using the cash method under § 448 may use this section 15.01 regardless of whether the year of change is the first taxable year that the taxpayer is required by § 448 to change from the cash method, as defined in § 1.448-2(g)(1) (“mandatory § 448 year”), or a taxable year other than the taxpayer’s mandatory § 448 year. Similarly, a taxpayer changing its overall method of accounting to an accrual method because it is prohibited from using the cash method under § 447 may use this section 15.01 regardless of whether the year of change is the first taxable year that the taxpayer is required by § 447 to change from the cash method or a subsequent taxable year in which the taxpayer is newly subject to § 447 after previously making a change in method of accounting that complies with § 447 (“mandatory § 447 year”), or a taxable year other than a mandatory § 447 year, as applicable.

Additionally, a taxpayer qualifies to change its overall method of accounting to an accrual method using this section 15.01 even if the taxpayer is also making one or more of the following changes in method of accounting for the same year of change:

- (i) adopting the recurring item exception, as defined in section 15.01(2)(c) of this revenue procedure, for one or more types of recurring items. See § 1.461-5(d);

- (ii) adopting or changing to a permissible inventory method of accounting and is either adopting this inventory method or qualifies to change to this inventory method using the automatic change procedures of Rev. Proc. 2015-13, 2015-

5 I.R.B. 419, and a section of this revenue procedure, or the change can be made automatically under any section of the Code or regulations, or other guidance published in the IRB. See Rev. Rul. 90-38, 1990-1 C.B. 57, regarding when a taxpayer may adopt a method of accounting;

(iii) adopting or changing to a permissible § 263A method of accounting and is either adopting this § 263A method or qualifies to change to this § 263A method using the automatic change procedures of Rev. Proc. 2015-13 and a section of this revenue procedure, or the change can be made automatically under any section of the Code or regulations, or other guidance published in the IRB. See Rev. Rul. 90-38 regarding when a taxpayer may adopt a method of accounting; or

(iv) adopting or changing to any other special method of accounting (as defined in section 15.01(2)(d) of this revenue procedure) and is either adopting this special method or qualifies to change to this special method using the automatic change procedures of Rev. Proc. 2015-13 and a section of this revenue procedure, or the change can be made automatically under any section of the Code or regulations, or other guidance published in the IRB. See Rev. Rul. 90-38 regarding when a taxpayer may adopt a method of accounting.

Also, a taxpayer qualifies to use this section 15.01 when that taxpayer, in the taxable year immediately preceding the year of change, has used a permissible inventory method for that year, and, if that taxpayer was subject to § 263A for that year, has also used a permissible § 263A method for that year, and the method(s) continue to be used for the year of change.

Lastly, a taxpayer with an applicable financial statement (AFS), as defined in § 1.451-3(a)(5), that is changing its overall method of accounting to an accrual method qualifies to use this section 15.01 to comply with § 1.451-3.

(b) Inapplicability. This change does not apply to:

(i) a taxpayer that uses any combination of the cash method and an accrual method as its present overall method of accounting other than an accrual method with respect to purchases and sales of inventories and the cash method for computing all other items of income and expense;

(ii) a taxpayer that is changing its method of accounting for one or more items of income or expense, but not its overall method of accounting. See section 15.09 of this revenue procedure for a description of accounting method changes from the cash method to an accrual method for specific items that are to be made using the automatic change procedures of Rev. Proc. 2015-13 and that section;

(iii) a taxpayer that is required by the Code, regulations, or other guidance published in the IRB to use a special method such as, for example, an inventory method, a § 263A method, or a long-term contract method, in the year of change and fails to adopt or change to that method;

(iv) a taxpayer that has included in its § 481(a) adjustment any amount of deferred compensation that is described under § 457A(d)(3) that is attributable to services performed before January 1, 2009;

(v) a taxpayer that is engaged in two or more trades or businesses, unless that taxpayer makes this change for each trade or business so that the identical accrual method is used for each trade or business beginning with the year of change;

(vi) a cooperative organization described in §§ 501(c)(12), 521, or 1381;

(vii) an individual taxpayer, except for activities conducted as a sole proprietorship;

(viii) a taxpayer with an AFS that wants to make a change in method of accounting for allocating transaction price between an item of gross income that is subject to § 451 and an item of gross income that is subject to a special method of accounting, as defined in § 1.451-3(a)(14), including a change to comply with the transaction price allocation rules in § 1.451-3(d)(5);

(ix) a taxpayer with an AFS that wants to change to use the AFS cost offset method, as defined in § 1.451-3(c), if the taxpayer receives advance payments from the sale of inventory and does not also make a concurrent change to apply the advance payment cost offset method, as defined in § 1.451-8(e), for the same year of change by using section 16.08 of this revenue procedure, or a taxpayer with an AFS that wants to change to use the advance payment cost offset method if the taxpayer is required to include gross income from the sale of inventory under § 1.451-3 and does not also make a change to apply the AFS cost offset method;

(x) a taxpayer with an AFS that wants to make a change in method of accounting for specified fees as defined in § 1.451-3(j)(2), other than specified credit card fees; or

(xi) a taxpayer that wants to make a change in method of accounting for payments within the scope of the specified good exception, as defined in § 1.451-8(a)(1)(ii), if the proposed method of accounting is to include such payments in



gross income under § 1.451-3 in one or more taxable years following the taxable year of receipt.

(2) Definitions.

(a) Cash method. The cash method is the method of accounting identified by § 446(c)(1) and §§ 1.446-1(c)(1)(i), 1.451-1(a), and 1.461-1(a)(1). See also § 1.61-4(a) for specific rules relating to farmers' income; § 1.162-12, in part, for specific rules relating to farmers' expenses.

(b) Accrual method. An accrual method is a method of accounting identified by § 446(c)(2) and §§ 1.446-1(c)(1)(ii), 1.451-1(a), 1.451-3, and 1.461-1(a)(2). For a taxable year beginning after December 31, 2017, for which the taxpayer has an AFS, the all events test under § 451(b)(1)(C) and § 1.451-1(a) for any item of gross income, or portion thereof, is met no later than when that item, or portion thereof, is taken into account as AFS revenue. See § 451(b)(1) and § 1.451-3(b).

(c) Recurring item exception. The recurring item exception is the method described in § 461(h)(3) and § 1.461-5.

(d) Special method of accounting. A special method of accounting within the meaning of this section 15.01 is a method of accounting, other than the cash method, expressly permitted or required by the Code, regulations, or in other guidance published in the IRB, that deviates from the tax accrual accounting rules of §§ 446, 451, 461, and the regulations thereunder. For purposes of this section 15.01, a deferral method under § 451(c) and the regulations thereunder is deemed to be a special method of accounting. Examples of special methods of accounting include the installment method of accounting under § 453, the mark-to-market method under § 475, a long-term contract method under § 460, and the crop method under § 1.162-12. In

contrast, application of the all-events test under a specific set of facts is not a special method of accounting. See, for example, Rev. Rul. 69-314, 1969-1 C.B. 139 concerning the treatment of retainages.

(3) Manner of making change.

(a) Section 481(a) adjustment. A taxpayer changing its overall method of accounting under this section 15.01 must compute a § 481(a) adjustment. This adjustment must reflect the account receivables, account payables, inventory, and any other item determined to be necessary in order to prevent items from being duplicated or omitted. However, the adjustment does not include any item of income accrued but not received that was worthless or partially worthless, within the meaning of § 166(a), on the last day of the year immediately prior to the year of change.

(b) Change to comply with § 1.451-3. A taxpayer that uses section 15.01(1)(a) of this revenue procedure to comply with § 1.451-3 must also complete Line 3 of Schedule B of Form 3115, Application for Change in Accounting Method (Rev. December 2022).

(c) Adoption of recurring item exception. The taxpayer must attach to its Form 3115 a statement describing the types of liabilities for which the recurring item exception will be used.

(d) Concurrent automatic change to a special method.

(i) Generally only one Form 3115 required. Except as provided in section 15.01(3)(d)(ii) of this revenue procedure, a taxpayer that is changing its overall method of accounting to an accrual method under this section 15.01 and changing to one or more special methods, as permitted under section 15.01(1)(a)(ii), (iii), or (iv) of this revenue procedure, must timely file a single Form 3115 for all changes and must

enter the designated automatic accounting method change numbers for all changes on the appropriate line of Form 3115. For example, a taxpayer making both an overall change in method of accounting from the cash method to an accrual method under this section 15.01 and a change to the deferral method for advance payments under section 16.08 of this revenue procedure must timely file a single Form 3115 for both changes and enter the designated automatic accounting method change numbers for both changes on the appropriate line on that Form 3115. See section 6.03(1)(b) of Rev. Proc. 2015-13 for information on making concurrent changes.

(ii) Two Forms 3115 required when a concurrent change is being implemented under section 32.01 of this revenue procedure for short-term obligations.

When a taxpayer subject to § 1281 is changing its method of accounting for interest income on short-term obligations as part of the overall change in method of accounting to an accrual method under this section 15.01, that taxpayer must request the change for the interest income under section 32.01 of this revenue procedure. The taxpayer must timely file individual Forms 3115 for each change requested. This section 15.01 will govern the overall change in method of accounting to an accrual method.

(e) Concurrent change in accounting method not permitted to be implemented using the automatic change procedures of Rev. Proc. 2015-13 and a section of this revenue procedure, any section of the Code or regulations, or other guidance published in the IRB. A taxpayer that does not qualify to change its overall method of accounting to an accrual method under this section 15.01 because that taxpayer is concurrently changing to a method of accounting that may not be implemented using the automatic change procedures of Rev. Proc. 2015-13 and a section of this revenue procedure, any section of the Code or regulations, or other

guidance published in the IRB, must timely request both changes using the non-automatic change procedures in Rev. Proc. 2015-13. See Rev. Proc. 2024-1, 2024-1 I.R.B. 1 (or successor), for more information on whether one Form 3115 is required to request the changes, and for information on the appropriate user fee.

(4) Change made in the taxpayer's mandatory § 448 year. If the year of change is a mandatory § 448 year, as defined in § 1.448-2(g)(1), such taxpayer makes the change from the cash method to an accrual method under the provisions of this section 15.01 and must comply with all the requirements and provisions of § 1.448-2(g), in addition to the requirements and provisions of this section 15.01.

(5) Prior change eligibility rule inapplicable. Any prior overall accounting method change to the cash method that the taxpayer implemented using the provisions of Rev. Proc. 2001-10, as modified by Rev. Proc. 2011-14, or Rev. Proc. 2002-28, as modified by Rev. Proc. 2011-14, is disregarded for purposes of section 5.01(1)(e) of Rev. Proc. 2015-13. Additionally, for a taxpayer making a change from the cash method in a mandatory § 448 year, a mandatory § 447 year, or in the first taxable year it is required to use an accrual method for purchases and sales of inventories as a result of becoming a former small business taxpayer, as defined in section 12.01(3)(i) of this revenue procedure, and having to apply § 1.446-1(c)(2)(i), as applicable, any prior change to the overall cash method is disregarded for purposes of section 5.01(1)(e) of Rev. Proc. 2015-13.

(6) Designated automatic accounting method change number.

(a) Change made in the mandatory § 448 year. The designated automatic accounting method change number for a change from the cash method to an accrual method in the mandatory § 448 year is "257."

(b) Change made for a taxpayer subject to § 447. The designated automatic accounting method change number for a change from the cash method to an accrual method for a taxpayer subject to § 447 under this section 15.01 is “258.”

(c) All other changes under this section 15.01. The designated automatic accounting method change number for all other changes from the cash method or from an accrual method with regard to purchases and sales of inventories and the cash method for computing all other items of income and expense to an accrual method under this section 15.01 is “122.”

(7) Contact information. For further information regarding a change under this section, contact Mia Romano at 202-317-7007 (not a toll-free number).

.02 Multi-year insurance policies for multi-year service warranty contracts.

(1) Description of change.

(a) Applicability. This change applies to a manufacturer, wholesaler, or retailer of motor vehicles or other durable consumer goods that wants to change its method of accounting for insurance costs paid or incurred to insure its risks under multi-year service warranty contracts to the method described in section 15.02(2) of this revenue procedure. Multi-year service warranty contracts to which this change applies include only those separately priced contracts sold by a manufacturer, wholesaler, or retailer also selling the motor vehicles or other durable consumer goods underlying the contracts (to the ultimate customer or to an intermediary). The classification of goods as “durable consumer goods” for purposes of this change depends on the common usage of the goods, rather than the purchaser’s actual intended use of the goods.

(b) Inapplicability. This change does not apply to a taxpayer that covers its risks under its multi-year service warranty contracts through arrangements not constituting insurance.

(2) Description of method. If a taxpayer purchases a multi-year service warranty insurance policy (in connection with its sale of multi-year service warranty contracts to customers) by paying a lump-sum premium in advance, the taxpayer must capitalize the amount paid or incurred and may only obtain deductions for that amount by prorating (or amortizing) it over the life of the insurance policy (whether the cash method or an accrual method of accounting is used to account for service warranty transactions).

(3) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 15.02 is “31.”

(4) Contact information. For further information regarding a change under this section, contact David Sill at (202) 317-7011 (not a toll-free number).

.03 Nonaccrual-experience method.

(1) Description of change.

(a) Applicability. This change applies to a taxpayer that wants to make one or more of the changes in method of accounting to, from, or within a nonaccrual-experience (NAE) method of accounting that are described in sections 3.01(1) through (5) of Rev. Proc. 2006-56, 2006-2 C.B. 1169, as modified by Rev. Proc. 2011-14, 2011-4 I.R.B. 330, and as modified and amplified by Rev. Proc. 2011-46, 2011-42 I.R.B. 518.

(b) Inapplicability. This change does not apply to a taxpayer within the scope of sections 3.01(6) through 3.01(8) of Rev. Proc. 2006-56, as modified and amplified by Rev. Proc. 2011-46.

(2) Manner of making the change.

(a) Changes made with a § 481(a) adjustment. A change in method of accounting described in section 3.01(1), (2), (3), or (5) of Rev. Proc. 2006-56, as modified and amplified by Rev. Proc. 2011-46, is made with a § 481(a) adjustment.

(b) Changes made on a cut-off basis.

(i) In general. A change described in section 3.01(4) of Rev. Proc. 2006-56 is made on a cut-off basis and the new applicable period applies only to the taxpayer's NAE calculation of its uncollectible amount for the year of change and for subsequent years. Moreover, a change described in sections 5.02 and 5.03 of Rev. Proc. 2011-46 is made on a cut-off basis and the proposed method applies only to accounts receivable earned on or after the first day of the year of change. Accordingly, a § 481(a) adjustment is neither permitted nor required for a change described in section 3.01(4) of Rev. Proc. 2006-56 or in section 5.02 or 5.03 of Rev. Proc. 2011-46.

(ii) Special filing rules for changes made under section 5.02 and 5.03 of Rev. Proc. 2011-46, as modified by this revenue procedure.

(A) Certain eligibility rule inapplicable. The eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, does not apply to a change in method of accounting made under section 5.02 or 5.03 of Rev. Proc. 2011-46, as modified by this revenue procedure.

(B) Filing rules. In accordance with § 1.446-1(e)(3)(ii), the requirement of § 1.446-1(e)(3)(i) to file a Form 3115 is waived and a statement in lieu of

a Form 3115 is authorized for this change. Notwithstanding the definition of Form 3115 in section 3.07 of Rev. Proc. 2015-13, the statement in lieu of a Form 3115 that is permitted under section 5.02 or 5.03 of Rev. Proc. 2011-46 and this section 15.03 is considered a Form 3115 for purposes of the automatic change procedures of Rev. Proc. 2015-13. However, the requirement to file the duplicate copy, under section 6.03(1)(a) of Rev. Proc. 2015-13, is waived. See section 5.02 or 5.03 of Rev. Proc. 2011-46, as applicable, for what information is required to be provided on the statement.

(3) Concurrent change to overall accrual method and a NAE method of accounting. A taxpayer making both an automatic change to, from, or within a NAE method of accounting under this section 15.03 and an automatic change to an overall accrual method under section 15.01 of this revenue procedure (whether or not it is the taxpayer's mandatory § 448 year), must file a single Form 3115 for both changes. The taxpayer must complete all applicable sections of Form 3115, including sections that apply to the change to an overall accrual method and to the change to a NAE method, and must enter the automatic accounting method change numbers for both changes on Form 3115. See section 6.03(1)(b) of Rev. Proc. 2015-13 for information on making concurrent changes.

(4) Designated automatic accounting method change number. The designated automatic accounting method change number for a change to, from, or within a NAE method of accounting under this section 15.03 is "35."

(5) Contact information. For further information regarding a change under this section, contact Livia Piccolo at (202) 317-7007 (not a toll-free number).

.04 Interest accruals on short-term consumer loans—Rule of 78's method.



(1) Description of change. This change applies to a taxpayer that wants to change its method of accounting from the Rule of 78's method to the constant yield method for stated interest (including stated interest that is original issue discount) on short-term consumer loans described in Rev. Proc. 83-40, 1983-1 C.B. 774, which was obsoleted by Rev. Proc. 97-37, 1997-2 C.B. 455.

(2) Background.

(a) A short-term consumer loan is described in Rev. Proc. 83-40, provided:

(i) the loan is a self-amortizing loan that requires level payments, at regular intervals at least annually, over a period not in excess of five years (with no balloon payment at the end of the loan term); and

(ii) the loan agreement between the borrower and the lender provides that interest is earned, or upon the prepayment of the loan interest is treated as earned, in accordance with the Rule of 78's method.

(b) In general, the Rule of 78's method allocates interest over the term of a loan based, in part, on the sum of the periods' digits for the term of the loan. See Rev. Rul. 83-84, 1983-1 C.B. 97, for a description of the Rule of 78's method.

(c) In general, the constant yield method allocates interest and original issue discount over the term of a loan based on a constant yield. See § 1.1272-1(b) for a description of the constant yield method. The Rule of 78's method generally front-loads interest as compared to the constant yield method.

(d) Rev. Proc. 83-40 was obsoleted because, under §§ 1.446-2 and 1.1272-1 (which were effective for debt instruments issued on or after April 4, 1994), taxpayers generally must account for stated interest and original issue discount on a

debt instrument (loan) by using a constant yield method. As a result, the Rule of 78's method is no longer an acceptable method of accounting for federal income tax purposes.

(3) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 15.04 is "71."

(4) Contact information. For further information regarding a change under this section, contact William E. Blanchard at (202) 317-3900 (not a toll-free number).

.05 Film producer's treatment of certain creative property costs.

(1) Description of change. This change applies to a taxpayer that wants to change the method of accounting for creative property costs to the safe harbor method provided by section 5 of Rev. Proc. 2004-36, 2004-1 C.B. 1063. This safe harbor method of accounting applies to a taxpayer engaged in the trade or business of film production and to creative property costs (as defined in section 2.01 of Rev. Proc. 2004-36) properly written off by the taxpayer under The American Institute of Certified Public Accountants Statement of Position (SOP) 00-2, "Accounting for Producers or Distributors of Film."

(2) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 15.05 is "85."

(3) Contact information. For further information regarding a change under this section, contact Christian Lagorio at (202) 317-7005 (not a toll-free number).

.06 Deduction of incentive payments to health care providers.

(1) Description of change. This change applies to a taxpayer that wants to change to the method of accounting for provider incentive payments under which those payments are included in discounted unpaid losses without regard to § 404, as provided in Rev. Proc. 2004-41, 2004-2 C.B. 90. A payment by a taxpayer to a health care provider is a “provider incentive payment,” and thus eligible for this treatment, if (a) the taxpayer is taxable as an insurance company under Part II of subchapter L; (b) the payment is made pursuant to a written agreement the purpose of which is to encourage participating health care providers to provide quality health care to the taxpayer’s subscribers in a cost-efficient manner; (c) the taxpayer’s liability for the payment is dependent on the attainment of one or more preestablished goals during a performance period consisting of not more than 12 consecutive months; (d) the terms of the arrangement pursuant to which the payment is made are established unilaterally by the taxpayer, and are not negotiated with the health care providers; (e) the taxpayer normally makes payments to health care providers under the arrangement within 12 months after the close of the performance period; (f) deferring the receipt of income by the health care provider or otherwise providing a tax benefit to the provider is not a principal purpose of the arrangement; (g) the taxpayer records a liability for the payment on its annual statement filed for state regulatory purposes, and includes this liability in the determination of discounted unpaid losses under § 846; and (h) the health care provider is not an employee, and is not providing health care as an agent, of the taxpayer. See Rev. Proc. 2004-41.

(2) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 15.06 is “90.”

(3) Contact information. For further information regarding a change under this section, contact Rebecca L. Baxter at (202) 317-6995 (not a toll-free number).

.07 Change by bank for uncollected interest.

(1) Description of change. This change applies to a “bank” as defined in § 1.166-2(d)(4)(i) that: (a) uses an overall accrual method of accounting to determine its taxable income for federal income tax purposes; (b) is subject to supervision by Federal authorities, or by state authorities maintaining substantially equivalent standards; (c) has uncollected interest other than interest described in § 1.446-2(a)(2); and (d) has six or more years of collection experience. Under the safe harbor method of accounting provided by section 4 of Rev. Proc. 2007-33, 2007-1 C.B. 1289, a bank determines for each taxable year the amount of uncollected interest (other than interest described in § 1.446-2(a)(2)) for which it is considered to have a reasonable expectancy of payment by multiplying: (a) the total accrued (determined under § 1.446-2) but uncollected interest for the year, by (b) the bank’s “recovery percentage” (determined under section 4.02 of Rev. Proc. 2007-33) for that year. Solely for purposes of this safe harbor, the bank is not considered to have a reasonable expectancy of payment for the excess, if any, of the accrued but uncollected interest over the expected collection amount determined using the bank’s recovery percentage. The bank includes in gross income the portion of accrued but uncollected interest for which it has a reasonable expectancy of payment. The bank excludes from income the portion of accrued but uncollected interest for which it has no reasonable expectancy of payment.

(2) Recovery percentage. Subject to the limitations and conditions in Rev. Proc. 2007-33, sections 4.02(2), (3), and (4), a bank determines its recovery percentage for each taxable year by dividing: (a) total payments that the bank received on loans

(including principal and interest) during the 5 taxable years immediately preceding the taxable year, by (b) total amounts that were due and payable to the bank on loans during the same 5 taxable years. The recovery percentage cannot exceed 100 percent and must be calculated to at least four decimal places. The data used in the recovery percentage must take into account acquisitions and dispositions. If a bank acquires the major portion of a trade or business of another person (predecessor) or the major portion of a separate unit of a trade or business of a predecessor, then in applying Rev. Proc. 2007-33 for any taxable year ending on or after the acquisition, the data from preceding taxable years of the predecessor attributable to the portion of the trade or business acquired, if available, must be used in determining the bank's recovery percentage. If a bank disposes of a major portion of a trade or business or the major portion of a separate unit of a trade or business, and the bank furnished the acquiring person the information necessary for the computations required by Rev. Proc. 2007-33, then in applying the revenue procedure for any taxable year ending on or after the disposition, the data from preceding taxable years attributable to the disposed portion of the trade or business may not be used in determining the bank's recovery percentage.

(3) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 15.07 is "108."

(4) Contact information. For further information regarding a change under this section, contact K. Scott Brown at (202) 317-4423 (not a toll-free number).

.08 Change from the cash method to an accrual method for specific items.

(1) Description of change.

(a) Applicability. This change applies to a taxpayer that uses an overall accrual method of accounting but has identified a specific item or items of income or expense (or both) that are being accounted for on the cash method of accounting. This change does not apply to a taxpayer that is changing its overall method of accounting to an accrual method. Such a taxpayer may be eligible to change using section 15.01 of this revenue procedure.

(b) Inapplicability. This change does not apply to:

(i) a taxpayer that presently uses an accrual method with respect to purchases and sales of inventories and the cash method for all other items (but see section 15.01 of this revenue procedure);

(ii) a taxpayer that will not have all items of income and expense on an accrual method subsequent to the change under this section 15.08;

(iii) a cooperative organization described in § 501(c)(12), 521, or 1381;

(iv) an individual taxpayer, except for activities conducted as a sole proprietorship;

(v) a taxpayer engaged in two or more trades or businesses, unless the taxpayer makes this change so that the identical accrual method is used for each such trade or business beginning with the year of change;

(vi) a change in method of accounting for any payment liability described in § 1.461-4(g);

(vii) a change in the method of accounting for interest that is not taken into account under § 1.446-2;

(viii) a taxpayer that has included in its § 481(a) adjustment any amount of deferred compensation that is described under § 457A(d)(3) that is attributable to services performed before January 1, 2009; and

(ix) any change that is specifically provided in another section of this revenue procedure.

(2) Definitions.

(a) “Cash method of accounting” is the method identified by § 446(c)(1) and §§ 1.446-1(c)(1)(i), 1.451-1(a), and 1.461-1(a)(1).

(b) “Accrual method of accounting” is the method identified by § 446(c)(2) and §§ 1.446-1(c)(1)(ii), 1.451-1(a), 1.451-3, and 1.461-1(a)(2). For a taxable year beginning after December 31, 2017, for which the taxpayer has an AFS, the all events test under § 451(b)(1)(C) and § 1.451-1(a) for any item of gross income, or portion thereof, is met no later than when that item, or portion thereof, is taken into account as AFS revenue. See § 451(b)(1) and § 1.451-3(b).

(3) Additional requirements. To change a method of accounting under this section 15.08, a taxpayer must attach to its completed Form 3115 a full and complete description of each specific item for which the change in method of accounting is being made and how the accrual method of accounting applies to each item, and list the § 481(a) adjustment, if any, for each item associated with the change. The change is fully and completely described if each income and expense item is described with specificity and how the all-events test (and the economic performance requirement, if applicable) applies to each item is described under the facts and circumstances of the taxpayer’s trade or business. For example, a taxpayer that merely states that it is changing its accounting method for advertising expenses from the cash method to an

accrual method, recites the regulations under § 1.461-1(a)(2), and enters the associated § 481(a) adjustment has failed to describe fully and completely the specific item for which the change in method of accounting is being made. In contrast, a taxpayer that states that it is changing its method of accounting for print advertising expenses from the cash method of accounting to an accrual method of accounting, describes all of the relevant facts related to the print advertising expenses, and explains how the all-events test applies to those facts and when economic performance occurs has fully and completely described the item and the change. See section 6.03 of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, for additional filing requirements.

(4) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 15.08 is “124.”

(5) Contact information. For further information regarding a change under this section, contact Douglas Kim at (202) 317-7003 (not a toll-free number).

.09 Multi-year service warranty contracts.

(1) Description of change.

(a) Applicability. This change applies to a manufacturer, wholesaler, or retailer of motor vehicles or other durable consumer goods that uses an overall accrual method of accounting and wants to change to the service warranty income method described in section 5 of Rev. Proc. 97-38, 1997-2 C.B. 479. Under the service warranty income method, a qualifying taxpayer may, in certain specified and limited circumstances, include a portion of an advance payment related to the sale of a multi-year service warranty contract in gross income generally over the life of the service warranty obligation.



(b) Inapplicability. This change does not apply to a taxpayer not within the scope of Rev. Proc. 97-38.

(2) Manner of making change and designated automatic accounting method change number.

(a) This change is made on a cut-off basis and applies only to qualified advance payments for multi-year service warranty contracts on or after the beginning of the year of change. Accordingly, a § 481(a) adjustment is neither permitted nor required.

(b) In accordance with § 1.446-1(e)(3)(ii), the requirement of § 1.446-1(e)(3)(i) to file a standard Form 3115 is waived and pursuant to section 6.02(2) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, a short Form 3115 is authorized for this change. The short Form 3115 (Rev. December 2022) must include the following information:

- (i) the identification section of page 1 (above Part I);
- (ii) the signature section at the bottom of page 1;
- (iii) Part I, line 1(a); and
- (iv) the information required under section 6.03 of Rev. Proc. 97-38, except that the statement under section 6.03(2) (that the taxpayer agrees to all of the terms and conditions of the revenue procedure) also should refer to Rev. Proc. 2015-13.

(3) Additional requirement. A taxpayer changing to the service warranty income method of accounting under this section 15.09 must satisfy the annual reporting requirement set forth in section 6.04 of Rev. Proc. 97-38.

(4) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 15.09 is “125.”

(5) Contact information. For further information regarding a change under this section, contact Morgan Lawrence at (202) 317-7011 (not a toll-free number).

.10 Overall cash method for specified transportation industry taxpayers.

(1) Description of change. This change applies to a “specified transportation industry taxpayer” with “average annual gross receipts” of more than the inflation-adjusted amount, as defined in section 15.10(2)(f) of this revenue procedure, and not in excess of \$50,000,000 that wants to change to the overall cash receipts and disbursements (cash) method. For a small business taxpayer, as defined in section 15.17(4)(a) of this revenue procedure, see section 15.17 of this revenue procedure for a change to the overall cash method.

(2) Definitions. For purposes of this section 15.10 the following definitions apply:

(a) Specified transportation industry taxpayer. A specified transportation industry taxpayer is a taxpayer that satisfies the following criteria for the year of change:

(i) The taxpayer reasonably identifies its “business” (as defined in section 15.10(2)(b) of this revenue procedure) as being described in one of the following NAICS subsector codes (first three digits of the six-digit NAICS codes):

(A) Air Transportation, Rail Transportation, Water Transportation, Truck Transportation, Transit and Ground Passenger Transportation, or Scenic and Sightseeing Transportation, within the meaning of NAICS subsector codes 481-485 and 487; or

(B) Support Activities for Transportation within the meaning of NAICS subsector code 488.

(ii) The taxpayer is not prohibited from using the overall cash method under § 448.

(b) Business. A taxpayer may use any reasonable method of applying the relevant facts and circumstances to determine its business. A business may consist of several activities, which may or may not be related. For example, a taxpayer engaged in transportation activities may provide various services such as transporting air cargo and then subsequently trucking the cargo throughout a metropolitan area to warehouses and wholesale/retail stores. However, each activity within a taxpayer's business must individually satisfy the description of a NAICS subsector code in section 15.10(2)(a)(i)(A) or (B) of this revenue procedure. For example, a sightseeing bus operator that sells box lunches in connection with its tours is not a "specified transportation industry taxpayer" because one of the two activities of its business (food sales) does not satisfy the description of a NAICS subsector code in section 15.10(2)(a)(i)(A) or (B) of this revenue procedure. While the sightseeing transportation activity satisfies the description of the NAICS subsector code in section 15.10(2)(a)(i)(A) of this revenue procedure, the food sales activity does not satisfy the description of any NAICS subsector code in section 15.10(2)(a)(i)(A) or (B) of this revenue procedure, and thus, the taxpayer's business fails to meet the criteria of section 15.10(2)(a)(i). Similarly, a train operator who operates a dining car where meals are served is not a "specified transportation industry taxpayer" because one of the two activities of its business (food service) does not satisfy the description of a NAICS subsector code in section 15.10(2)(a)(i)(A) or (B) of this revenue procedure. While the rail transportation activity satisfies the description of a NAICS subsector code in section 15.10(2)(a)(i)(A) of this revenue procedure, the food service activity does not satisfy the description of

any NAICS subsector code in section 15.10(2)(a)(i)(A) or (B) of this revenue procedure, and thus, the taxpayer's business fails to meet the criteria of section 15.10(2)(a)(i).

(c) Average annual gross receipts. A taxpayer has average annual gross receipts of more than the inflation-adjusted amount and not in excess of \$50,000,000 if the taxpayer's average annual gross receipts for the three prior taxable-year period ending with the applicable prior taxable year are more than the inflation-adjusted amount and do not exceed \$50,000,000. If a taxpayer has not been in existence for three prior taxable years, the taxpayer must determine its average annual gross receipts for the number of years (including short taxable years) that the taxpayer has been in existence. See § 448(c)(3)(A).

(d) Gross receipts. Gross receipts is defined consistent with § 1.448-2(c)(2)(iv). Thus, gross receipts for a taxable year equal all receipts that must be recognized under the method of accounting actually used by the taxpayer for that taxable year for federal income tax purposes. See also § 448(c)(3)(C).

(e) Aggregation of gross receipts. For purposes of computing gross receipts under section 15.10(2)(d) of this revenue procedure, all taxpayers treated as a single employer under § 52(a) or (b) or § 414(m) or (o) (or that would be treated as a single employer under these sections if the taxpayers had employees) will be treated as a single taxpayer. However, when transactions occur between taxpayers that are treated as a single taxpayer by the previous sentence, gross receipts arising from these transactions will not be treated as gross receipts for purposes of the average annual gross receipts limitation. See § 448(c)(2) and § 1.448-2(c)(2)(ii).

(f) Inflation-adjusted amount. The inflation-adjusted amount is the dollar amount specified in § 448(c)(1), adjusted for inflation. See § 448(c)(4). For a taxable

year beginning in 2019, 2020, or 2021, the inflation-adjusted amount is \$26,000,000.

See Rev. Proc. 2018-57, 2018-49 I.R.B. 827, Rev. Proc. 2019-44, 2019-47 I.R.B. 1093, or Rev. Proc. 2020-45, 2020-46 I.R.B. 1016, as applicable. For a taxable year beginning in 2022, the inflation-adjusted amount is \$27,000,000. See Rev. Proc. 2021-45, 2021-48 I.R.B. 764. For a taxable year beginning in 2023, the inflation-adjusted amount is \$29,000,000. See Rev. Proc. 2022-38, 2022-45 I.R.B. 445. For a taxable year beginning in 2024, the inflation-adjusted amount is \$30,000,000. See Rev. Proc. 2023-34, 2023-48 I.R.B. 1287.

(g) Treatment of short taxable year. In the case of a short taxable year, a taxpayer's gross receipts must be annualized by multiplying the gross receipts for the short taxable year by 12 and then dividing the result by the number of months in the short taxable year. See § 448(c)(3)(B) and § 1.448-2(c)(2)(iii).

(h) Treatment of predecessors. Any reference to a taxpayer in this section 15.10 includes a reference to any predecessor of that taxpayer. See § 448(c)(3)(D).

(i) Cash method. The "cash method" is the method identified by § 446(c)(1) and §§ 1.446-1(c)(1)(i), 1.451-1(a), and 1.461-1(a)(1).

(3) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 15.10 is "126."

(4) Example. Taxpayer X is an LLC and taxed for federal income tax purposes as a partnership. Taxpayer X does not have any C corporations as partners and Taxpayer X is not a tax shelter within the meaning of § 448(d)(3). Taxpayer X's business consists of short-haul trucking among various cities within State Y, which satisfies the description of the NAICS subsector code 484. Taxpayer X determines that its 3-year average annual gross receipts for each prior taxable year have been more than the inflation-adjusted amount as defined in section 15.10(2)(f) of this revenue

procedure and not in excess of \$50,000,000. Taxpayer X qualifies to change to the overall cash method using this section 15.10.

(5) Contact information. For further information regarding a change under this section, contact Mia Romano at (202) 317-7007 (not a toll-free number).

.11 Change to overall cash/hybrid method for certain banks.

(1) Description of change.

(a) Applicability. This change applies to a bank described in section 15.11(2)(a) of this revenue procedure that wants to change to an overall cash/hybrid method described in section 15.11(2)(b) of this revenue procedure.

(b) Inapplicability. A bank's change to an overall cash/hybrid method under this section 15.11 does not include any change in the accounting treatment of an item for which the bank uses a special method (as described in section 15.11(2)(b) of this revenue procedure) before the change, or is required to use a special method, or will use a special method after the change. A bank may not change the accounting treatment of such an item under this section 15.11. Any change in the accounting treatment of such an item must be made under an applicable section of this revenue procedure, under the non-automatic change procedures of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, or under another guidance published in the Internal Revenue Bulletin, as appropriate.

(2) Definitions. The following definitions apply for purposes of this section 15.11.

(a) Bank. A bank is described in this section 15.11(2)(a) if the bank:

(i) is a bank as defined in § 581;

(ii) is an S corporation as defined in § 1361(a)(1), or a qualified subchapter S subsidiary as defined in § 1361(b)(3)(B); and

(iii) has average annual gross receipts (computed as described in section 15.11(5) of this revenue procedure) not in excess of \$50,000,000.

(b) Overall cash/hybrid method. An overall cash/hybrid method is the use of a combination of accounting methods under which some items of income or expense are reported on the cash receipts and disbursements method (cash method) and other items of income or expense are reported on methods permitted or required for the accounting treatment of special items (special methods).

(i) Cash method. The cash method is the method identified by § 446(c)(1) and §§ 1.446-1(c)(1)(i), 1.451-1(a), and 1.461-1(a)(1).

(ii) Special methods. A few of the special methods typically used by banks include those provided for the accounting treatment of the following items: securities held by a dealer in securities as defined in § 475(c)(1) (the mark-to-market method of § 475); securities held by a dealer in securities as defined in § 1.471-5 (inventories maintained under § 471 and § 1.446-1(c)(2)(i)); hedging transactions (§ 1.446-4); contracts to which § 1256 applies (§ 1256); original issue discount on debt instruments (§§ 163(e) and 1271-1275); interest income (including acquisition discount and original issue discount) on short-term obligations (§§ 1281-1283); and stripped debt instruments (§ 1286). For example, a bank that regularly purchases or originates mortgages in the ordinary course of its business and engages in more than negligible sales of those mortgages generally is a dealer in securities under § 475(c)(1) and § 1.475(c)-1(c) and thus must use the mark-to-market method of § 475 for mortgages and any other securities (as defined in § 475(c)(2)) held by the bank.

(3) Additional condition of change. To change to an overall cash/hybrid method under this section 15.11, a bank must comply with the following additional condition. In addition to complying with the terms and conditions set forth in section 7 of Rev. Proc. 2015-13, the bank must keep its books and records for the year of change and for subsequent taxable years on an overall cash/hybrid method allowed by this section 15.11. This condition is considered satisfied if the bank reconciles the results obtained under the method used in keeping its books and records and those obtained under the method used for federal income tax purposes pursuant to this section 15.11 and the bank maintains sufficient records to support such reconciliation. See also § 1.446-1(a)(4).

(4) Additional filing requirement. To change to an overall cash/hybrid method under this section 15.11, a bank must include with its completed Form 3115 a description of each specific item of the bank's income or expense that is affected by the change under this section 15.11 and, for each such item, identify the following: the method of accounting under which the bank reports that item for federal income tax purposes immediately before the change; and the amount of the § 481(a) adjustment associated with changing that item to the cash method under this section 15.11.

(5) Computation of average annual gross receipts. For purposes of section 15.11(2)(a)(iii) of this revenue procedure, a bank's average annual gross receipts are computed as described in this section 15.11(5).

(a) Average annual gross receipts. A bank has average annual gross receipts not in excess of \$50,000,000 if, for each prior taxable year ending on or after December 31, 2006, the bank's average annual gross receipts for the three prior taxable-year period ending with the applicable prior taxable year do not exceed



\$50,000,000. If a bank has not been in existence for three prior taxable years, the bank must determine its average annual gross receipts for the number of years (including short taxable years) that the bank has been in existence. See § 448(c)(3)(A).

(b) Gross receipts. Gross receipts is defined consistent with § 1.448-2(c)(2)(iv). Thus, gross receipts for a taxable year equal all receipts that must be recognized under the method of accounting actually used by the bank for that taxable year for federal income tax purposes. See also § 448(c)(3)(C).

(c) Aggregation of gross receipts. For purposes of computing gross receipts under section 15.11(5)(b) of this revenue procedure, all taxpayers treated as a single employer under § 52(a) or (b) or § 414(m) or (o) (or that would be treated as a single employer under these sections if the taxpayers had employees) will be treated as a single taxpayer (that is, a single bank). However, when transactions occur between taxpayers that are treated as a single taxpayer by the previous sentence, gross receipts arising from these transactions will not be treated as gross receipts for purposes of the average annual gross receipts limitation. See § 448(c)(2) and § 1.448-2(c)(2)(ii).

(d) Treatment of short taxable year. In the case of a short taxable year, a bank's gross receipts must be annualized by multiplying the gross receipts for the short taxable year by 12 and then dividing the result by the number of months in the short taxable year. See § 448(c)(3)(B) and § 1.448-2(c)(2)(iii).

(e) Treatment of predecessors. Any reference to a bank or taxpayer in section 15.11(5) of this revenue procedure includes a reference to any predecessor of that bank or taxpayer. See § 448(c)(3)(D).

(6) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 15.11 is “127.”

(7) Contact information. For further information regarding a change under this section, contact K. Scott Brown at (202) 317-4423 (not a toll-free number).

.12 Change to overall cash method for farmers.

(1) Description of change.

(a) Applicability. This change applies to a taxpayer engaged in the trade or business of farming that wants to change to the overall cash receipts and disbursements (cash) method. If a taxpayer is engaged in more than one trade or business, this change applies only to the taxpayer’s trade or business for which the change is being made.

(b) Inapplicability. This change does not apply to a taxpayer that is required to use an accrual method pursuant to § 447, or prohibited from using the cash method by § 448.

(2) Definitions.

(a) Cash method of accounting is the method defined by § 446(c)(1) and §§ 1.446-1(c)(1)(i), 1.451-1(a), and 1.461-1(a)(1). See also § 1.61-4(a) for specific rules relating to farmers’ income; § 1.162-12, in part, for specific rules relating to farmers’ expenses.

(b) The trade or business of farming is a farming business as defined by § 263A(e)(4) and § 1.263A-4(a)(5).

(3) Manner of making change. Generally, a taxpayer changing its method of accounting under this section 15.12 must compute a § 481(a) adjustment. However, if

the taxpayer is changing from the crop method, that portion of the change is made using a cut-off basis under which expenses reported on the crop method and not deducted prior to the year of change are deducted in the year the related crop is sold.

(4) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 15.12 is “128.”

(5) Contact information. For further information regarding a change under this section, contact Daniyal Husain at (202) 317-5100 (not a toll-free number).

.13 Nonshareholder contributions to capital under § 118.

(1) Description of change.

(a) Water and sewerage disposal utilities under § 118(c) (as in effect on the day before the date of enactment of Public Law 115-97, 131 Stat. 2054 (Dec. 22, 2017) (“former § 118(c)”)).

(i) This change applies to a regulated public utility described in former § 118(c) that wants to change its method of accounting for payments received from customers as customer connection fees, which are not contributions to the capital of the regulated public utility within the meaning of former § 118(c), from excluding the payments from gross income as nontaxable contributions to capital under § 118 to including the payments in gross income under § 61. See Rev. Rul. 2008-30, 2008-1 C.B. 1156.

(ii) This change applies to a regulated public utility described in former § 118(c) that wants to change its method of accounting for payments or property received that are contributions in aid of construction under former § 118(c) and § 1.118-2 and that meet the requirements of former § 118(c)(1)(B) and (c)(1)(C) from including

the payments or the fair market value of the property in gross income under § 61 to excluding the payments or the fair market value of the property from income as nontaxable contributions to capital under § 118(a).

(b) Other payments or property received. This change applies to a taxpayer that wants to change its method of accounting for payments or property received (other than the payments received by a public utility described in former § 118(c) that are addressed in section 15.13(1)(a)(i) of this revenue procedure) that do not constitute contributions to the capital of the taxpayer within the meaning of § 118 and the regulations thereunder, from excluding the payments or the fair market value of the property from gross income as nontaxable contributions to capital under § 118 to including the payments or the fair market value of the property in gross income under § 61.

(2) Inapplicability. The change described in section 15.13(1)(a)(ii) of this revenue procedure does not apply to contributions made after December 22, 2017, the date of enactment of Public Law 115-97 (commonly referred to as the Tax Cuts and Jobs Act).

(3) Additional requirement. A taxpayer that is making a change described in section 15.13(1)(a)(i) or (1)(b) of this revenue procedure must complete Schedule E of Form 3115 for the depreciable property to which the change relates (as well as all other relevant portions of the Form 3115).

(4) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 15.13 is “129.”

(5) Contact information. For further information regarding a change under this section, contact David H. McDonnell at (202) 317-4137 (not a toll-free number).

.14 Debt issuance costs.

(1) Description of change. This change applies to a taxpayer that wants to change its method of accounting for capitalized debt issuance costs to comply with § 1.446-5, which provides rules for allocating the costs over the term of the debt. This change also applies to a taxpayer that wants to change its method of accounting for capitalized debt issuance costs from one permissible method to another permissible method under the last sentence in § 1.446-5(b)(2) if the total original issue discount determined for purposes of § 1.446-5 is de minimis.

(2) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 15.14 is “148.”

(3) Contact information. For further information regarding a change under this section, contact Jonathon A. LaPlante at (202) 317-6945 (not a toll-free number).

.15 Transfers of interties under the safe harbor described in Notice 2016-36 (§ 118).

(1) Description of change.

(a) Safe harbor applicable. This change, as described in Notice 2016-36, 2016-25 I.R.B. 1029, applies to a utility that wants to change to the safe harbor method of accounting provided in section III.C of Notice 2016-36 for the treatment under § 118 of a transfer of an intertie, including a dual-use intertie, by a generator to a utility. Under this safe harbor method of accounting, such a transfer will not be treated as

gross income under § 118(a) or a contribution in aid of construction (CIAC) under § 118(b) if all of the conditions specified in section III.C of Notice 2016-36 are met.

(b) Safe harbor terminates. This change, as described in Notice 2016-36, applies to a utility that is using the safe harbor method of accounting provided in section III.C of Notice 2016-36 and is required to terminate that safe harbor method of accounting because of the occurrence of an event specified in section IV of Notice 2016-36. The occurrence of such event will require the utility to recognize income as a consequence of the transfer of an intertie, including a dual-use intertie, to the utility by a generator.

(2) Definitions. For purposes of this section 15.15, the terms "utility," "intertie," "dual-use intertie," and "generator" are defined in section III.B of Notice 2016-36.

(3) Certain eligibility rules inapplicable. The eligibility rules in sections 5.01(1)(d) and (f) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, do not apply to a utility making a change under this section 15.15.

(4) Manner of making change.

(a) The change in method of accounting under section 15.15(1)(a) of this revenue procedure is made with a § 481(a) adjustment.

(b) The change in method of accounting under section 15.15(1)(b) of this revenue procedure is made using a cut-off method and applies to a transfer of an intertie, including a dual-use intertie, by a generator to a utility made on or after the beginning of the taxable year in which the safe harbor method of accounting terminates.

(5) Concurrent automatic change. A utility making a change under this section 15.15 for more than one transfer of an intertie, including a dual-use intertie, for

the same year of change should file a single Form 3115 for all such transfers. The single Form 3115 must provide a single net § 481(a) adjustment for all changes under section 15.15(1)(a) of this revenue procedure.

(6) Designated automatic accounting method change number. The designated automatic accounting method change number for a change to the methods of accounting under this section 15.15 is "226."

(7) Contact information. For further information regarding a change under this section, contact Barbara Campbell at (202) 317-4137 (not a toll-free number).

.16 Change to or from the net asset value (NAV) method.

(1) Description of change. This change, as described in Rev. Proc. 2016-39, 2016-30 I.R.B. 164, applies to a taxpayer that holds shares in a money market fund (MMF) as defined in § 1.446-7(b)(4) (giving effect to § 1.446-7(c)(5), under which MMF holdings in different accounts are treated as different MMFs) and that wants to change its method of accounting for gain or loss on the shares from a realization method to the NAV method described in § 1.446-7 or from the NAV method to a realization method.

(2) Certain eligibility rules inapplicable. The eligibility rules in sections 5.01(1)(c), (d), and (f) of Rev. Proc. 2015-13 do not apply to this change.

(3) Definitions.

(a) "Rule 2a-7" means Rule 2a-7 (17 CFR 270.2a-7) under the Investment Company Act of 1940.

(b) "Floating-NAV MMF" means an MMF that is required to value its assets using market factors and to round its price per share to the nearest basis point (the fourth decimal place, in the case of a fund with a \$1.0000 share price) under Rule 2a-7.

(c) "Stable-NAV MMF" means an MMF that is not a floating-NAV MMF.

(4) Manner of making change.

(a) A change to or from the NAV method is made on a cut-off basis. See § 1.446-7(c)(8). Accordingly, a § 481(a) adjustment is neither permitted nor required. A taxpayer making a change to or from the NAV method for shares in an MMF applies the new method only to the computation of gain or loss on the shares beginning with the year of change. Under § 1.446-7(b)(7)(ii), a taxpayer changing to the NAV method takes a starting basis (as defined in § 1.446-7(b)(7)) in those shares for the year of change equal to the aggregate adjusted basis of the taxpayer's shares in the MMF at the end of the immediately preceding taxable year. A taxpayer changing from the NAV method to a realization method for shares in an MMF must adjust the basis in the shares beginning on the first day of the year of change to account for gain or loss previously recognized under the NAV method. Accordingly, the taxpayer generally takes a basis in each MMF share at the beginning of the year of change equal to the fair market value of that share under § 1.446-7(b)(3) used in computing the ending value (as defined in § 1.446-7(b)(2)) of the shares in that MMF for the final computation period (as defined in § 1.446-7(b)(1)) of the taxable year prior to the year of change.

(b) Short Form 3115 in lieu of a standard Form 3115. In accordance with § 1.446-1(e)(3)(ii), the requirement of § 1.446-1(e)(3)(i) to file a standard Form 3115 is waived and, pursuant to section 6.02(2) of Rev. Proc. 2015-13, a short Form 3115 is authorized for a taxpayer changing from a realization method to the NAV method, or changing from the NAV method to a realization method, for shares in an MMF. Unless the change meets the requirements of section 15.16(4)(c) of this revenue procedure,



the taxpayer must file a short Form 3115 (Rev. December 2022) that includes the following information:

- (i) the identification section of page 1 (above Part I);
- (ii) the signature section at the bottom of page 1;
- (iii) Part I, line 1(a);
- (iv) a statement specifying whether the taxpayer is changing from a

realization method to the NAV method or from the NAV method to a realization method; and

(v) a statement specifying the MMF or MMFs to which the change applies, if the change does not apply to all MMFs in which the taxpayer holds shares (and, to the extent applicable, whether the change applies only to shares of the MMF or MMFs held in a particular account).

(c) No Form 3115 Required. In accordance with § 1.446-1(e)(3)(ii), a taxpayer changing to the NAV method for shares in a stable-NAV MMF may change to the NAV method on a federal tax return without filing a Form 3115 if the following requirements are satisfied:

(i) the taxpayer has not used the NAV method for shares in the MMF for any taxable year prior to the year of change; and

(ii) prior to the year of change, either

(A) the taxpayer's basis in each share of the MMF has been at all times equal to the MMF's target share price, or

(B) the taxpayer has not realized any gain or loss with respect to shares in the MMF.

(5) Multiple changes. A taxpayer making multiple changes under this section 15.16 for the same year of change on a short Form 3115 should file a single short Form 3115. The short Form 3115 will be treated as applying to all shares that the taxpayer holds in any MMF unless the taxpayer specifies the MMFs to which the change applies. If the taxpayer specifies an MMF, the short Form 3115 will be treated as applying to all shares in that MMF held in any account by the taxpayer, unless the short Form 3115 specifies the accounts to which the change applies.

(6) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 15.16 is "227."

(7) Contact Information. For further information regarding a change under this section, contact Grace Cho at (202) 317-6945 (not a toll-free number).

.17 Small business taxpayer changing the overall method of accounting to the cash method, or to a method of accounting in which a small business taxpayer uses an accrual method for purchases and sales of inventories and uses the cash method for computing all other items of income and expense.

(1) Description of change. This change applies to a small business taxpayer, as defined in section 15.17(4)(a) of this revenue procedure, that wants to make a change in method of accounting described in section 15.17(2) of this revenue procedure. This change includes a change to account for any exempt construction contracts described in § 1.460-3(b)(1)(ii) under the cash method or, in the case of an exempt construction contract described in § 1.460-3(b)(1)(ii) that includes the sale of inventory, a method of accounting that uses an accrual method for purchases and sales of such inventory and the cash method for computing all other items of income and

expense from such contract. A small business taxpayer may be required to use a method of accounting other than the cash method for one or more items of income or expense under certain provisions of the Code or regulations, including, for example §§ 475 and 1272.

(2) Applicability. This change applies to a small business taxpayer that wants to:

(a) change the overall method of accounting for a trade or business from an accrual method to the cash method of accounting, and is otherwise not prohibited from using the cash method or required to use another overall method of accounting;

(b) change the overall method of accounting for a trade or business from an accrual method to an accrual method for purchases and sales of inventories (inventories) and the cash method for computing all other items of income and expense, and is otherwise not prohibited from using the cash method under § 448 or required to use another overall method of accounting, such as an accrual method under § 447; or

(c) change the overall method of accounting for a trade or business from the cash method to an accrual method for purchases and sales of inventories (inventories) and the cash method for computing all other items of income and expense and is otherwise not prohibited from using the cash method under § 448 or required to use another overall method of accounting, such as an accrual method under § 447.

(3) Inapplicability. This change does not apply to the following:

(a) Banks changing to hybrid method. This change does not apply to a bank described in section 15.11(2)(a) of this revenue procedure. However, such a bank may be eligible to change its overall method of accounting to the cash/hybrid method

under section 15.11 of this revenue procedure if it meets the requirements of that section.

(b) Farmers changing to the cash method. This change does not apply to a farming business changing its overall method of accounting to the cash method. See, however, section 15.12 of this revenue procedure.

(4) Special rules for open accounts receivable. Notwithstanding § 1001 and the accompanying regulations, a small business taxpayer that uses the cash method as the overall method of accounting for a trade or business includes amounts attributable to open accounts receivable, as defined in section 15.17(5)(c) of this revenue procedure, in income as the amounts are actually or constructively received on the receivables.

(5) Definitions.

(a) Small business taxpayer. “Small business taxpayer” means a taxpayer, other than a tax shelter under § 448(d)(3) and § 1.448-2(b)(2) that meets the § 448(c) gross receipts test.

(b) Section 448(c) gross receipts test. The § 448(c) gross receipts test is met if a taxpayer has average annual gross receipts for the three prior taxable years of \$25,000,000 or less (adjusted for inflation), as described in § 448(c) and § 1.448-2(c) or § 1.460-3(b)(3), as applicable. For a taxable year beginning in 2022, the inflation-adjusted amount is \$27,000,000. See Rev. Proc. 2021-45, 2021-48 I.R.B. 764. For a taxable year beginning in 2023, the inflation-adjusted amount is \$29,000,000. See Rev. Proc. 2022-38, 2022-45 I.R.B. 445. For a taxable year beginning in 2024, the inflation-adjusted amount is \$30,000,000. See Rev. Proc. 2023-34, 2023-48 I.R.B. 1287.

(c) Open accounts receivable. For purposes of this section 15.17, an open accounts receivable is any receivable that is due in full in 120 days or less and that is not subject to § 475.

(6) Eligibility rule inapplicable. For a change described in section 15.17(2) of this revenue procedure, any prior change in the overall method of accounting to an accrual method that was made in the taxpayer's mandatory § 448 year (as defined in § 1.448-2(g)(1)), or a mandatory § 447 year (as defined in section 15.01(1)(a) of this revenue procedure), as applicable, is disregarded for purposes of section 5.01(1)(e) of Rev. Proc. 2015-13.

(7) Manner of making change.

(a) Acceleration of § 481(a) adjustment. If a taxpayer making a change described in section 15.17(2)(a) or (b) of this revenue procedure has a § 481(a) adjustment remaining on a prior overall change in method of accounting to an accrual method, then it must take the remaining portion of such prior § 481(a) adjustment into account in the year of change;

(b) Cut-off basis for exempt long-term contracts. A change to account for exempt construction contracts described in § 1.460-3(b)(1)(ii) under this section 15.17 is made on a cut-off basis and applies only to contracts entered into on or after the first day of the year of change. Accordingly, a § 481(a) adjustment is neither permitted nor required.

(8) Concurrent automatic changes. A small business taxpayer making a change under this section 15.17 and a change under section 12.16, 22.18 and/or 22.19 of this revenue procedure for the same year of change may file a single Form 3115 for such changes, provided the taxpayer enters the designated automatic accounting

method change numbers for each change on the appropriate line of Form 3115. See section 6.03(1)(b) of Rev. Proc. 2015-13 for information on making concurrent changes.

(9) Designated automatic accounting method change number.

(a) Change to the cash method. The designated automatic accounting method change number for a change under section 15.17(2)(a) of this revenue procedure is “233.”

(b) Change to a method of accounting that uses an accrual method for inventories, and the cash method for computing all other items of income and expense.

The designated automatic accounting method change number for a change under section 15.17(2)(b) or (c) of this revenue procedure is “259.”

(10) Contact information. For further information regarding a change under this section, contact Livia Piccolo at (202) 317-7007 (not a toll-free number).

## SECTION 16. TAXABLE YEAR OF INCLUSION (§ 451)

### .01 Accrual of interest on nonperforming loans.

(1) Description of change.

(a) This change applies to a taxpayer using an overall accrual method of accounting that is a bank as defined in § 581 (or whose primary business is making or managing loans) and wants to change its method of accounting to comply with § 451 and § 1.451-1(a) for qualified stated interest (as defined in § 1.1273-1(c)) on nonperforming loans.

(b) Section 1.451-1(a) requires income to be accrued when all the events have occurred that fix the right to receive the income and the amount thereof can be determined with reasonable accuracy. A taxpayer may not stop accruing qualified stated interest on a nonperforming loan for federal income tax purposes merely

because payments on the loan are overdue by a certain length of time, such as 90 days, even if a federal, state, or other regulatory authority having jurisdiction over the taxpayer permits or requires that the overdue interest not be accrued for regulatory purposes.

(c) Under § 451 and § 1.451-1(a), a taxpayer must continue accruing qualified stated interest on any nonperforming loan until either (i) the loan is worthless under § 166 and charged off as a bad debt, or (ii) the interest is determined to be uncollectible. In order for interest to be determined uncollectible, the taxpayer must substantiate, taking into account all the facts and circumstances, that it has no reasonable expectation of payment of the interest. This substantiation requirement is applied on a loan-by-loan basis.

(d) A taxpayer that changes its method of accounting under this section 16.01 must do so for all of its loans.

(2) Section 481(a) adjustment. In general, the § 481(a) adjustment for a method change under this section 16.01 represents the amount of qualified stated interest on the taxpayer's nonperforming loans outstanding as of the beginning of the year of change that should have been accrued under § 451 and § 1.451-1(a) and was not accrued. Interest for which the taxpayer, as of the beginning of the year of change, has no reasonable expectation of payment is not taken into account in determining the amount of the § 481(a) adjustment.

(3) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 16.01 is "36."

(4) Contact information. For further information regarding a change under this section, contact K. Scott Brown at (202) 317-4423 (not a toll-free number).

.02 Advance rentals.

(1) Description of change. This change applies to a taxpayer that wants to change its method of accounting for advance rentals (other than advance rentals subject to § 467 and the regulations thereunder) to include such advance rentals in gross income in the taxable year received. See § 1.61-8(b).

(2) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 16.02 is “37.”

(3) Contact information. For further information regarding a change under this section, contact Daniel Cassano at (202) 317-7011 (not a toll-free number).

.03 State or local income or franchise tax refunds.

(1) Description of change. This change applies to a taxpayer using an overall accrual method of accounting that receives a state or local income or franchise tax refund and wants to accrue the refund in the taxable year the taxpayer receives payment or notice that the claim has been approved, whichever is earlier, as provided in Rev. Rul. 2003-3, 2003-1 C.B. 252.

(2) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 16.03 is “38.”

(3) Contact information. For further information regarding a change under this section, contact Daniel Cassano at (202) 317-7011 (not a toll-free number).

.04 Capital Cost Reduction Payments.



(1) Description of change. This change applies to a taxpayer that purchases motor vehicles subject to leases and assumes the associated leases from the vehicles' dealers and wants to use the safe harbor method of accounting for capital cost reduction (CCR) payments specified in Rev. Proc. 2002-36, 2002-1 C.B. 993.

(2) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 16.04 is "39."

(3) Contact information. For further information regarding a change under this section, contact Michael Finn at (202) 317-4718 (not a toll-free number).

.05 Credit card annual fees.

(1) Description of change. This change applies to a taxpayer that wants to change its method of accounting for credit card annual fees as described in Rev. Rul. 2004-52, 2004-1 C.B. 973, either to a method that satisfies the all events test in accordance with Rev. Rul. 2004-52 or to the Ratable Inclusion Method for Credit Card Annual Fees that is described in section 4 of Rev. Proc. 2004-32, 2004-1 C.B. 988. Rev. Rul. 2004-52 holds that credit card annual fees are not interest for federal income tax purposes and that such fees are includible in income by the card issuer when the all events test under § 451 is satisfied. Rev. Proc. 2004-32 provides additional guidance for taxpayers seeking to change their methods of accounting for such fees, including guidance with respect to the Ratable Inclusion Method for Credit Card Annual Fees. However, a taxpayer may make either change under this revenue procedure only if the taxpayer uses an overall accrual method of accounting for federal income tax purposes and issues credit cards to, and receives annual fees from, cardholders under agreements that allow each cardholder to use a credit card to access a revolving line of

credit to make purchases of goods and services and, if so authorized, to obtain cash advances.

(2) Manner of making change. In completing its Form 3115 to make this change, a taxpayer must identify the specific method to which the taxpayer is changing.

(3) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 16.05 to a method that satisfies the all events test in accordance with Rev. Rul. 2004-52 is “80.” The designated automatic accounting method change number for a change under this section 16.05 to the Ratable Inclusion Method for Credit Card Annual Fees is “81.”

(4) Contact information. For further information regarding a change under this section, contact Kate Sleeth at (202) 317-7053 (not a toll-free number).

.06 Retainages.

(1) Description of change.

(a) Applicability. This change applies to a taxpayer using an overall accrual method of accounting that wants to change its method of accounting for treating retainages to a method consistent with the holding in Rev. Rul. 69-314, 1969-1 C.B. 139. A taxpayer changing its method of accounting for retainages under this section 16.06 must treat all retainages, that is both receivables and payables, in the same manner.

(b) Inapplicability. This change does not apply to retainages (receivables and payables) for long-term contracts that must be accounted for under the percentage-of-completion method (PCM) under § 460. Nor does this change apply to long-term contracts otherwise accounted for under the PCM or long-term contracts accounted for

under exempt percentage-of-completion method or the completed contract method. For the treatment of retainages under such methods, see §§ 1.460-4(b)(4)(i)(A) and 1.460-4(d)(3).

(2) Manner of making change.

(a) Except as provided in section 16.06(2)(b) of this revenue procedure, a taxpayer changing its method of accounting under this section 16.06 must take into account a § 481(a) adjustment.

(b) For retainages received and paid in connection with long term contracts that are exempt construction contracts (as defined in § 1.460-3(b)(1)) accounted for using the taxpayer's overall accrual method of accounting, this change is made on a cut-off basis and applies only to long-term contracts entered into on or after the beginning of the year of change. See § 1.460-1(c)(2) for a description of when a contract is treated as "entered into." Accordingly, a § 481(a) adjustment is neither permitted nor required.

(3) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 16.06 for retainages not received under long-term contracts is "130." The designated automatic method change number for a change under this section 16.06 for retainages received under long-term contracts is "217." A taxpayer making a change under this section 16.06 that has both types of retainages must file a single Form 3115 and enter both change numbers on the appropriate line on Form 3115.

(4) Contact information. For further information regarding a change under this section, contact Peter Cohn at (202) 317-7011 (not a toll-free number).

.07 Change in applicable financial statements (AFS) for purposes of applying certain revenue recognition methods of accounting.

(1) Description of change.

(a) Applicability.

(i) This change applies to a taxpayer with an AFS, as defined in § 1.451-3(a)(5), that: (A) includes amounts in income in accordance with § 1.451-3; (B) changes the manner in which the item, or portion thereof, is taken into account as AFS revenue, as defined in § 1.451-3(a)(4), including, if applicable, a change in the manner in which transaction price is allocated to performance obligations; and (C) wants to change its method of accounting to use the new AFS method of taking into account the item, or portion thereof, in AFS revenue for purposes of § 1.451-3(b)(1), including, if applicable, a change in the manner in which transaction price is allocated for purposes of § 1.451-3(d).

(ii) This change applies to a taxpayer with an AFS, as defined in § 1.451-3(a)(5), that: (A) receives an advance payment, as defined in § 1.451-8(a)(1); (B) uses the deferral method described in § 1.451-8(c); (C) changes the manner in which it recognizes advance payments in AFS revenue, as defined in § 1.451-8(a)(4), including, if applicable, a change in the manner in which payments are allocated to performance obligations; and (D) wants to change its method of accounting to use the new AFS method of recognizing advance payments in AFS revenue for purposes of determining the extent to which advance payments are included in income under § 1.451-8, including, if applicable, a change in the manner in which payments are allocated for purposes of § 1.451-8(c)(8).

(b) Inapplicability.

(i) Changes relating to § 1.451-3 or § 1.451-8. A change described in section 16.07(1)(a)(i) or (ii) of this revenue procedure does not apply to:

(A) a taxpayer whose present method of accounting is not described in § 1.451-3, for a change described in section 16.07(1)(a)(i) of this revenue procedure. A taxpayer that wants to change to a method of accounting described in § 1.451-3 must use section 16.08(2)(a)(i) of this revenue procedure to make such change;

(B) a taxpayer whose present method of accounting for advance payments is not the deferral method under § 1.451-8(c), for a change described in section 16.07(1)(a)(ii) of this revenue procedure. For example, this change does not apply to a taxpayer that uses the full inclusion method under § 1.451-8(b) or the non-AFS deferral method under § 1.451-8(d). However, this change does apply to a taxpayer that uses both the cost offset method under § 1.451-8(e) and the deferral method under § 1.451-8(c);

(C) a taxpayer that wants to change its method for allocating payments described in § 1.451-8(c)(8)(iii); or

(D) a taxpayer that wants to change its method for allocating transaction price for contracts described in § 1.451-3(d)(5).

(c) Restatements of AFS. A taxpayer's restatement of its AFS for financial accounting presentation does not affect the propriety of the taxpayer's method of accounting for revenue recognized in the prior taxable year(s). For example, if the taxpayer properly uses the deferral method described in § 1.451-8(c) for including advance payments in gross income in accordance with its AFS, the taxpayer satisfies the requirement of section 16.07(1)(a)(ii) of this revenue procedure even if the AFS for

that taxable year is later restated and may change its method of accounting under this section 16.07 if it is otherwise eligible.

(2) Manner of making change.

(a) Cut-off basis or a § 481(a) adjustment.

(i) Cut-off basis for certain changes.

(A) In general. Except as provided in section 16.07(2)(a)(i)(B) of this revenue procedure, a change made under section 16.07(1)(a)(ii) of this revenue procedure is made on a cut-off basis and applies to advance payments received by the taxpayer on or after the beginning of the year of change. Accordingly, any advance payments received prior to the year of change (prior advance payments) are accounted for under the taxpayer's former method of accounting, and any advance payments received in the year of change and in subsequent taxable years are accounted for under the taxpayer's new method of accounting. A taxpayer that changes its method of allocating payments for purposes of § 1.451-8(c)(8)(i) must allocate any payments received prior to the year of change using the taxpayer's former method of accounting. Accordingly, a § 481(a) adjustment is neither permitted nor required.

(B) Section 481(a) adjustment for certain changes. If a taxpayer makes a change under section 16.07(1)(a)(ii) of this revenue procedure, and the AFS treatment of prior advance payments in the year of change or a subsequent taxable year is relevant for purposes of determining the amount of such payments that is required to be included in gross income in the year of change or a subsequent taxable year, the taxpayer must implement the change with a § 481(a) adjustment as provided in sections 7.02 and 7.03 of Rev. Proc. 2015-13.

(ii) Computing § 481(a) adjustments when the year of change is a year in which the taxpayer implements a change in accounting principle with a retained earnings adjustment. If the year of change is a year in which the taxpayer implements a change in accounting principle for AFS purposes, including a change in the method of applying an accounting principle for AFS purposes, and the change in accounting principle is implemented with a retained earnings adjustment that is taken into account during the year of change, the taxpayer is required to treat such adjustment as being taken into account in the taxable year prior to the year of change for purposes of computing the § 481(a) adjustment.

(iii) Example. Computing a § 481(a) adjustment when the taxpayer presently uses the AFS cost offset method - related accounts. B is in the trade or business of selling computers. B uses an accrual method of accounting and computes Federal income tax on a calendar-year basis and has an AFS, as defined in § 1.451-3(a)(5). B is not under examination within the meaning of section 3.18 of Rev. Proc. 2015-13. B does not receive advance payments. For 2022, B makes two changes in method of accounting to comply with § 1.451-3. Specifically, pursuant to section 16.08(2)(a)(i)(A) of this revenue procedure, B changes its method of accounting for gross income from the sale of computers to apply the AFS income inclusion rule and, pursuant to section 16.08(2)(a)(i)(C) of this revenue procedure, changes its method of accounting to apply the AFS cost offset method. For 2023, B changes the manner in which income from the sale of computers is taken into account as AFS revenue, as defined in § 1.451-3(a)(4), and changes its method of accounting under section 16.07(1)(a)(i) of this section to use the new AFS method. However, B continues to use the AFS cost offset method. In computing the § 481(a) adjustment resulting from the change to the new method of computing AFS revenue for 2023 under section 16.07(1)(a)(i) of this revenue procedure, B must take into account its continued use of the AFS cost offset method. See section 3.15 of Rev. Proc. 2015-13.

(b) In accordance with § 1.446-1(e)(3)(ii), the requirement of § 1.446-1(e)(3)(i) to file a Form 3115 is waived and a statement in lieu of a Form 3115 is authorized for a change made under this section 16.07. Notwithstanding the definition of Form 3115 in section 3.07 of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, the statement in lieu of a Form 3115 that is permitted under this section 16.07 is considered a Form

3115 for purposes of the automatic change procedures of Rev. Proc. 2015-13.

However, the requirement to file the duplicate copy, under section 6.03(1)(a) of Rev. Proc. 2015-13, is waived. The statement attached to the taxpayer's return for the year of change must include the following information for each applicant:

(i) the designated automatic accounting change number for this change, which is "153;"

(ii) the applicant's name, employer identification number (or social security number in the case of an individual), and type of applicant, as would be provided had a Form 3115 been required;

(iii) the year of change (both the beginning and ending dates);

(iv) the type of AFS used by the applicant, as defined in applicable guidance, and which change the applicant is making under section 16.07(1)(a) of this revenue procedure. See § 1.451-3(a)(5) and/or § 1.451-8(a)(5);

(v) a detailed and complete description of each item affected by the change in AFS revenue recognition and the line number (or schedule) where the affected item is reflected on the federal income tax return for the year of change, and if applicable, the § 481(a) adjustment for each change; and

(vi) a detailed description of the basis used for AFS revenue recognition (that is, the method the taxpayer uses in its AFS) both before and after the AFS change.

(c) Concurrent automatic change. A taxpayer may make more than one change under this section 16.07 on the same statement in lieu of a Form 3115 for the same year of change. The taxpayer must separately provide all of the information required for each change on that statement.



(3) Certain eligibility rule inapplicable. The eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13 does not apply to this change.

(4) No audit protection. A taxpayer does not receive audit protection under section 8.01 of Rev. Proc. 2015-13 for this change. See section 8.02(2) of Rev. Proc. 2015-13.

(5) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 16.07 is “153.”

(6) Contact information. For further information regarding a change under this section, contact Maria Castillo Valle at (202) 317-7003 (not a toll-free number).

.08 Changes in the timing of income recognition under § 451(b) and (c).

(1) Description of change.

(a) In general. This change applies to an accrual method taxpayer with an applicable financial statement (AFS) that wants to make certain changes in method of accounting described in section 16.08(2)(a) of this revenue procedure. This change also applies to a taxpayer without an AFS that wants to make certain changes in method of accounting described in section 16.08(2)(b) of this revenue procedure.

(b) Applicable terms. For this section 16.08, the term “AFS” has the meaning set forth in § 1.451-3(b)(5). Additionally, because a change to comply with §§ 1.451-3, 1.451-8, and/or 1.1275-2(l), as applicable, is a change in method of accounting to which the provisions of § 446 and the accompanying regulations apply, the item being changed to comply with §§ 1.451-3, 1.451-8, and/or 1.1275-2(l), as applicable, is determined by applying § 446 and the accompanying regulations. See §§ 1.451-3(l)(1) and 1.451-8(g)(2). In that regard, while §§ 451(b) and (c) and the final regulations use

the term “item of gross income” to generally refer to income that arises under a specific contract, the term “item of gross income” is not synonymous with the terms “item” or “material item” as used throughout the regulations under § 446.

(2) Applicability.

(a) Taxpayer with an AFS. This change applies to an accrual method taxpayer with an AFS that:

(i) wants to make one of the following changes under § 1.451-3:

(A) a change to comply with the AFS income inclusion rule in § 1.451-3(b) under which the taxpayer determines the amount of an item of gross income that is treated as “taken into account as AFS revenue” by making the AFS revenue adjustments provided in § 1.451-3(b)(2)(i) (including a change for specified credit card fees under §§ 1.451-3(j)(2) and 1.1275-2(l)) (but see paragraph (8) of this section);

(B) a change to comply with the AFS income inclusion rule in § 1.451-3(b) under which the taxpayer determines the amount of the item of gross income that is “taken into account as AFS revenue” by making the AFS revenue adjustments provided in § 1.451-3(b)(2)(ii) (including a change for specified credit card fees under §§ 1.451-3(j)(2) and 1.1275(l)) (Alternative AFS Revenue Method) (but see paragraph (8) of this section);

(C) except as provided in section 16.08(2)(a)(i)(E) of this section, a change to apply the AFS cost offset method in § 1.451-3(c) to determine the amount of an item of gross income from the sale of inventory that is required to be included in gross income under the AFS income inclusion rule in § 1.451-3(b);

(D) a change from applying a cost offset method, including the AFS cost offset method in § 1.451-3(c), to not applying a cost offset method to determine the amount of an item of gross income from the sale of inventory that is required to be included in gross income under the AFS income inclusion rule in § 1.451-3(b);

(E) a change to comply with § 1.451-3(c)(5)(ii) as a result of a concurrent cost-offset related inventory method change, as defined in section 5.06 of Rev. Proc. 2015-13 (or successor), or because the taxpayer determines its cost of goods in progress offset by reference to costs that the taxpayer has impermissibly capitalized and/or allocated under its present method of accounting for inventory. This section 16.08(2)(a)(i)(E) applies if the taxpayer presently uses a cost offset method, including the AFS cost offset method under § 1.451-3(c). This section 16.08(2)(a)(i)(E) does not apply if the taxpayer is proposing to make, for the same year of change, a change to begin using the AFS cost offset method pursuant to section 16.08(2)(a)(i)(C) of this revenue procedure;

(F) a change to comply with the transaction price allocation rules in § 1.451-3(d); or

(G) a change to a method of accounting described in § 1.451-3(h)(4) when a taxpayer's AFS covers mismatched reportable periods; or

(ii) wants to make one of the following changes in method of accounting for advance payments under § 1.451-8:

(A) a change to the full inclusion method provided in § 1.451-8(b);

(B) a change to the deferral method provided in § 1.451-8(c);

(C) a change to the specified goods § 451(c) method described in § 1.451-8(f) to treat payments that otherwise qualify for the specified good exception,

as defined in § 1.451-8(a)(1)(ii)(H), as advance payments and account for such payments either under the full inclusion method provided in § 1.451-8(b) or under the deferral method provided in § 1.451-8(c);

(D) except as provided in section 16.08(2)(a)(ii)(F) of this revenue procedure, a change to apply the advance payment cost offset method in § 1.451-8(e) to determine the amount of an advance payment from the sale of inventory that is required to be included in gross income under either the full inclusion method in § 1.451-8(b) or the deferral method in § 1.451-8(c), as applicable;

(E) a change from applying a cost offset method, including the advance payment cost offset method in § 1.451-8(e), to not applying a cost offset method to determine the amount of an advance payment from the sale of inventory that is required to be included in gross income under either the full inclusion method in § 1.451-8(b) or the deferral method in § 1.451-8(c), as applicable;

(F) a change to comply with § 1.451-8(e)(8)(ii) as a result of a concurrent cost-offset related inventory method change, as defined in section 5.06 of Rev. Proc. 2015-13 (or successor), or because the taxpayer presently determines its cost of goods in progress offset by reference to costs that the taxpayer has impermissibly capitalized and/or allocated under its present method of accounting for inventory. This section 16.08(2)(a)(ii)(F) applies if the taxpayer presently uses a cost offset method, including the advance payment cost offset method under § 1.451-8(e). This section 16.08(2)(a)(ii)(F) does not apply if the taxpayer is proposing to make, for the same year of change, a change to begin using the advance payment cost offset method pursuant to section 16.08(2)(a)(ii)(D) of this revenue procedure;

(G) a change to a method of accounting described in § 1.451-8(c)(7), which refers to the methods described in § 1.451-3(h)(4), when a taxpayer's AFS covers mismatched reporting periods; or

(H) a change to comply with the payment allocation rules in § 1.451-8(c)(8).

(b) Taxpayer without an AFS. This change applies to a taxpayer that does not have an AFS that wants to make one of the following changes in method of accounting for advance payments under § 1.451-8:

(i) a change to the full inclusion method provided in § 1.451-8(b);

(ii) a change to the deferral method provided in § 1.451-8(d)(3);

(iii) except as provided in section 16.08(2)(b)(v) of this revenue procedure, a change to apply the advance payment cost offset method in § 1.451-8(e) to determine the amount of an advance payment from the sale of inventory that is required to be included in gross income under either the full inclusion method in § 1.451-8(b) or the deferral method in § 1.451-8(d)(3), as applicable;

(iv) a change from applying a cost offset method, including the advance payment cost offset method in § 1.451-8(e), to not applying a cost offset method to determine the amount of an advance payment from the sale of inventory that is required to be included in gross income under either the full inclusion method in § 1.451-8(b) or the deferral method in § 1.451-8(d)(3), as applicable;

(v) a change to comply with § 1.451-8(e)(8)(ii) as a result of a concurrent cost-offset related inventory method change, as defined in section 5.06 of Rev. Proc. 2015-13 (or successor), or because the taxpayer determines its cost of goods in progress offset by reference to costs that the taxpayer has

impermissibly capitalized and/or allocated under its present method of accounting for inventory. This section 16.08(2)(b)(v) applies if the taxpayer presently uses a cost offset method, including the advance payment cost offset method under § 1.451-8(e). This section 16.08(2)(b)(v) does not apply if the taxpayer is proposing to make, for the same year of change, a change to begin using the advance payment cost offset method pursuant to section 16.08(2)(b)(iii) of this revenue procedure; or

(vi) a change to a payment allocation method described in § 1.451-8(d)(4)(ii).

(3) Inapplicability. Section 16.08(2) of this revenue procedure does not apply to:

(a) a change to comply with the all events test in § 1.451-1(a);

(b) a change in method of accounting to use a special method of accounting, as defined in § 1.451-3(a)(13);

(c) a change in method of allocating transaction price between an item of gross income that is accounted for under § 1.451-3 and an item of gross income that is accounted for under a special method of accounting, as defined in § 1.451-3(a)(14), including a change to comply with § 1.451-3(d)(5);

(d) a change described in section 16.08(2)(a)(i)(E), section 16.08(2)(a)(ii)(F) or section 16.08(2)(b)(v) of this revenue procedure, as applicable, if, immediately after such change is made, the taxpayer's method of accounting for cost offsets does not otherwise comply with the AFS cost offset method under § 1.451-3(c) and/or the advance payment cost offset method under § 1.451-8(e), as applicable;

(e) a change described in section 16.08(2)(a)(i)(E), section 16.08(2)(a)(ii)(F) or section 16.08(2)(b)(v) of this revenue procedure, including a change to comply with § 1.451-3(c)(5)(ii) or § 1.451-8(e)(8)(ii) because the taxpayer determines its cost of goods in progress offset by reference to costs that the taxpayer has impermissibly capitalized and/or allocated under its present method of accounting for inventory, unless the taxpayer makes, for the same year of change, the cost-offset related inventory method change(s), as defined in section 5.06 of Rev. Proc. 2015-13;

(f) a change to use the AFS cost offset method if the taxpayer receives advance payments from the sale of inventory and does not also make a change to apply the advance payment cost offset method, or a change to use the advance payment cost offset method if the taxpayer is required to include gross income from the sale of inventory under § 1.451-3 and does not also make a change to apply the AFS cost offset method;

(g) a change to use the deferral method in § 1.451-8(c) for allocable payments described in § 1.451-8(c)(8)(iii)(A) (other than allocable payments described in § 1.451-8(c)(8)(iii)(B));

(h) a taxpayer that presently uses the deferral method in § 1.451-8(c) for allocable payments described in § 1.451-8(c)(8)(iii)(A) that wants to change its payment allocation method to an allocation method that is not described in § 1.451-8(c)(8)(iii)(B);

(i) a change to use the deferral method in § 1.451-8(d)(3) for allocable payments described in § 1.451-8(d)(4)(i) other than either allocable payments

described in § 1.451-8(d)(4)(ii) or allocable payments that are wholly attributable to two or more items described in § 1.451-8(a)(1)(i)(C);

(j) a taxpayer that presently uses the deferral method in § 1.451-8(d)(3) for allocable payments described in § 1.451-8(d)(4)(i) that wants to change its payment allocation method to an allocation method that is not described in § 1.451-8(d)(4)(ii);

(k) a taxpayer without an AFS that wants to change its method of accounting for advance payments to the deferral method under § 1.451-8(d)(3) under which the taxpayer determines the extent to which an advance payment is earned by using the following: (i) a statistical basis if adequate data are available to the taxpayer; or (ii) the use of any other basis that in the opinion of the Commissioner results in a clear reflection of income;

(l) a change in method of accounting for specified fees, as defined in § 1.451-3(j)(2), other than specified credit card fees;

(m) a change in method of accounting that qualifies under another automatic change provided in this revenue procedure including, for example, a change described in section 16.07 of this revenue procedure;

(n) a change in method of accounting for a liability, as defined in § 1.446-1(c)(1)(ii)(B);

(o) a change in a taxpayer's mismatched reporting periods method described in § 1.451-3(h)(4) if the taxpayer uses the deferral method for advance payments under § 1.451-8(c) and does not also change to the same mismatched reporting periods method for purposes of accounting for advance payments pursuant to § 1.451-8(c)(7) for the same year of change; or, if



applicable, a change in a taxpayer's mismatched reporting periods method pursuant to § 1.451-8(c)(7) if the taxpayer uses the deferral method for advance payments under § 1.451-8(c) and does not also change to the same mismatched reporting periods method for purposes of § 1.451-3(h)(4) for the same year of change; and

(p) a change in method of accounting for payments within the scope of the specified good exception, as defined in § 1.451-8(a)(1)(ii), if the proposed method of accounting is to include such payments in gross income under § 1.451-3 in one or more taxable years following the taxable year of receipt.

(4) Manner of making change.

(a) Special rules relating to § 481(a) adjustment.

(i) Section 481(a) adjustment generally.

(A) Members of a consolidated group. Changes under this section 16.08 with regard to taxpayers who are members of consolidated groups generally are governed by this section 16.08, rather than by § 1.1502-17(b)(2) (applicable to changes in the application of the timing rules of § 1.1502-13 in accounting for intercompany transactions (within the meaning of § 1.1502-13(b)(1)(i))). See § 1.1502-17(a) and (b)(1).

(B) Computing § 481(a) adjustments when the year of change is a year in which the taxpayer implements a change in accounting principle with a retained earnings adjustment. If the year of change is a year in which the taxpayer implements a change in accounting principle for AFS purposes, including a change in the method of applying an accounting principle for AFS purposes, and the change in accounting principle is implemented with a retained earnings adjustment that is taken into account

during the year of change, the taxpayer is required to treat such adjustment as being taken into account in the taxable year prior to the year of change for purposes of computing the § 481(a) adjustment.

(ii) Netting of the § 481(a) adjustment.

(A) Required netting for changes made under § 1.451-3 related to inventory sales. A taxpayer that makes a change described in section 16.08(2)(a)(i)(C) or (D) of this revenue procedure and one or more changes described in section 16.08(2)(a)(i)(A), (B), and/or (G) of this revenue procedure for gross income from inventory sales for the same year of change must provide a single net § 481(a) adjustment for all such changes. The § 481(a) adjustment period described in section 7.03 of Rev. Proc. 2015-13 is determined based on the net § 481(a) adjustment.

(B) Required netting for changes made under § 1.451-8 related to inventory sales for taxpayers with an AFS. A taxpayer that makes a change described in section 16.08(2)(a)(ii)(D) or (E) of this revenue procedure and one or more changes described in section 16.08(2)(a)(ii)(A), (B), (C), and/or (G) of this revenue procedure for advance payments from the sale of inventory for the same year of change must provide a single net § 481(a) adjustment for all such changes. The § 481(a) adjustment period described in section 7.03 of Rev. Proc. 2015-13 is determined based on the net § 481(a) adjustment.

(C) Required netting for changes made under § 1.451-8 related to inventory sales for taxpayers without an AFS. A taxpayer that makes a change described in section 16.08(2)(b)(iii) or (iv) of this revenue procedure and one or more changes in method of accounting described in section 16.08(2)(b)(i) or (ii) of this revenue procedure for advance payments from the sale of inventory for the same year

of change must provide a single net § 481(a) adjustment for all such changes. The § 481(a) adjustment period described in section 7.03 of Rev. Proc. 2015-13 is determined based on the net § 481(a) adjustment.

(D) Required netting for non-automatic method changes under § 1.451-3 and/or § 1.451-8 related to inventory sales. The rules in section 16.08(4)(a)(iii) of this revenue procedure generally will apply to a non-automatic change under § 1.451-3 and/or § 1.451-8 for which the netting rules of section 16.08(4)(a)(iii) of this revenue procedure would otherwise apply if the taxpayer were eligible to make the change under section 16.08 of this revenue procedure.

(iii) Special § 481(a) adjustment rules for cost offset method change(s) under § 1.451-3 and/or § 1.451-8 made with corresponding cost-offset related inventory method change(s).

(A) Required netting rule for changes described in section 16.08(2)(a)(i)(E). A taxpayer that makes more than one method change under section 16.08(2)(a)(i)(E) of this revenue procedure for the same year of change must provide a single net § 481(a) adjustment for all such changes. The § 481(a) adjustment period for this net § 481(a) adjustment is determined by applying the rules in section 16.08(4)(a)(iii)(D) of this revenue procedure.

(B) Required netting rule for changes described in section 16.08(2)(a)(ii)(F). A taxpayer that makes more than one method change under section 16.08(2)(a)(ii)(F) of this revenue procedure for the same year of change must provide a single net § 481(a) adjustment for all such changes. The § 481(a) adjustment period for this net § 481(a) adjustment is determined by applying the rules in section 16.08(4)(a)(iii)(D) of this revenue procedure.

(C) Required netting rule for changes described in section 16.08(2)(b)(v) of this revenue procedure. A taxpayer that makes more than one method change under section 16.08(2)(b)(v) of this revenue procedure for the same year of change must provide a single net § 481(a) adjustment for all such changes. The § 481(a) adjustment period for this net § 481(a) adjustment is determined by applying the rules in section 16.08(4)(a)(iii)(D) of this revenue procedure.

(D) Special § 481(a) adjustment period. For purposes of sections 7.02 and 7.03 of Rev. Proc. 2015-13, the § 481(a) adjustment period for a cost offset change described in section 16.08(2)(a)(i)(E), section 16.08(2)(a)(ii)(F), or section 16.08(2)(b)(v) of this revenue procedure, whether the § 481(a) adjustment is positive or negative, is the same as the § 481(a) adjustment period for the corresponding cost-offset related inventory method change, as defined in section 5.06 of Rev. Proc. 2015-13, as modified by section 4.02 of Rev. Proc. 2021-34. The rules of section 7.02 and 7.03 of Rev. Proc. 2015-13, including the short period rule and the accelerated adjustment period rules, apply to determine the § 481(a) adjustment period for the § 481(a) adjustment for the cost-offset related inventory method change, which is used to determine the § 481(a) adjustment period for a positive or negative § 481(a) adjustment for the corresponding cost offset change described in section 16.08(2)(a)(i)(E), section 16.08(2)(a)(ii)(F), or section 16.08(2)(b)(v) of this revenue procedure. If the taxpayer must net the § 481(a) adjustments for cost offset changes under section 16.08(4)(a)(iii)(A), (B), or (C) of this revenue procedure, as applicable, the § 481(a) adjustment period for any such net § 481(a) adjustment is the same as the § 481(a) adjustment period for the corresponding cost-offset related inventory method changes, determined by netting the § 481(a) adjustments from such corresponding cost-offset

related inventory method changes. The requirement that the taxpayer net the § 481(a) adjustments for such corresponding cost-offset related inventory method changes is solely for purposes of determining the § 481(a) adjustment period for the net § 481(a) adjustment determined under section 16.08(4)(a)(iii)(A), (B), or (C), as applicable. This section 16.08(4)(a)(iii)(D) does not apply if, after applying the netting rules in section 16.08(4)(a)(iii)(A), (B), or (C), as applicable, the § 481(a) adjustment for the corresponding cost offset change(s) is zero. For example, if the taxpayer makes a cost-offset related inventory method change that is implemented on a cut-off basis and the § 481(a) adjustment for the taxpayer's corresponding change described in section 16.08(2)(a)(i)(E), section 16.08(2)(a)(ii)(F), or section 16.08(2)(b)(v) of this revenue procedure is zero as a result, this section 16.08(4)(a)(iii)(D) does not apply.

(iv) Special § 481(a) adjustment rules when eligibility waiver under section 16.08(5)(a) of this revenue procedure applies.

(A) Accelerated adjustment period for certain prior method changes. If a taxpayer uses the eligibility waiver under section 16.08(5)(a) of this revenue procedure to make a change described in section 16.08(2)(a)(i), (ii), or (2)(b) of this revenue procedure and has a remaining § 481(a) adjustment from a prior change for the same item that was made under section 16.10(2)(a)(iii), (iv), or (2)(b)(ii) of Rev. Proc. 2022-14 (or its predecessor or successor), the taxpayer must take the remaining balance of such prior § 481(a) adjustment into account in computing taxable income in the taxable year of change.

(B) Special 1-year positive § 481(a) adjustment period when eligibility waiver under section 16.08(5)(a) of this revenue procedure applies. If a taxpayer uses the eligibility waiver under section 16.08(5)(a) of this revenue procedure

to make a change described in section 16.08(2)(a)(i), (ii), or (2)(b) of this revenue procedure that results in a positive § 481(a) adjustment (current change) and also made a prior change for that same item under section 16.10(2)(a)(iii), (iv), or (2)(b)(ii) of Rev. Proc. 2022-14 (or its predecessor or successor) that resulted in a negative § 481(a) adjustment, the taxpayer must take the positive § 481(a) adjustment into account in full in computing taxable income for the taxable year of change.

(v) Examples. For each of the following examples, the taxpayer uses an accrual method of accounting, is on a fiscal year ending October 31, and has an AFS, as defined in § 1.451-3(a)(5).

(A) Example 1. Netting rules. A is engaged in a single trade or business of selling and servicing computers. A is not under examination within the meaning of section 3.18 of Rev. Proc. 2015-13. A does not receive advance payments. For its 2024 taxable year, A makes multiple changes in method of accounting to apply § 1.451-3. Specifically, A changes its method of accounting for gross income from the sale of computers to apply the AFS income inclusion rule pursuant to section 16.08(2)(a)(i)(A) of this revenue procedure and to apply the AFS cost offset method pursuant to section 16.08(2)(a)(i)(C) of this revenue procedure. A also changes its method of accounting for gross income from computer services to apply the AFS income inclusion rule pursuant to section 16.08(2)(a)(i)(A) of this revenue procedure. Since A made a change described in section 16.08(2)(a)(i)(C) of this revenue procedure and a change described in section 16.08(2)(a)(i)(A) of this revenue procedure for gross income from computer sales for the same year of change, A must net the § 481(a) adjustments resulting from these changes in the manner required by section 16.08(4)(a)(ii)(A) of this revenue procedure. The § 481(a) adjustment resulting from A's change in method of accounting for income from computer services under section 16.08(2)(a)(i)(A) of this revenue procedure is not netted with the § 481(a) adjustments resulting from the computer sales method changes.

(B) Example 2. Special § 481(a) adjustment period under section 16.08(4)(a)(iii) of this revenue procedure. The facts are the same as in Example 1. For its 2024 taxable year, A changes its inventory method under section 12.01 of this revenue procedure and, as a result, also changes its cost offset method to comply with § 1.451-3(c)(5)(ii) pursuant to section 16.08(2)(a)(i)(E) of this revenue procedure. The cost-offset related inventory method change under section 12.01 of this revenue procedure results in a positive § 481(a) adjustment that is spread over four taxable years under section 7.01 and 7.03 of Rev. Proc. 2015-13. The cost offset method change under section 16.08(2)(a)(i)(E) of this revenue procedure results in a negative § 481(a) adjustment. Section 16.08(4)(a)(iii)(D) of this revenue procedure requires A to

spread the negative § 481(a) adjustment over four taxable years consistent with the § 481(a) adjustment period for the concurrent cost-offset related inventory method change under section 12.01 of this revenue procedure.

(C) Example 3. Prior positive § 481(a) adjustment. B is engaged in a single trade or business of selling computers. B is not under examination within the meaning of section 3.18 of Rev. Proc. 2015-13. B does not receive advance payments. B's present method of accounting for gross income from computer sales is to recognize such gross income in the taxable year in which it receives payment from its customers. For its 2022 taxable year, B made a change in method of accounting for gross income from the sale of computers under section 16.08(2)(a)(i)(A) of Rev. Proc. 2023-24 to apply the AFS income inclusion rule under § 1.451-3(b) (first method change). This first method change resulted in a positive § 481(a) adjustment.

For its 2023 taxable year, B uses the eligibility waiver under section 16.08(5)(a) of this revenue procedure to make a change under section 16.08(2)(a)(i)(C) of this revenue procedure to apply the AFS cost offset method under § 1.451-3(c) for gross income from the sale of computers (second method change). B's second method change results in a negative § 481(a) adjustment, which is taken into account in full in computing taxable income for the 2023 taxable year. B's first method change and its second method change are for the same item. Accordingly, pursuant to section 16.08(4)(a)(iv)(A) of this revenue procedure, B must take the remaining balance of the positive § 481(a) adjustment from its first method change into account in computing taxable income for the 2023 taxable year.

(D) Example 4. Current positive section § 481(a) adjustment. C is engaged in a single trade or business of selling computers. C is not under examination within the meaning of section 3.18 of Rev. Proc. 2015-13. C does not receive advance payments. C's present method of accounting for gross income from computer sales is to recognize such gross income in the taxable year in which it receives payment from its customers. For the 2022 taxable year, C made a change in method of accounting for gross income from the sale of computers under section 16.08(2)(a)(i)(A) of Rev. Proc. 2023-24 to apply the AFS income inclusion rule under § 1.451-3(b), and a change for gross income from the sale of computers under section 16.08(2)(a)(i)(C) of Rev. Proc. 2023-24 to apply the AFS cost offset method under § 1.451-3(c) (first two method changes). C was required to net the § 481(a) adjustments resulting from C's first two changes, and this resulted in a net negative § 481(a) adjustment for C's 2022 taxable year. For 2023, C makes a change in method of accounting for gross income from the sale of computers under section 16.08(2)(a)(i)(D) of this revenue procedure to no longer apply the cost offset method, which results in a positive § 481(a) adjustment (third method change). C's 2022 and 2023 changes in method of accounting pertain to the same item. Accordingly, pursuant to section 16.08(4)(a)(iv)(B) of this revenue procedure, C must take the entire amount of its positive § 481(a) adjustment from its third method change into account in computing taxable income for its 2023 taxable year.

(b) Certain cost offset changes made on an amended return.

(i) In general. Notwithstanding section 6.03(1)(a) of Rev. Proc. 2015-13, a taxpayer making a change described in section 16.08(2)(a)(i)(E), section 16.08(2)(a)(ii)(F), or section 16.08(2)(b)(v) of this revenue procedure, as applicable, which corresponds to a cost-offset related inventory method change filed under the non-automatic change procedures of Rev. Proc. 2015-13 for the same year of change may make the corresponding cost offset change described in section 16.08(2)(a)(i)(E), section 16.08(2)(a)(ii)(F), or section 16.08(2)(b)(v) on an amended federal income tax return for the cost offset year of change (as defined in section 16.08(4)(b)(ii) of this revenue procedure) provided:

(A) the taxpayer received consent for the cost-offset related inventory method change filed under the non-automatic change procedures for the year of change after the time the taxpayer was required to file the original Form 3115 for the corresponding cost offset change under section 16.08(2)(a)(i)(E), section 16.08(2)(a)(ii)(F), or section 16.08(2)(b)(v) of this revenue procedure, as applicable, in accordance with section 6.03(1)(a)(i)(A) of Rev. Proc. 2015-13 for the cost offset year of change;

(B) the taxpayer timely signs and returns the Consent Agreement for the non-automatic corresponding cost-offset related inventory method change in accordance with section 11.03(2)(c)(i) of Rev. Proc. 2015-13, and timely implements such non-automatic change in accordance with section 11.03(2)(c)(ii)(A) or (B) of Rev. Proc. 2015-13;

(C) the taxpayer implements the corresponding cost offset method change described in section 16.08(2)(a)(i)(E), section 16.08(2)(a)(ii)(F), or section 16.08(2)(b)(v) of this revenue procedure, as applicable, on the same amended



federal income tax return that the taxpayer implements the cost-offset related inventory method change described in section 16.08(4)(b)(i)(A) of this revenue procedure; and

(D) the taxpayer's amended federal income tax return for the year of change includes any adjustments to taxable income or tax liability resulting from the change(s) in method of accounting for the cost-offset related inventory method change(s) specified in the letter ruling and the corresponding cost offset method change(s).

(ii) Cost offset year of change. For purposes of this section 16.08(4)(b), a taxpayer's cost offset year of change is the same year of change that the taxpayer received consent under the non-automatic change procedures for the cost-offset inventory related change.

(iii) Filing requirements. Notwithstanding section 6.03(1)(a) of Rev. Proc. 2015-13, a taxpayer making a change under section 16.08(2)(a)(i)(E), section 16.08(2)(a)(ii)(F), or section 16.08(2)(b)(v) of this revenue procedure in accordance with section 16.08(4)(b) of this revenue procedure must attach the original Form 3115 to the taxpayer's timely filed amended federal income tax return for the cost offset year of change and must file the duplicate copy (with signature) of the Form 3115 with the IRS in Ogden, UT, no later than the date the taxpayer timely files the amended federal income tax return that implements the cost-offset related inventory method described in section 16.08(4)(b)(i)(A) of this revenue procedure, as provided in section 11.03(2)(c)(ii)(A) or (B) of Rev. Proc. 2015-13.

(5) Eligibility rules inapplicable.

(a) Eligibility rule temporarily inapplicable for changes under sections 16.08(2)(a)(i), (2)(a)(ii), or (2)(b) of this revenue procedure. For a taxpayer that did not

apply § 1.451-3, § 1.451-8, and/or § 1.1275-2(l), as applicable, for a taxable year beginning before January 1, 2021, the eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13 does not apply to a change under section 16.08(2)(a)(i), (2)(a)(ii), or (2)(b) of this revenue procedure for a taxpayer's first or second taxable year beginning on or after January 1, 2021. For a taxpayer that applied § 1.451-3, § 1.451-8, and/or § 1.1275-2(l), as applicable, for a taxable year beginning before January 1, 2021, the eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13 does not apply to a change under section 16.08(2)(a)(i), (2)(a)(ii), or (2)(b) of this revenue procedure for the taxpayer's second taxable year beginning on or after January 1, 2021.

(b) Certain cost offset method changes. The eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13 does not apply to a change under section 16.08(2)(a)(i)(E), section 16.08(2)(a)(ii)(F), or section 16.08(2)(b)(v) of this revenue procedure.

(c) Example. Application of section 5.01(1)(f) of Rev. Proc. 2015-13. B, a calendar year taxpayer, is engaged in a single trade or business of selling computers. B is not under examination within the meaning of section 3.18 of Rev. Proc. 2015-13. B does not receive advance payments. B presently recognizes gross income from the sale of computers in the taxable year it begins manufacturing the computer without regard to whether there is a contract with a customer, and does not apply a cost offset method. For 2021, B makes a change in method of accounting for gross income from the sale of computers under section 16.10(2)(a)(iii)(A) of Rev. Proc. 2022-14 to apply the AFS income inclusion rule under § 1.451-3(b). Unless a waiver of eligibility applies, section 5.01(1)(f) of Rev. Proc. 2015-13 applies to prevent B from automatically changing its method of accounting for gross income from the sale of computers under section 16.08(2)(a)(i)(C) of this revenue procedure to apply the AFS cost offset method under § 1.451-3(c) for any of the four taxable years succeeding the 2021 year of change (taxable year 2022 through 2025) because the 2021 change was for the same item.

(6) No audit protection for taxpayers under examination for certain cost offset changes. For a taxpayer under examination that makes a change in method of accounting under section 16.08(2)(a)(i)(E), section 16.08(a)(ii)(F), or section

16.08(2)(b)(v) of this revenue procedure, the taxpayer does not receive audit protection under section 8.01 of Rev. Proc. 2015-13 for such change if, at the time of filing, the taxpayer's method of accounting for the item being changed by the corresponding cost-offset related inventory method change, as defined in section 5.06 of Rev. Proc. 2015-13, as modified by section 4.02 of Rev. Proc. 2021-34 (or successor), is an issue under consideration for the taxable year under examination. However, if the taxpayer ultimately receives audit protection for the corresponding cost-offset related inventory method change under section 8.02(1)(f) of Rev. Proc. 2015-13, then the preceding sentence does not apply and the normal audit protection rules in section 8 of Rev. Proc. 2015-13 apply.

(7) Concurrent automatic changes.

(a) Changes under this section 16.08 and change to overall accrual method. A taxpayer that wants to make one or more concurrent changes in method of accounting under this section 16.08 and a change in overall method of accounting to an accrual method under section 15.01 of this revenue procedure for the same year of change may file a single Form 3115 that includes all of the changes. Except as otherwise required by section 16.08(4)(a)(ii) of this revenue procedure, the taxpayer may not net the § 481(a) adjustment from one change with the § 481(a) adjustment from another change, and must separately state the § 481(a) adjustment for each change. If a taxpayer makes a concurrent change in method of accounting to allocate transaction price and/or payments under section 16.08(2)(a)(i), (ii), or section 16.08(2)(b) of this revenue procedure, the taxpayer is required to make the allocation change before any other change described in section 16.08(2)(a)(i), (ii), or section 16.08(2)(b) of this revenue procedure, as applicable.

(b) Concurrent cost-offset related inventory method change and change to apply a cost offset method. A taxpayer that implements a cost-offset related inventory method change(s) (as defined in section 5.06 of Rev. Proc. 2015-13, as modified by section 4.02 of Rev. Proc. 2021-34) in the same year of change it implements a change(s) to apply a cost offset method under section 16.08(2)(a)(i)(C), section 16.08(2)(a)(ii)(D), or section 16.08(2)(b)(iii) of this revenue procedure, is required to implement the cost-offset related inventory method change(s) before it implements the change to apply a cost offset method under section 16.08(2)(a)(i)(C), section 16.08(2)(a)(ii)(D), or section 16.08(2)(b)(iii) of this revenue procedure, as applicable.

(c) Concurrent cost-offset related inventory method change and corresponding change to cost offset method. See section 6.03(1)(b) of Rev. Proc. 2015-13 for a taxpayer that makes one or more change(s) under section 16.08(2)(a)(i)(E), (a)(ii)(F), or (b)(v) of this revenue procedure and one or more cost-offset related inventory method change(s), as defined in section 5.06 of Rev. Proc. 2015-13, under this revenue procedure in the same year of change. The taxpayer may file a single Form 3115 that includes both the cost-offset related inventory method change and the corresponding cost offset change. Additionally, such taxpayer is required to implement the cost-offset related inventory method change(s) under this revenue procedure before it implements the corresponding cost offset change(s) under section 16.08(2)(a)(i)(E), (a)(ii)(F), or (b)(v) of this revenue procedure, as applicable.

(d) Examples. For each of the following examples, the taxpayer is on a calendar year, uses an accrual method of accounting, and has an AFS, as defined in § 1.451-3(a)(5).

(i) Example 1. Ordering Rule: Cost-Offset Related Inventory Method Change Before Change to Cost Offset Method. A is engaged in a single trade or business of manufacturing and selling computers. A is not under examination within the meaning of section 3.18 of Rev. Proc. 2015-13. A uses the AFS income inclusion rule to account for gross income from the sale of computers and uses the deferral method to account for advance payments received from the sale of computers. A makes multiple changes in method of accounting in 2023. Specifically, A changes its method of accounting to apply the AFS cost offset method and the advance payment cost offset method pursuant to sections 16.08(2)(a)(i)(C) and 16.08(2)(a)(ii)(D) of this revenue procedure. A also changes its UNICAP method under section 12.02 of this revenue procedure. Pursuant to section 16.08(7)(b) of this revenue procedure, A is required to implement the UNICAP method change under section 12.02 before it implements the changes to the AFS cost offset method and advance payment cost offset method under sections 16.08(2)(a)(i)(C) and 16.08(2)(a)(ii)(D).

(ii) Example 2. Ordering Rule: Cost-Offset Related Inventory Method Change Before Corresponding Change to Cost Offset Method. The facts are the same as in Example 1. A makes multiple changes in method of accounting in 2024. A changes its UNICAP method under section 12.02 of this revenue procedure. A also makes a corresponding change to the AFS cost offset method under section 16.08(2)(a)(i)(E) and a corresponding change to the advance payment cost offset method section 16.08(2)(a)(ii)(F) of this revenue procedure. Pursuant to section 16.08(7)(c) of this revenue procedure, A is required to implement the UNICAP method change under section 12.02 before it implements the corresponding change to the AFS cost offset method under section 16.08(2)(a)(i)(E) and the corresponding change to the advance payment cost offset method under section 16.08(2)(a)(ii)(F).

(8) Limited applicability. Notwithstanding the inapplicability rules in section 16.08(3) of this revenue procedure, the changes described in section 16.08(2)(a)(i)(A) and (B) of this revenue procedure are applicable only for a taxpayer's first, second, or third taxable year beginning after December 31, 2020.

(9) Designated automatic accounting method change number. See the following table for the designated automatic method change number (DCN) for the changes in method of accounting under this section 16.08.

Changes related to § 1.451-3 other than cost offset	16.08(2)(a)(i)(A), (B), (F), (G)	250
Changes related to cost offset under § 1.451-3, except concurrent cost-offset related inventory method changes	16.08(2)(a)(i)(C), (D)	251
Changes related to the deferral method for advance payments - § 1.451-8 other than cost offset	16.08(2)(a)(ii)(B), (C), (G) and (H), 16.08(2)(b)(ii) or (vi)	252
Changes related to cost offset under § 1.451-8, except concurrent cost-offset related inventory method changes	16.08(2)(a)(ii)(D), (E), 16.08(2)(b)(iii) or (iv)	253
Changes related to full-inclusion method under § 1.451-8(b)	16.08(2)(a)(ii)(A) and (C), 16.08(2)(b)(i)	254
Changes related to cost offsets resulting from concurrent cost-offset related inventory changes	16.08(2)(a)(i)(E), 16.08(2)(a)(ii)(F), and 16.08(2)(b)(v)	255

(10) Contact information. For further information regarding a change under this section, contact Sharon Horn at (202) 317-7003 (not a toll-free number). For further information regarding a change under this section for OID and specified fees (including specified credit card fees), contact Chris Lieu at (202) 317-6945 (not a toll-free number).

## SECTION 17. OBLIGATIONS ISSUED AT DISCOUNT (§ 454)

### .01 Series E, EE or I U.S. savings bonds.

(1) Description of change. This change applies to a taxpayer that uses the overall cash receipts and disbursements (cash) method of accounting and that wants to change its method of accounting for interest income on Series E, EE, or I U.S. savings bonds. However, this change only applies to a taxpayer that previously made an election under § 454 to report as interest income the increase in redemption price on a bond occurring in a taxable year, and that now wants to report this income in the taxable year in which the bond is redeemed, disposed of, or finally matures, whichever is earliest.

(2) Manner of making change and designated automatic accounting method change number.

(a) This change is made on a cut-off basis and is effective for any increase in redemption price occurring after the beginning of the year of change for all Series E, EE and I U.S. savings bonds held by the taxpayer on or after the beginning of the year of change. Accordingly, a § 481(a) adjustment is neither permitted nor required.

(b) In accordance with § 1.446-1(e)(3)(ii), the requirement of § 1.446-1(e)(3)(i) to file a Form 3115 is waived and a statement in lieu of a Form 3115 is authorized for this change. Notwithstanding the definition of Form 3115 in section 3.07 of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, the statement in lieu of a Form 3115 that is permitted under this section 17.01 is considered a Form 3115 for purposes of the automatic change procedures of Rev. Proc. 2015-13. However, the requirement to file the duplicate copy, under section 6.03(1)(a) of Rev. Proc. 2015-13, is waived. The statement must include the following information:

(i) the designated automatic accounting method change number for this change, which is “131”;

(ii) the taxpayer’s name and employer identification number or social security number, as applicable;

(iii) the year of change (both the beginning and ending dates);

(iv) the Series E, EE or I U.S. savings bonds for which this change in accounting method is requested;

(v) a statement that the taxpayer will report all interest on any U.S. savings bonds acquired during or after the year of change when the interest is realized upon disposition, redemption, or final maturity, whichever is earliest; and

(vi) a statement that the taxpayer will report all interest on the U.S. savings bonds acquired before the year of change when the interest is realized upon disposition, redemption, or final maturity, whichever is earliest, with the exception of any interest income previously reported in prior taxable years.

(3) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 17.01 is “131.”

(4) Contact information. For further information regarding a change under this section, contact Steven Harrison at (202) 317-6842 (not a toll-free number).

## SECTION 18. PREPAID SUBSCRIPTION INCOME (§ 455)

### .01 Prepaid subscription income.

(1) Description of change. This change applies to a taxpayer using an overall accrual method of accounting that wants to change its method of accounting for prepaid subscription income to the method described in § 455 and the regulations thereunder, including an eligible taxpayer that wants to make the “within 12 months” election under § 1.455-2.

(2) Manner of making change and designated automatic accounting method change number.

(a) Cut-off basis. This change is made on a cut-off basis and applies only to prepaid subscription income received on or after the beginning of the year of change. The taxpayer must continue to account for prepaid subscription income



received prior to the year of change under the taxpayer's present method of accounting. Accordingly, a § 481(a) adjustment is neither permitted nor required.

(b) Short Form 3115 in lieu of a standard Form 3115. In accordance with § 1.446-1(e)(3)(ii), the requirement of § 1.446-1(e)(3)(i) to file a standard Form 3115 is waived and, pursuant to section 6.02(2) of Rev. Proc. 2015-13, a short Form 3115 is authorized for a change described in section 18.01(a) of this revenue procedure. The requirement in § 1.455-6 to file a statement requesting consent is satisfied by filing such short Form 3115. The short Form 3115 (Rev. December 2022) must include the following information:

- (i) the identification section of page 1 (above Part I);
- (ii) the signature section at the bottom of page 1;
- (iii) Part I, line 1(a);
- (iv) the information described in § 1.455-6(a), as required by § 1.455-6(b); and
- (v) if the taxpayer wants to make a "within 12 months" election under § 1.455-6(c), the information described in section § 1.455-6(c)(2).

(c) Section 455 election made with consent. The consent granted in section 9 of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, satisfies the consent required under § 455(c)(3) and § 1.455-6(b).

(3) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 18.01 is "132."

(4) Contact information. For further information regarding a change under this section, contact Patrick Clinton at (202) 317-7005 (not a toll-free number).

## SECTION 19. SPECIAL RULES FOR LONG-TERM CONTRACTS (§ 460)

.01 Small business taxpayer exceptions from requirement to account for certain long-term contracts under § 460 or to capitalize costs under § 263A for certain home construction contracts.

(1) Description of change. This change applies to a taxpayer that (a) wants to change its method of accounting for exempt long-term construction contracts described in § 460(e)(1)(B) from the percentage-of-completion method of accounting described in § 1.460-4(b) to an exempt contract method of accounting described in § 1.460-4(c); or (b) chooses to stop capitalizing costs under § 263A for home construction contracts described in § 460(e)(1)(A) and meets the requirements of § 460(e)(1)(B)(i) and (ii).

(2) Inapplicability. A taxpayer can use a method of accounting for its exempt long-term contracts that is different from the method used for contracts that are not exempt. Thus, a taxpayer must use the percentage-of-completion method of accounting for nonresidential long-term construction contracts that do not meet the requirements of § 460(e)(1)(B), proposed § 1.460-3(b)(1)(ii), or § 1.460-3(b)(1)(ii), as applicable, in the first taxable year it enters into such a contract, but must continue to use its exempt contract method of accounting for its existing exempt long-term construction contracts. Similarly, in the first taxable year that a taxpayer enters into a nonresidential long-term construction contract that meets the requirements of § 460(e)(1)(B), proposed § 1.460-3(b)(1)(ii), or § 1.460-3(b)(1)(ii), as applicable, the taxpayer can use a permissible exempt contract method of accounting for such a contract. Rev. Rul. 92-28, 1992-1 C.B. 153. Accordingly, only a taxpayer who previously adopted the percentage-of-completion method of accounting for exempt

long-term construction contracts and wants to change to another permissible exempt contract method of accounting is required to request consent to change under this section 19.01. Similarly, a taxpayer that enters into a home construction contract described in § 460(e)(1)(A) and that meets the requirements of § 460(e)(1)(B)(i) and (ii) requires consent to change its method of accounting to not capitalize costs under § 263A only if the taxpayer has previously applied § 263A to home construction contracts exempt from the capitalization requirement under § 460(e)(1).

(3) Manner of making change. This change is made on a cut-off basis and applies only to long-term construction contracts entered into on or after the first day of the year of change. Accordingly, a § 481(a) adjustment is neither permitted nor required.

(4) Reduced filing requirement. A taxpayer is required to complete only the following information on Form 3115 (Rev. December 2022) to make this change:

- (a) The identification section of page 1 (above Part I);
- (b) The signature section at the bottom of page 1;
- (c) Part I;
- (d) Part II, all lines except line 16;
- (e) Part IV, line 25; and
- (f) Schedule D, Part I.

(5) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 19.01 is "236."

(6) Contact information. For further information regarding changes under this section, contact Innessa Glazman at (202) 317-7006 (not a toll-free number).

.02 Change to rely on the interim guidance provided in section 8 of Notice 2023-63, 2023-39 I.R.B. 919.

(1) Description of change. This change applies to a taxpayer that wants to change its method of accounting under § 460 to rely on the interim guidance provided in section 8 of Notice 2023-63, 2023-39 I.R.B. 919, so that the costs allocable to a long-term contract accounted for using the PCM include amortization deductions for specified research or experimental (SRE) expenditures, as defined in §174(b) and section 4.02(2) of Notice 2023-63, as applicable, under §174(a)(2)(B), rather than the capitalized amount of such expenditures, and the amortization deductions for such expenditures are treated as incurred for purposes of determining the percentage of contract completion in the taxable year the amortization is deducted. For purposes of determining the percentage of contract completion, estimated total allocable contract costs include either (1) all amortization of SRE expenditures that directly benefit or are incurred by reason of the performance of the long-term contract, or (2) only that portion of such amortization expected to be incurred and deducted during the term of the contract. A taxpayer using the first alternative is required to report any portion of the contract price not previously reported by the taxable year following the taxable year in which the contract is completed, notwithstanding that some portion of the SRE expenditures remain unamortized. See § 460(b)(1).

(2) Inapplicability. This change does not apply to:

(a) A change in method of accounting under § 460 with respect to expenditures capitalized under § 59(e)(2)(B), or under § 174(b) prior to its amendment by § 13206(a) of the TCJA.

(b) A change in method of accounting for independent research and development expenditures, as defined § 460(c)(5), which are not allocable contract costs.

(c) Any contract not accounted for under the PCM, as described in § 460(b)(1) and § 1.460-4(b)(2), as of the beginning of the year of change.

(3) Manner of making change.

(a) Cut-off basis. A change under section 19.02(1) of this revenue procedure for the taxpayer's first taxable year beginning after December 31, 2021, applies to the § 460 treatment of SRE expenditures paid or incurred in taxable years beginning after December 31, 2021. Accordingly, such change is made on a cut-off basis, and applies to all long-term contracts for which an SRE expenditure is an allocable contract cost, including long-term contracts entered into before the beginning of the year of change. A taxpayer making this change does not recompute its taxable income under § 1.460-4(b) for any taxable year beginning on or before December 31, 2021.

(b) Modified § 481(a) adjustment or cut-off basis.

(i) In general. Except as provided in section 19.02(3)(b)(ii) of this revenue procedure, a change under section 19.02(1) of this revenue procedure for a year of change later than the first taxable year beginning after December 31, 2021, is made with a modified § 481(a) adjustment that takes into account the § 460 treatment of SRE expenditures paid or incurred in taxable years beginning after December 31, 2021. Such change applies to all long-term contracts for which an SRE expenditure is an allocable contract cost, including long-term contracts entered into before the beginning of the year of change.

(ii) Exception for negative modified § 481(a) adjustment. If a change described in section 19.02(3)(b)(i) of this revenue procedure results in a modified § 481(a) adjustment that is negative, the taxpayer may instead choose to implement the change on a cut-off basis.

(4) Certain eligibility rules inapplicable. The eligibility rules in section 5.01(1)(d) and (f) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, do not apply to a change described in section 19.02(1) of this revenue procedure for the taxpayer's first or second taxable year beginning after December 31, 2021.

(5) Limited audit protection. A taxpayer does not receive audit protection under section 8.01 of Rev. Proc. 2015-13 for a change under section 19.02(1) of this revenue procedure with respect to the § 460 treatment of expenditures paid or incurred in taxable years beginning on or before December 31, 2021.

(6) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under section 19.02 of this revenue procedure is "271."

(7) Contact information. For further information regarding a change under section 19.02 of this revenue procedure, contact John Aramburu at (202) 317-7006 (not a toll-free number).

## SECTION 20. TAXABLE YEAR INCURRED (§ 461)

In general. Applicable provisions of the Code, regulations and other guidance published in the Internal Revenue Bulletin may prescribe the manner in which a taxpayer takes into account a liability that has been incurred. For example, for a taxpayer with inventories and subject to § 263A, the taxpayer must include direct and indirect costs in inventory costs, which may be recovered through cost of goods sold. See § 1.263A-

1(e)(2)(i)(B). A taxpayer may not rely on any provision in this section 20 to take a current year deduction if another applicable provision requires the taxpayer to take the liability into account in a year other than the year incurred.

.01 Timing of incurring liabilities for employee compensation.

(1) Self-insured employee medical benefits.

(a) Description of change.

(i) Applicability. This change applies to a taxpayer using an overall accrual method of accounting that wants to change its method of accounting for self-insured liabilities (including any amounts not covered by insurance, such as a “deductible” amount under an insurance policy) relating to employee medical expenses (including liabilities resulting from medical services provided to retirees whom the employer reimburses for the cost of medical services, or for whom the employer directly pays a third party medical provider, no later than the 15<sup>th</sup> day of the 3<sup>rd</sup> calendar month after the end of the taxable year of the retirement, and to employees and former employees who have filed claims under a workers’ compensation act) that are not paid from a welfare benefit fund within the meaning of § 419(e) to a method as follows:

(A) If the taxpayer has a liability to pay an employee for medical expenses incurred by the employee, the taxpayer will treat the liability as incurred in the taxable year in which the employee files the claim with the employer. See United States v. General Dynamics Corp., 481 U.S. 239 (1987), 1987-2 C.B. 134.

(B) If the taxpayer has a liability to pay a third party for medical services provided to its employees, the taxpayer will treat the liability as incurred in the taxable year in which the services are provided.

(ii) Inapplicability. This change does not apply to a taxpayer that is required under § 263A and the regulations thereunder to capitalize the costs with respect to which the taxpayer wants to change its method of accounting under this section 20.01(1) if the taxpayer is not capitalizing these costs, unless the taxpayer concurrently changes its method to capitalize these costs in conjunction with a change to a UNICAP method under section 12.01, 12.02, 12.08, or 12.12 of this revenue procedure (as applicable).

(b) Concurrent automatic change. A taxpayer making both this change and a change to a UNICAP method described in section 20.01(1)(a)(ii) of this revenue procedure under section 12.01, 12.02, 12.08, or 12.12 of this revenue procedure (as applicable) for the same year of change should file a single Form 3115 for both changes, in which case the taxpayer must enter the designated automatic accounting method change numbers for both changes on the appropriate line on that Form 3115. See section 6.03(1)(b) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, for information on making concurrent changes.

(c) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 20.01(1) is “42.”

(2) Bonuses.

(a) Description of change.

(i) Applicability. This change applies to a taxpayer using an overall accrual method of accounting that wants to change its method of accounting to treat bonuses as incurred in the taxable year in which all events have occurred that establish the fact of the liability to pay a bonus and the amount of the liability can be determined



with reasonable accuracy (see § 1.446-1(c)(1)(ii)). Specifically, a taxpayer may change its method of accounting under this section 20.01(2) to one of the following methods:

(A) If all the events that establish the fact of the liability to pay a bonus have occurred by the end of the taxable year in which the related services are provided, and the bonus is received by the employee no later than the 15<sup>th</sup> day of the 3<sup>rd</sup> calendar month after the end of the taxable year in which the related services are provided, the taxpayer will treat the bonus liability as incurred in that taxable year. See Rev. Rul. 55-446, 1955-2 C.B. 531, as modified by Rev. Rul. 61-127, 1961-2 C.B. 36.

(B) If all the events that establish the fact of the liability to pay a bonus occur in the taxable year subsequent to the taxable year in which the related services are provided, the taxpayer will treat the bonus liability as incurred in such subsequent taxable year.

(ii) Inapplicability. This change does not apply to a taxpayer that is required under § 263A and the regulations thereunder to capitalize the costs with respect to which the taxpayer wants to change its method of accounting under this section 20.01(2) if the taxpayer is not capitalizing these costs, unless the taxpayer concurrently changes its method to capitalize these costs in conjunction with a change to a UNICAP method under section 12.01, 12.02, 12.08, or 12.12 of this revenue procedure (as applicable).

(b) Concurrent automatic change. A taxpayer making both this change and a change to a UNICAP method described in section 20.01(2)(a)(ii) of this revenue procedure under section 12.01, 12.02, 12.08, or 12.12 of this revenue procedure (as applicable) for the same year of change should file a single Form 3115 for both changes, in which case the taxpayer must enter the designated automatic accounting

method change numbers for both changes on the appropriate line on that Form 3115. See section 6.03(1)(b) of Rev. Proc. 2015-13 for information on making concurrent changes.

(c) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 20.01(2) is “133.”

(3) Vacation pay, sick pay, and severance pay.

(a) Description of change.

(i) Applicability. This change applies to a taxpayer using an overall accrual method of accounting that wants to change its method of accounting to treat vacation pay, sick pay, and severance pay as incurred in the taxable year in which all events have occurred that establish the fact of the liability to pay vacation pay, sick pay, and severance pay and the amount of the liability can be determined with reasonable accuracy (see § 1.446-1(c)(1)(ii)). Specifically, a taxpayer may change its method of accounting under this section 20.01(3) to one of the following methods:

(A) If all the events that establish the fact of the liability to pay vacation pay, sick pay, and severance pay have occurred by the end of the taxable year in which the related services are provided, the vacation pay, sick pay, and severance pay vests in the taxable year the related services are provided, and the vacation pay, sick pay, and severance pay is received by the employee no later than the 15<sup>th</sup> day of the 3<sup>rd</sup> calendar month after the end of the taxable year in which the related services are provided, the taxpayer will treat the vacation pay, sick pay, and severance pay liability as incurred in the taxable year in which the related services are provided.

(B) If all the events that establish the fact of the liability to pay vacation pay, sick pay, and severance pay occur in the taxable year subsequent to the taxable year in which the related services are provided, the taxpayer will treat the vacation pay, sick pay, and severance pay liability as incurred in such subsequent taxable year.

(ii) Inapplicability. This change does not apply to a taxpayer that is required under § 263A and the regulations thereunder to capitalize the costs with respect to which the taxpayer wants to change its method of accounting under this section 20.01(3) if the taxpayer is not capitalizing these costs, unless the taxpayer concurrently changes its method to capitalize these costs in conjunction with a change to a UNICAP method under section 12.01, 12.02, 12.08, or 12.12 of this revenue procedure (as applicable).

(b) Concurrent automatic change. A taxpayer making both this change and a change to a UNICAP method described in section 20.01(3)(a)(ii) of this revenue procedure under section 12.01, 12.02, 12.08, or 12.12 of this revenue procedure (as applicable) for the same year of change should file a single Form 3115 for both changes, in which case the taxpayer must enter the designated automatic accounting method change numbers for both changes on the appropriate line on that Form 3115. See section 6.03(1)(b) of Rev. Proc. 2015-13 for information on making concurrent changes.

(c) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 20.01(3) is “134.”

(4) Commissions.

(a) Description of change.

(i) Applicability. This change applies to a taxpayer using an overall accrual method of accounting that wants to change its method of accounting to treat commissions as incurred in the taxable year in which all events have occurred that establish the fact of the liability to pay a commission, and the amount of the liability can be determined with reasonable accuracy (see § 1.446-1(c)(1)(ii)). Specifically, a taxpayer may change its method of accounting under this section 20.01(4) to one of the following methods:

(A) If all the events that establish the fact of the liability to pay a commission have occurred by the end of the taxable year in which the related services are provided, and the commission is received by the employee no later than the 15<sup>th</sup> day of the 3<sup>rd</sup> calendar month after the end of the taxable year in which the related services are provided, the taxpayer will treat the commission liability as incurred in that taxable year.

(B) If all the events that establish the fact of the liability to pay a commission occur in the taxable year subsequent to the taxable year in which the related services are provided, the taxpayer will treat the commission liability as incurred in such subsequent taxable year.

(ii) Inapplicability. This change does not apply to a taxpayer that is required under § 263A and the regulations thereunder to capitalize the costs with respect to which the taxpayer wants to change its method of accounting under this section 20.01(4) if the taxpayer is not capitalizing these costs, unless the taxpayer concurrently changes its method to capitalize these costs in conjunction with a change

to a UNICAP method under section 12.01, 12.02, 12.08, or 12.12 of this revenue procedure (as applicable).

(b) Concurrent automatic change. A taxpayer making both this change and a change to a UNICAP method described in section 20.01(4)(a)(ii) of this revenue procedure under section 12.01, 12.02, 12.08, or 12.12 of this revenue procedure (as applicable) for the same year of change should file a single Form 3115 for both changes, in which case the taxpayer must enter the designated automatic accounting method change numbers for both changes on the appropriate line on that Form 3115. See section 6.03(1)(b) of Rev. Proc. 2015-13 for information on making concurrent changes.

(c) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 20.01(4) is “249.”

(5) Contact information. For further information regarding a change under this section, contact Maria Castillo Valle or Alicia Lee-Won at (202) 317-7003 (not a toll-free number).

.02 Timing of incurring liabilities for real property taxes, personal property taxes, state income taxes, and state franchise taxes.

(1) Background. A taxpayer using an overall accrual method of accounting generally incurs a liability in the taxable year that all the events have occurred that establish the fact of the liability, the amount of the liability can be determined with reasonable accuracy, and economic performance has occurred with respect to the liability. See § 1.446-1(c)(1)(ii). Under § 1.461-4(g)(6), if the liability of the taxpayer is

to pay a tax, economic performance occurs as the tax is paid to the government authority that imposed the tax.

(2) Description of change.

(a) Applicability. This change applies to a taxpayer using an overall accrual method of accounting that wants to change its method of accounting to:

(i) treat liabilities (for which the all events test of § 461(h)(4) is otherwise met) for real property taxes, personal property taxes, state income taxes, or state franchise taxes as incurred in the taxable year in which the taxes are paid, under § 461 and § 1.461-4(g)(6);

(ii) account for real property taxes, personal property taxes, state income taxes, or state franchise taxes under the recurring item exception method under § 461(h)(3) and § 1.461-5(b)(1); or

(iii) revoke an election under § 461(c) (ratable accrual election).

(b) Inapplicability. This change does not apply to:

(i) a taxpayer's liability for a tax subject to the limitation on acceleration of accrual of taxes under § 461(d); or

(ii) a taxpayer that is required under § 263A and the regulations thereunder to capitalize the costs with respect to which the taxpayer wants to change its method of accounting under this section 20.02 if the taxpayer is not capitalizing these costs, unless the taxpayer concurrently changes its method to capitalize these costs in conjunction with a change to a UNICAP method under section 12.01, 12.02, 12.08, or 12.12 of this revenue procedure (as applicable).

(3) Concurrent automatic change. A taxpayer making both this change and a change to a UNICAP method described in section 20.02(2)(b)(ii) of this revenue

procedure under section 12.01, 12.02, 12.08, or 12.12 of this revenue procedure (as applicable) for the same year of change should file a single Form 3115 for both changes, in which case the taxpayer must enter the designated automatic accounting method change numbers for both changes on the appropriate line on that Form 3115. See section 6.03(1)(b) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, for information on making concurrent changes.

(4) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 20.02 is “43.”

(5) Contact information. For further information regarding a change under this section, contact Christine Merson at (202) 317-5100 (not a toll-free number).

.03 Timing of incurring liabilities under a workers’ compensation act, tort, breach of contract, or violation of law.

(1) Description of change.

(a) Applicability. This change applies to a taxpayer using an overall accrual method of accounting that wants to change its method of accounting for self-insured liabilities (including any amounts not covered by insurance, such as a “deductible” amount under an insurance policy) arising under any workers’ compensation act or out of any tort, breach of contract, or violation of law, to treating the liability for the workers’ compensation, tort, breach of contract, or violation of law as being incurred in the taxable year in which all the events have occurred that establish the fact of the liability, the amount of the liability can be determined with reasonable accuracy, and payment is made to the person to which the liability is owed. See § 461 and § 1.461-4(g)(1) and (2). If the taxpayer has self-insured liabilities resulting from

medical services provided to employees who have filed claims under a workers compensation act, the taxpayer may change its method of accounting for those liabilities under section 20.01(1) of this revenue procedure (if the taxpayer is otherwise eligible).

(b) Inapplicability. This change does not apply to a taxpayer that is required under § 263A and the regulations thereunder to capitalize the costs with respect to which the taxpayer wants to change its method of accounting under this section 20.03 if the taxpayer is not capitalizing these costs, unless the taxpayer concurrently changes its method to capitalize these costs in conjunction with a change to a UNICAP method under section 12.01, 12.02, 12.08, or 12.12 of this revenue procedure (as applicable).

(2) Concurrent automatic change. A taxpayer making both this change and change to either a method provided in section 20.01(1) of this revenue procedure for self-insured employee medical expenses or a UNICAP method described in section 20.03(1)(b) of this revenue procedure under section 12.01, 12.02, 12.08, or 12.12 of this revenue procedure (as applicable) for the same year of change should file a single Form 3115, in which case the taxpayer must enter the designated automatic accounting method change numbers for each change on the appropriate line on that Form 3115. See section 6.03(1)(b) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, for information on making concurrent changes.

(3) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 20.03 is “44.”

(4) Contact information. For further information regarding a change under this section, contact Christine Merson at (202) 317-5100 (not a toll-free number).



.04 Timing of incurring certain liabilities for payroll taxes.

(1) Description of change.

(a) Applicability. This change applies to:

(i) an employer using an overall accrual method of accounting that wants to change its method of accounting for:

(A) FICA and FUTA taxes to a method consistent with the holding in Rev. Rul. 96-51, 1996-2 C.B. 36. Rev. Rul. 96-51 permits an accrual method employer to take into account in Year 1, under the all events test of § 461, its otherwise deductible FICA and FUTA taxes imposed with respect to year-end wages properly accrued in Year 1, but paid in Year 2, if the requirements of the recurring item exception are met; and

(B) state unemployment taxes and, in the event the taxpayer is an employer within the meaning of the Railroad Retirement Tax Act (RRTA) (see § 3231(a)), RRTA taxes to a method under which the taxpayer may take into account in Year 1 its otherwise deductible state unemployment taxes and railroad retirement taxes (if applicable) imposed with respect to year-end wages properly accrued in Year 1, but paid in Year 2, if the requirements of the recurring item exception are met (including the requirement that, as of the end of the taxable year, all events have occurred that establish the fact of the liability and the amount of the liability can be determined with reasonable accuracy, see § 1.461-5(b));

(ii) an accrual method employer that utilizes a method of accounting for FICA and FUTA taxes that is consistent with the holding in Rev. Rul. 96-51 and wants to change its method of accounting for state unemployment taxes and, in the event the employer is an employer within the meaning of RRTA (see § 3231(a)), RRTA

taxes to a method under which the taxpayer may take into account in Year 1 its otherwise deductible state unemployment taxes and railroad retirement taxes (if applicable) imposed with respect to year-end wages properly accrued in Year 1, but paid in Year 2, if the requirements of the recurring item exception are met (including the requirement that, as of the end of the taxable year, all events have occurred that establish the fact of the liability and the amount of the liability can be determined with reasonable accuracy, see § 1.461-5(b)); or

(iii) a taxpayer using an overall accrual method of accounting that wants to change its method of accounting for FICA and FUTA taxes to the safe harbor method provided in Rev. Proc. 2008-25, 2008-1 C.B. 686. Rev. Proc. 2008-25 provides that for purposes of the recurring item exception, a taxpayer will be treated as satisfying the requirement in § 1.461-5(b)(1)(i) for its payroll tax liability in the same taxable year in which all events have occurred that establish the fact of the related compensation liability and the amount of the related compensation liability can be determined with reasonable accuracy.

(b) Inapplicability. This change does not apply to a taxpayer that is required under § 263A and the regulations thereunder to capitalize the costs with respect to which the taxpayer wants to change its method of accounting under this section 20.04 if the taxpayer is not capitalizing these costs, unless the taxpayer concurrently changes its method to capitalize these costs in conjunction with a change to a UNICAP method under section 12.01, 12.02, 12.08, or 12.12 of this revenue procedure (as applicable).

(2) Recurring item exception. A taxpayer that previously has not changed to or adopted the recurring item exception for FICA taxes, FUTA taxes, state

unemployment taxes, and RRTA taxes (if applicable) must change to the recurring item exception method for FICA taxes, FUTA taxes, state unemployment taxes, and RRTA taxes (if applicable) as specified in § 461(h)(3) as part of this change.

(3) Concurrent automatic change. A taxpayer making both this change and a change to a UNICAP method described in section 20.04(1)(b) of this revenue procedure under section 12.01, 12.02, 12.08, or 12.12 of this revenue procedure (as applicable) for the same year of change should file a single Form 3115 for both changes, in which case the taxpayer must enter the designated automatic accounting method change numbers for both changes on the appropriate line on that Form 3115. See section 6.03(1)(b) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, for information on making concurrent changes.

(4) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under section 20.04(1)(a)(i) or (ii) of this revenue procedure is “45.” The designated automatic accounting method change number for a change under section 20.04(1)(a)(iii) of this revenue procedure is “113.”

(5) Contact information. For further information regarding a change under this section, contact James Williford at (202) 317-5100 (not a toll-free number).

#### .05 Cooperative advertising.

(1) Description of change. This change applies to a taxpayer using an overall accrual method of accounting that wants to change its method of accounting for cooperative advertising costs to a method consistent with the holding in Rev. Rul. 98-39, 1998-2 C.B. 198. Rev. Rul. 98-39 generally provides that, under the all events test of § 461, an accrual method manufacturer’s liability to pay a retailer for cooperative advertising services is incurred in the year in which the services are performed,

provided the manufacturer is able to reasonably estimate this liability, and even though the retailer does not submit the required claim form until the following year.

(2) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 20.05 is “46.”

(3) Contact information. For further information regarding a change under this section, contact Clifford Sovich at (202) 317-5100 (not a toll-free number).

.06 Timing of incurring certain liabilities for services or insurance.

(1) Description of change. This change applies to a taxpayer using an overall accrual method of accounting that is currently treating the mere execution of a contract for services or insurance as establishing the fact of the liability under § 461 and wants to change from that method of accounting for liabilities for services or insurance to comply with Rev. Rul. 2007-3, 2007-1 C.B. 350, that is, all the events needed to establish the fact of the liability occur when (a) the event fixing the liability, whether that be the required performance or other event occurs or (b) payment is due, whichever happens earliest.

(2) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 20.06 is “106.”

(3) Contact information. For further information regarding a change under this section, contact Sharon Horn at (202) 317-7003 (not a toll-free number).

.07 Rebates and allowances.

(1) Description of change.

(a) Applicability. This change applies to a taxpayer using an overall accrual method of accounting that wants to change its method of accounting for treating its liability for rebates and allowances to the recurring item exception method under § 461(h)(3) and § 1.461-5.

(b) Inapplicability. This change does not apply to a taxpayer's liability to pay a refund.

(2) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 20.07 is "135."

(3) Contact information. For further information regarding a change under this section, contact Elizabeth Choi at (202) 317-5100 (not a toll-free number).

.08 Ratable accrual of real property taxes.

(1) Description of change. This change applies to a taxpayer using an overall accrual method of accounting that wants to change its method of accounting for real property taxes to the method described in § 461(c) and § 1.461-1(c)(1) (ratable accrual election). This change applies to real property taxes that relate to a definite period of time. This change does not apply to a taxpayer's first taxable year in which the taxpayer incurs real property taxes, in which case the change is made using the provisions of § 1.461-1(c)(3)(i).

(2) Manner of making change and designated automatic accounting method change number.

(a) Cut-off basis. This change is made on a cut-off basis and applies only to real property taxes accrued on or after the beginning of the year of change. Any real property taxes accrued prior to the year of change are accounted for under the

taxpayer's former method of accounting. See § 1.461-1(c)(6), *Examples (2) – (5)*.

Accordingly, a § 481(a) adjustment is neither permitted nor required.

(b) Short Form 3115 in lieu of a standard Form 3115. In accordance with § 1.446-1(e)(3)(ii), the requirement in § 1.461-1(e)(3)(i) to file a standard Form 3115 is waived and, pursuant to section 6.02(2) of Rev. Proc. 2015-13, a short Form 3115 is authorized with respect to a taxpayer making a change under this section 20.08. The taxpayer's short Form 3115 (Rev. December 2022) must include all of the following information:

- (i) the identification section of page 1 (above Part I);
- (ii) the signature section at the bottom of page 1;
- (iii) Part I, line 1(a); and
- (iv) the information described in § 1.461-1(c)(3)(ii)(a) through (f).

(c) Section 461 election made with consent. The consent granted under section 9 of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, satisfies the consent required under § 461(c)(2)(B) and § 1.461-1(c)(3)(ii).

(3) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 20.08 is "149."

(4) Contact information. For further information regarding a change under this section, contact Daniel Cassano at (202) 317-7011 (not a toll-free number).

#### .09 California Franchise Taxes.

(1) Description of change. This change applies to a taxpayer using an overall accrual method of accounting that wants to change its method of accounting for California franchise taxes to a method consistent with the holding in Rev. Rul. 2003-90,

2003-2 C.B. 353. Rev. Rul. 2003-90 provides that for taxable years beginning on or after January 1, 2000, a taxpayer that uses an accrual method of accounting incurs a liability for California franchise tax for federal income tax purposes in the taxable year following the taxable year in which the California franchise tax is incurred under the Cal. Rev. & Tax Code, as amended.

(2) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 20.09 is "154."

(3) Contact information. For further information regarding a change under this section, contact Sharon Horn at (202) 317-7003 (not a toll-free number).

.10 Gift cards issued as a refund for returned goods.

(1) Description of change.

(a) Applicability. This change applies to a taxpayer using an overall accrual method of accounting that sells goods at retail and that wants to change its method of accounting for gift cards (as defined by section 4.02 of Rev. Proc. 2011-17, 2011-5 I.R.B. 441) issued as a refund for returned goods to treat the transaction as (1) the payment of a cash refund in the amount of the gift card, and (2) the sale of a gift card in the amount of the gift card.

(b) Treatment of proceeds of the deemed sale. A taxpayer must treat the proceeds of the deemed sale of a gift card in accordance with the method of accounting it otherwise employs for sales of gift cards.

(2) Concurrent automatic change. A taxpayer making both this change and an automatic change to the deferral method under section 16.08 of this revenue procedure for the same taxable year of change may file a single Form 3115 for both

changes and enter the designated automatic accounting method change numbers for both changes on the appropriate line on that Form 3115. See section 6.03(1)(b) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, for information on making concurrent changes.

(3) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 20.10 is “156.”

(4) Contact information. For further information regarding a change under this section, contact Alicia Lee-Won at (202) 317-7003 (not a toll-free number).

.11 Timing of incurring liabilities under the recurring item exception to the economic performance rules.

(1) Description of change. This change applies to a taxpayer using an overall accrual method of accounting that wants to conform to any of the holdings in Rev. Rul. 2012-1, 2012-2 I.R.B. 255, which clarifies the treatment of certain liabilities under the recurring item exception to the economic performance requirement under § 461(h)(3) by addressing the application of the “not material” and “better matching” requirements, and distinguishes contracts for the provision of services from insurance and warranty contracts.

(2) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 20.11 is “161.”

(3) Contact information. For further information regarding a change under this section, contact Aliza Schechet at (202) 317-7003 (not a toll-free number).

.12 Economic performance safe harbor for ratable service contracts.



(1) Description of change. This change applies to an accrual method taxpayer that wants to change its treatment of Ratable Service Contracts to conform to the safe harbor method provided by Rev. Proc. 2015-39, 2015-33 I.R.B. 195.

(2) Designated automatic accounting method change number. The designated automatic accounting method change number for changes in methods of accounting under this section 20.12 is “220.”

(3) Contact information. For further information regarding a change under this section, contact Douglas Kim at (202) 317-7003 (not toll-free numbers).

### .13 Alternative Cost Method.

(1) Description of change. This change applies to a taxpayer that wants to change its method of accounting for common improvement costs either to (1) use the Alternative Cost Method in accordance with Rev. Proc. 2023-9; or (2) discontinue using the alternative cost method under Rev. Proc. 92-29 (92-29 alternative cost method) and instead account for common improvement costs using an accrual method of accounting under § 461.

(2) Applicability. This change applies to a taxpayer:

(a) that wants to change to the Alternative Cost Method described in Rev. Proc. 2023-9, for all of its qualifying projects within a trade or business, including taxpayers that want to change their method of allocating adjustments to the estimated cost of common improvements for all of their qualifying projects within a trade or business;

(b) that, on the first day of the first taxable year beginning after December 31, 2022, in the same trade or business, uses the 92-29 alternative cost method for one or more qualifying projects that are in progress and an accrual method under § 461 to

account for common improvement costs for one or more qualifying projects that are in progress (legacy rule). For purposes of this section, a qualifying project is in progress if the developer has sold at least one unit in the project in a prior taxable year (or in the case of a developer that uses the completed contract method, has completed at least one contract in the project in a prior taxable year) and holds units in the project available for sale during the taxable year. In this situation, the taxpayer is not required to change to the Alternative Cost Method for such qualifying projects in progress using an accrual method under § 461 as long as all new qualifying projects in the trade or business are accounted for using the Alternative Cost Method in accordance with Rev. Proc. 2023-9; or

(c) that, on the first day of the first taxable year beginning after December 31, 2022, wants to change from the 92-29 alternative cost method to an accrual method under § 461 for all of its qualifying projects in a trade or business.

(3) Inapplicability.

(a) This change does not apply to a taxpayer that is using the Alternative Cost Method described in Rev. Proc. 2023-9 that wants to change its method of allocating the estimated cost of common improvements among the benefitted units in the qualifying project (and in case of a taxpayer using the completed contract method described in § 1.460-4(d) (CCM), a taxpayer that wants to change its method of allocating the estimated cost of common improvements among all the CCM contracts, as defined in section 4.03 of Rev. Proc. 2023-9, in the qualifying project).

(b) This change does not apply to a taxpayer that wants to change its method of accounting for determining the alternative cost limitation in section 5.04 of Rev. Proc. 2023-9. The inapplicability rule described in this section 20.13(3)(b) is

effective for any taxable year following the first taxable year that begins after December 31, 2022.

(c) This change does not apply to a taxpayer that is presently using an impermissible method for incurring common improvement costs under § 461 and that wants to change its method of accounting for common improvement costs to the Alternative Cost Method described in Rev. Proc. 2023-9. The inapplicability rule described in this section 20.13(3)(c) is effective for any taxable year following the first taxable year that begins after December 31, 2022.

(4) Short Form 3115 in lieu of a standard Form 3115 for certain taxpayers.

(a) Applicability. The procedures described in section 20.13(4)(b) may be used by a taxpayer to make a change in method of accounting described in section 20.13(2)(a) or (b) for the taxpayer's first taxable year beginning after December 31, 2022, provided the taxpayer otherwise meets the requirements of this section 20.13(4)(a). A taxpayer may use a short Form 3115 in lieu of a standard Form 3115 only if the § 481(a) adjustment required by such change is zero, and the taxpayer either: (1) is currently using the 92-29 alternative cost method for all qualifying projects and wants to change to the Alternative Cost Method in accordance with Rev. Proc. 2023-9 for all trades or businesses with such qualifying projects for the taxpayer's first taxable year beginning after December 31, 2022; or (2) wants to apply the legacy rule described in section 20.13(2)(b) of this revenue procedure to change to the Alternative Cost Method in accordance with Rev. Proc. 2023-9 for the taxpayer's first taxable year beginning after December 31, 2022.

(b) Short Form 3115. A taxpayer making a change under section

20.13(4)(a) for the taxpayer's first taxable year beginning after December 31, 2022, is required to complete only the following information on Form 3115 (Rev. 2018):

- (i) The identification section of page 1 (above Part I);
- (ii) The signature section at the bottom of page 1;
- (iii) Part I, line 1(a); and
- (iv) For taxpayers using the legacy rule, Part II, line 16(a) identifying

any qualifying projects in progress for which the taxpayer used the 92-29 alternative cost method and any qualifying projects in progress for which taxpayer will continue to use an accrual method of accounting.

(5) Section 481(a) adjustment. The taxpayer is required to compute a single § 481(a) adjustment for each trade or business for which a change described in section 20.13(2)(a)-(c) is made.

(6) Eligibility rule temporarily inapplicable. The eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, does not apply to the changes described in this section 20.13 for the taxpayer's first taxable year beginning after December 31, 2022.

(7) Examples. The following examples illustrate the application of the Alternative Cost Method in accordance with Rev. Proc. 2023-9.

(a) Example 1. (i) Facts. Developer, a calendar year taxpayer that uses an overall accrual method of accounting, is in the business of developing residential subdivisions. As of December 31, 2022, Developer has two subdivision projects in progress in its only trade or business, Project A and Project B; both projects are separate qualifying projects, as defined in section 4.01 of Rev. Proc. 2023-9. Developer sold the first lots in both projects during the 2022 taxable year. Developer requested

consent to use the 92-29 alternative cost method for Project A in 2022. Developer has not requested consent to use the 92-29 alternative cost method for Project B.

(ii) Application of the Alternative Cost Method in accordance with Rev. Proc. 2023-9 for all qualifying projects. Developer wants to use the Alternative Cost Method for both qualifying projects. Developer must file a change in method of accounting using the automatic change in method of accounting procedures of this section 20.13 to begin using the Alternative Cost Method for both qualifying projects and must calculate a single § 481(a) adjustment for such change.

(b) Example 2. Application of the legacy rule. The facts are the same as in Example 1, except that Developer wants to use the Alternative Cost Method for Project A but not for Project B. Pursuant to section 20.13 of this revenue procedure, Developer does not have to apply the Alternative Cost Method to Project B. However, if the Developer applies the Alternative Cost Method for Project A, then Developer must also apply the Alternative Cost Method to all new qualifying projects in its trade or business for taxable years beginning after December 31, 2022. Developer must also calculate the § 481(a) adjustment resulting from changing the method of accounting for the trade or business, if any.

(8) Designated automatic accounting method change number.

(a) Change to the Alternative Cost Method in accordance with Rev. Proc. 2023-9. The designated automatic accounting method change number for a change to the Alternative Cost Method in accordance with section 20.13(2)(a) is “266.”

(b) Legacy rule. The designated automatic accounting method change

number for a taxpayer that wants to apply the legacy rule described in section 20.13(2)(b) for the taxpayer's first taxable year beginning after December 31, 2022, is "267."

(c) Change to an accrual method. The designated automatic accounting method change number for a change to an accrual method in accordance with section 20.13(2)(c) for the taxpayer's first taxable year beginning after December 31, 2022, is "268."

(9) Contact information. For further information regarding a change under this section 20.13, contact Maria Castillo Valle at (202) 317-7003 (not a toll-free number).

## SECTION 21. RENT (§ 467)

.01 Change from an improper method of inclusion of rental income or expense to inclusion in accordance with the rent allocation.

### (1) Description of change.

(a) Applicability. This change applies to a taxpayer that:

(i) is a party to § 467 rental agreements (within the meaning of § 1.467-1(c)(1) for rental agreements entered into after May 18, 1999, and § 467(d) for all other agreements); and

(ii) except as provided in section 21.01(1)(b)(ii) of this revenue procedure, wants to change its method of accounting for its fixed rent (as defined in § 1.467-1(d)(2)) to the rent allocation method provided in § 1.467-1(d)(2)(iii).

(b) Inapplicability. This change does not apply to:

(i) rental agreements for which taxpayers are required to use the constant rental accrual method, as described in § 1.467-3(a), or the proportional rental accrual method, as described in § 1.467-2(a), for their fixed rent; and

(ii) rental agreements that provide a specific allocation of fixed rent as described in § 1.467-1(c)(2)(ii)(A)(2) that allocate rent to periods other than when such rents are payable.

(2) Additional requirements. The taxpayer must attach to its Form 3115 a copy of one of its § 467 rental agreements to be covered by this automatic change (or at least the pages of the agreement relating to the manner in which rent is allocated).

(3) Audit protection limited. Any audit protection under section 8 of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, does not apply to this change for any § 467 rental agreement determined by the Commissioner to be a disqualified leaseback or long-term agreement described in § 1.467-3(b).

(4) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 21.01 is “136.”

(5) Contact information. For further information regarding a change under this section, contact Michael Finn at (202) 317-4718 (not a toll-free number).

## SECTION 22. INVENTORIES (§ 471)

### .01 Cash discounts.

(1) Description of change. This change applies to a taxpayer that wants to change its method of accounting for cash discounts (that is, discounts granted for timely payment) when they approximate a fair interest rate, from a method of consistently including the price of the goods before discount in the cost of the goods and including in

gross income any discounts taken (the “gross invoice method”), to a method of reducing the cost of the goods by the cash discounts and deducting as an expense any discounts not taken (the “net invoice method”), or vice versa. See Rev. Rul. 73-65, 1973-1 C.B. 216.

(2) Inapplicability. This change does not apply to a taxpayer that accounts for inventory, or proposes to account for inventory, under § 471(c), proposed § 1.471-1(b), or § 1.471-1(b), as applicable. For taxable years beginning on or after January 5, 2021, a taxpayer is required to comply with § 1.471-1(b).

(3) Computation of § 481(a) adjustment for changes to net invoice method. In the case of a taxpayer changing from the gross invoice method to the net invoice method, a negative § 481(a) adjustment is required to prevent duplications arising from the fact that the gross invoice method reported income upon timely payment for some or all of the goods that remain in inventory, and a positive § 481(a) adjustment is required to prevent omissions arising from the fact that the gross invoice method included the invoice price, unadjusted for the cash discounts, of some or all goods in cost of goods sold and the discount will be earned by payment in a subsequent taxable year. The net § 481(a) adjustment is computed by deducting the “Applicable Discount” at the beginning of the year of change from the “Available Discount” at the beginning of the year of change. The Available Discount is equal to the difference between the accounts payable balance under the gross invoice method and the net invoice method. The Applicable Discount is equal to the difference between the beginning inventory value under the gross invoice method and the net invoice method.

Example. Taxpayer’s accounts payable balance at the beginning of the year of change was \$1,000 under the gross invoice method and \$980 under the net invoice method. Taxpayer’s inventory value was \$3,000 under the gross invoice method and



\$2,955 under the net invoice method. The Available Discount is \$20 (\$1,000 - \$980) and the Applicable Discount is \$45 (\$3,000 - \$2,955). Thus, Taxpayer's net § 481(a) adjustment is a negative \$25 (\$20 - \$45).

(4) Computation of § 481(a) adjustment for changes to gross invoice method.

In the case of a taxpayer changing from the net invoice method to the gross invoice method, a positive § 481(a) adjustment is required to prevent omissions arising from the fact that the net invoice method did not report income upon timely payment for some or all of the goods that remain in inventory, and a negative § 481(a) adjustment is required to prevent duplications arising from the fact that the net invoice method included the invoice price, adjusted for the cash discounts, of some or all goods in cost of goods sold and the discount will be earned by payment in a subsequent taxable year. The net § 481(a) adjustment can be computed by deducting the "Available Discount" at the beginning of the year of change from the "Applicable Discount" at the beginning of the year of change. The Available Discount is equal to the difference between the accounts payable balance under the gross invoice method and the net invoice method. The Applicable Discount is equal to the difference between the beginning inventory value under the gross invoice method and the net invoice method.

Example. Taxpayer's accounts payable balance at the beginning of the year of change was \$980 under the net invoice method and \$1,000 under the gross invoice method. Taxpayer's inventory value was \$2,955 under the net invoice method and \$3,000 under the gross invoice method. The Applicable Discount is \$45 (\$3,000 - \$2,955) and the Available Discount is \$20 (\$1,000 - \$980). Thus, Taxpayer's net § 481(a) adjustment is a positive \$25 (\$45 - \$20).

(5) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 22.01 is "48."

(6) Contact information. For further information regarding a change under this section, contact Michael Supanick at (202) 317-7007 (not a toll-free number).

.02 Estimating inventory “shrinkage.”

(1) Description of change. This change applies to a taxpayer that wants to change to a method of accounting for estimating inventory shrinkage in computing ending inventory, using:

(a) the “retail safe harbor method” described in section 4 of Rev. Proc. 98-29, 1998-1 C.B. 857, as modified by this revenue procedure; or

(b) a method other than the retail safe harbor method, provided (i) the taxpayer’s present method of accounting does not estimate inventory shrinkage, and (ii) the taxpayer’s proposed method of accounting (that estimates inventory shrinkage) clearly reflects income under § 446(b).

(2) Inapplicability. This change does not apply to a taxpayer that accounts for inventory, or proposes to account for inventory, under § 471(c), proposed § 1.471-1(b), or § 1.471-1(b), as applicable. For taxable years beginning on or after January 5, 2021, a taxpayer is required to comply with § 1.471-1(b).

(3) Additional requirements. If the taxpayer wants to change to a method of accounting for inventory shrinkage other than the retail safe harbor method, the taxpayer must attach to its Form 3115 a statement setting forth a detailed description of all aspects of the proposed method of estimating inventory shrinkage (including, for last-in, first-out (LIFO) taxpayers, the method of determining inventory shrinkage for, or allocating inventory shrinkage to, each LIFO pool). The director or national office subsequently may review whether the proposed method clearly reflects the taxpayer’s income under § 446(b), notwithstanding any provision of Rev. Proc. 2015-13, 2015-5

I.R.B. 419 (or successor). If the director or the national office determines that the proposed method of accounting does not clearly reflect the taxpayer's income, the taxpayer will be treated as having made a change in method of accounting without obtaining the consent of the Commissioner as required by § 446(e). See sections 2.01(3) and 2.03 of Rev. Proc. 2015-13.

(4) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 22.02 is "49."

(5) Contact information. For further information regarding a change under this section, contact Michael Supanick at (202) 317-7007 (not a toll-free number).

.03 Qualifying volume-related trade discounts.

(1) Description of change. This change applies to a taxpayer that wants to change its method of accounting to treat qualifying volume-related trade discounts as a reduction in the cost of merchandise purchased at the time the discount is recognized in accordance with § 1.471-3(b). A "qualifying volume-related trade discount" means a discount satisfying the following criteria:

(a) the taxpayer receives or earns the discount based solely upon the purchase of a particular volume of the merchandise to which the discount relates;

(b) the taxpayer is neither obligated nor expected to perform or provide any services in exchange for the discount; and

(c) the discount is not a reimbursement of any expenditure incurred or to be incurred by the taxpayer.

(2) Inapplicability. This change does not apply to a taxpayer that accounts for inventory, or proposes to account for inventory, under § 471(c), proposed § 1.471-

1(b), or § 1.471-1(b), as applicable. For taxable years beginning on or after January 5, 2021, a taxpayer is required to comply with § 1.471-1(b).

(3) Section 481(a) adjustment. The net § 481(a) adjustment attributable to the change is computed in a manner similar to the computation of a net § 481(a) adjustment in the case of a change to the net invoice method of accounting for cash discounts. See section 22.01(2) of this revenue procedure.

(4) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 22.03 is “53.”

(5) Contact information. For further information regarding a change under this section, contact Michael Supanick at (202) 317-7007 (not a toll-free number).

.04 Impermissible methods of identification and valuation of inventories.

(1) Description of change.

(a) Applicability. This change applies to a taxpayer that wants to change from an impermissible method of identifying or valuing inventories to a permissible method of identifying or valuing inventories. For example, a taxpayer:

(i) using last-in, first-out (LIFO) as its inventory-identification method may change its inventory-valuation method from below cost to cost;

(ii) using an impermissible method of accounting described in §§ 1.471-2(f)(1) through (5) may change to a permissible method of accounting that corrects the impermissible method described in §§ 1.471-2(f)(1) through (5);

(iii) using a method that is not in accordance with § 1.471-2(c) may change to a permissible method of valuing “subnormal goods” under § 1.471-2(c);

(iv) changing from a gross profit method. For this purpose, a gross profit method is a method in which the taxpayer estimates the cost of goods sold by reducing its gross sales by a percentage “mark-up” from cost. The estimated cost of goods sold is subtracted from the sum of the beginning inventory and purchases and the result is used as the ending inventory; or

(v) changing from a method of determining market that is not in accordance with § 1.471-4. For this purpose, an example of a method of determining market that is not in accordance with § 1.471-4 is where a taxpayer, under ordinary circumstances, determines the market value of purchased merchandise using judgment factors, and not using the prevailing current bid price on the inventory date for the particular merchandise in the volume in which it is usually purchased by the taxpayer.

(b) Inapplicability. This change does not apply to:

(i) any change for real property or improvements to the real property because real property is not inventoriable property under § 1.471-1;

(ii) a taxpayer who meets the definition of a “dealer in securities” under both § 1.471-5 and § 475 because such dealer is required to account for securities, as defined in § 475, under § 475 and may not use the rules described in § 1.471-5 for those securities;

(iii) any change described in another section of this revenue procedure or in other guidance published in the Internal Revenue Bulletin, or to any change within the last-in, first-out (LIFO) inventory method. For example, this change does not apply to a taxpayer that wants to change to a rolling-average method (but see section 22.13 of this revenue procedure) or to a taxpayer that accounts for inventory, or proposes to account for inventory, under § 471(c), proposed § 1.471-1(b), or § 1.471-

1(b), as applicable. For taxable years beginning on or after January 5, 2021, a taxpayer is required to comply with § 1.471-1(b);

(iv) any change to a method of allocating costs to inventory under § 471 or any change to a method under § 263A (but see sections 12.01 and 12.02 of this revenue procedure); or

(v) a taxpayer that is currently deducting inventories (but see section 22.17 of this revenue procedure).

(c) Permissible method defined. For purposes of this change, a permissible method is an inventory method of identification or valuation, or both, specifically permitted by the Code, the regulations, or other guidance published in the Internal Revenue Bulletin, or a decision of the United States Supreme Court. However, an otherwise permissible inventory method is not permissible under this section 22.04 for a specific taxpayer if that taxpayer is prohibited from using that method or if that taxpayer is required to use a different method.

(2) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 22.04 is “54.”

(3) Contact information. For further information regarding a change under this section, contact Michael Supanick at (202) 317-7007 (not a toll-free number).

#### .05 Core Alternative Valuation Method.

##### (1) Description of change.

(a) Applicability. This change applies to a remanufacturer and rebuilder of motor vehicle parts and a reseller of remanufactured and rebuilt motor vehicle parts that use the cost or market, whichever is lower (LCM), inventory valuation method to

value their inventory of cores held for remanufacturing or sale and wants to use the Core Alternative Valuation (CAV) method specified in Rev. Proc. 2003-20, 2003-1 C.B. 445.

(b) Inapplicability. This change does not apply to a taxpayer that:

(i) values its inventory of cores at cost, including a taxpayer using the LIFO inventory method, unless the taxpayer concurrently changes, under section 6.02 of Rev. Proc. 2003-20, from cost to the LCM method for its cores, including labor and overhead related to the cores in raw materials, work-in-process, and finished goods; or

(ii) accounts for inventory, or proposes to account for inventory, under § 471(c), proposed § 1.471-1(b), or § 1.471-1(b), as applicable. For taxable years beginning on or after January 5, 2021, a taxpayer is required to comply with § 1.471-1(b).

(2) Concurrent automatic change. A taxpayer making both this change and (i) a change from the cost method to the LCM method under section 22.10 of this revenue procedure, or (ii) a change from the LIFO inventory method to a permitted method for identification under (and as determined and defined in) section 23.01(1)(b) of this revenue procedure for the same year of change, should file a single Form 3115 for both changes, provided the taxpayer enters the designated automatic accounting method change numbers for both changes on the appropriate line on that Form 3115. See section 6.03(1)(b) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, for information on making concurrent changes.

(3) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 22.05 is “55.”

(4) Contact information. For further information regarding a change under this section, contact Adam Kobler at (202) 317-7007 (not a toll-free number).

.06 Replacement cost for automobile dealers' parts inventory.

(1) Description of change. This change applies to a taxpayer that is engaged in the trade or business of selling vehicle parts at retail, that is authorized under an agreement with one or more vehicle manufacturers or distributors to sell new automobiles or new light, medium, or heavy-duty trucks, and that wants to use the replacement cost method described in section 4 of Rev. Proc. 2002-17, 2002-1 C.B. 676, as modified by Rev. Proc. 2006-14, 2006-1 C.B. 350, for its vehicle parts inventory. See Rev. Proc. 2002-17 for further information regarding this change.

(2) Inapplicability. This change does not apply to a taxpayer that accounts for inventory, or proposes to account for inventory, under § 471(c), proposed § 1.471-1(b), or § 1.471-1(b), as applicable. For taxable years beginning on or after January 5, 2021, a taxpayer is required to comply with § 1.471-1(b).

(3) Manner of making change. This change is made on a cut-off basis and applies only to the computation of ending inventories on or after the beginning of the year of change. Accordingly, a § 481(a) adjustment is neither permitted nor required.

(4) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 22.06 is "63."

(5) Contact information. For further information regarding a change under this section, contact Adam Kobler at (202) 317-7007 (not a toll-free number).

.07 Replacement cost for heavy equipment dealers' parts inventory.



(1) Description of change. This change applies to a heavy equipment dealer that is engaged in the trade or business of selling heavy equipment parts at retail, that is authorized under an agreement with one or more heavy equipment manufacturers or distributors to sell new heavy equipment, and that wants to use the replacement cost method described in section 4 of Rev. Proc. 2006-14, 2006-1 C.B. 350, for its heavy equipment parts inventory.

(2) Inapplicability. This change does not apply to a taxpayer that accounts for inventory, or proposes to account for inventory, under § 471(c), proposed § 1.471-1(b), or § 1.471-1(b), as applicable. For taxable years beginning on or after January 5, 2021, a taxpayer is required to comply with § 1.471-1(b).

(3) Manner of making the change. This change is made on a cut-off basis and applies only to the computation of ending inventories after the beginning of the year of change. Accordingly, a § 481(a) adjustment is neither permitted nor required.

(4) Concurrent automatic change. A taxpayer making both this change and another automatic change in method of accounting under § 263A (see section 12 of this revenue procedure) for the same year of change may file a single Form 3115 for both changes, provided the taxpayer enters the designated automatic accounting method change numbers for both changes on the appropriate line on that Form 3115, and complies with the ordering rules of § 1.263A-7(b)(2).

(5) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 22.07 is “96.”

(6) Contact information. For further information regarding a change under this section, contact Adam Kobler at (202) 317-7007 (not a toll-free number).

.08 Rotable spare parts.

(1) Description of change. This change applies to a taxpayer that is using the safe harbor method of accounting to treat its rotatable spare parts as depreciable assets in accordance with Rev. Proc. 2007-48, 2007-2 C.B. 110, as modified by this revenue procedure, and wants to change its method of accounting to treat its rotatable spare parts as inventoriable items. This change also applies to a taxpayer who is treating its rotatable spare parts as depreciable assets in a manner similar to the safe harbor method described in Rev. Proc. 2007-48, and wants to change its method of accounting to treat its rotatable spare parts as inventoriable items. A taxpayer changing its method of accounting for rotatable spare parts under this section 22.08, must use a proper inventory method to identify and value its rotatable spare parts.

(2) Inapplicability. This change does not apply to a taxpayer that accounts for inventory, or proposes to account for inventory, under § 471(c), proposed § 1.471-1(b), or § 1.471-1(b), as applicable. For taxable years beginning on or after January 5, 2021, a taxpayer is required to comply with § 1.471-1(b).

(3) Eligibility rule inapplicable. The eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, does not apply to a taxpayer that is required to make the change in method of accounting pursuant to section 5.06 of Rev. Proc. 2007-48.

(4) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 22.08 is “110.”

(5) Contact information. For further information regarding a change under this section, contact Eugene Kirman at (202) 317-7003 (not a toll-free number).

.09 Advance Trade Discount Method.

(1) Description of change. This change applies to a taxpayer that wants to use the Advance Trade Discount Method described in Rev. Proc. 2007-53, 2007-2 C.B. 233.

(2) Applicability. This change in method of accounting applies to a taxpayer using an overall accrual method of accounting that is required to use an inventory method of accounting, that maintains inventories as provided in § 471 and the regulations thereunder, and that receives advance trade discounts as defined in section 4.03 of Rev. Proc. 2007-53.

(3) Inapplicability. This change does not apply to a taxpayer that accounts for inventory, or proposes to account for inventory, under § 471(c), proposed § 1.471-1(b), or § 1.471-1(b), as applicable. For taxable years beginning on or after January 5, 2021, a taxpayer is required to comply with § 1.471-1(b).

(4) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 22.09 is “111.”

(5) Contact information. For further information regarding a change under this section, contact Adam Kobler at (202) 317-7007 (not a toll-free number).

#### .10 Permissible methods of identification and valuation of inventories.

(1) Description of change.

(a) Applicability. This change applies to a taxpayer that wants to change from one permissible method of identifying or valuing inventories to another permissible method of identifying or valuing inventories. For example, a taxpayer using the first-in, first-out (FIFO) method as its inventory-identification method may change its inventory-valuation method from cost to cost or market, whichever is lower (LCM), or a taxpayer

valuing “subnormal” goods at cost may change its valuation method to another permissible method of valuing “subnormal goods” under § 1.471-2(c).

(b) Inapplicability. This change does not apply to:

(i) any change for real property or improvements to the real property because real property is not inventoriable property under § 1.471-1;

(ii) a taxpayer who meets the definition of a “dealer in securities” under both § 1.471-5 and § 475 because such dealer is required to account for securities, as defined in § 475, under § 475 and may not use the rules described in § 1.471-5 for those securities;

(iii) any change described in another section of this revenue procedure or in other guidance published in the Internal Revenue Bulletin, or to any change within the last-in, first-out (LIFO) inventory method. For example, this change does not apply to a taxpayer that wants to change to a rolling-average method (but see section 22.13 of this revenue procedure) or to a taxpayer that accounts for inventory, or proposes to account for inventory, under § 471(c), proposed § 1.471-1(b), or § 1.471-1(b), as applicable. For taxable years beginning on or after January 5, 2021, a taxpayer is required to comply with § 1.471-1(b); or

(iv) any change to a method of allocating costs to inventory under § 471 or any change to a method under § 263A (but see sections 12.01 and 12.02 of this revenue procedure).

(c) Permissible method defined. For purposes of this change, a permissible method is an inventory method of identification or valuation, or both, specifically permitted for inventories by the Code, the regulations, or other guidance published in the Internal Revenue Bulletin, or a decision of the United States Supreme

Court. However, an otherwise permissible inventory method is not permissible under this section 22.10 for a specific taxpayer if that taxpayer is prohibited from using that method or if that taxpayer is required to use a different method.

(d) Permissible method determination. The eligibility waiver under section 22.10(1)(d) of this revenue procedure is not a determination by the Commissioner that the taxpayer's present method of accounting described in section 22.10(1)(d)(i) of this revenue procedure is a permissible method of accounting. The method of accounting described in section 22.10(1)(d)(i) of this revenue procedure is not a permissible method of accounting for any taxable year in which §§ 1.451-3 and 1.451-8 are applicable.

(2) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 22.10 is "137."

(3) Contact information. For further information regarding a change under this section, contact Adam Kobler at (202) 317-7007 (not a toll-free number).

.11 Change in the official used vehicle guide utilized in valuing used vehicles.

(1) Description of change. Used vehicles taken in trade as part payment on the sale of vehicles by a dealer may be valued for inventory purposes at valuations comparable to those listed in an official used vehicle guide as the average wholesale prices for comparable vehicles. See Rev. Rul. 67-107, 1967-1 C.B. 115. This change applies to:

(a) a taxpayer that wants to change from not using an official used vehicle guide to using an official used vehicle guide for valuing used vehicles; or

(b) a taxpayer that wants to change to a different official used vehicle guide for valuing used vehicles.

(2) Inapplicability. This change does not apply to a taxpayer that accounts for inventory, or proposes to account for inventory, under § 471(c), proposed § 1.471-1(b), or § 1.471-1(b), as applicable. For taxable years beginning on or after January 5, 2021, a taxpayer is required to comply with § 1.471-1(b).

(3) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 22.11 is “138.”

(4) Contact information. For further information regarding a change under this section, contact Adam Kobler at (202) 317-7007 (not a toll-free number).

.12 Invoiced advertising association costs for new vehicle retail dealerships.

(1) Description of change. This change applies to a taxpayer that is engaged in the trade or business of retail sales of new automobiles or new light-duty trucks (“dealership”) that wants to discontinue capitalizing certain advertising costs as acquisition costs under § 1.471-3(b). The change applies to advertising costs that meet the following criteria: (a) the dealership must pay this advertising fee when acquiring vehicles from the manufacturer; (b) the advertising costs are separately coded and included in the manufacturer’s invoice cost of the new vehicle; (c) the advertising cost is a flat fee per vehicle or a fixed percentage of the invoice price; and (d) the fees collected by the manufacturer are paid to local advertising associations that promote and advertise the manufacturer’s products in the dealership’s market area. Under the proposed method, the dealership will exclude advertising costs that meet the above

criteria from the cost of new vehicles and deduct the advertising costs under § 162 as the advertising services are provided to the dealership. See § 1.461-4(d)(2)(i).

(2) Inapplicability. This change does not apply to a taxpayer that accounts for inventory, or proposes to account for inventory, under § 471(c), proposed § 1.471-1(b), or § 1.471-1(b), as applicable. For taxable years beginning on or after January 5, 2021, a taxpayer is required to comply with § 1.471-1(b).

(3) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 22.12 is “139.”

(4) Contact information. For further information regarding a change under this section, contact Adam Kobler at (202) 317-7007 (not a toll-free number).

.13 Rolling-average method of accounting for inventories.

(1) Description of change. This change applies to a taxpayer that uses a rolling-average method to value inventories for financial accounting purposes and wants to use the same rolling-average method to value inventories for federal income tax purposes in accordance with Rev. Proc. 2008-43, 2008-30 C.B. 186, as modified by Rev. Proc. 2008-52, 2008-2 C.B. 587 (see section 13).

(2) Inapplicability. This change does not apply to a taxpayer that accounts for inventory, or proposes to account for inventory, under § 471(c), proposed § 1.471-1(b), or § 1.471-1(b), as applicable. For taxable years beginning on or after January 5, 2021, a taxpayer is required to comply with § 1.471-1(b). See, however, section 22.17 of this revenue procedure for certain changes.

(3) Manner of making change. This change is made on a cut-off basis and is applied only to the computation of ending inventories after the beginning of the year of

change. However, if the taxpayer's books and records contain sufficient information to compute a § 481(a) adjustment, the taxpayer may choose to implement the change with a § 481(a) adjustment as provided in sections 7.02 and 7.03 of Rev. Proc. 2015-13, 2015-5 I.R.B. 419.

(4) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 22.13 is "114."

(5) Contact information. For further information regarding a change under this section, contact Mia Romano at (202) 317-7007 (not a toll-free number).

.14 Sales-Based Vendor Chargebacks.

(1) Description of change. This change, as described in Rev. Proc. 2014-33, 2014-22 I.R.B. 1060, applies to a taxpayer that wants to change its method of accounting to treat sales-based vendor chargebacks as a reduction in cost of goods sold in accordance with § 1.471-3(e)(1).

(2) Inapplicability. This change does not apply to a taxpayer that accounts for inventory, or proposes to account for inventory, under § 471(c), proposed § 1.471-1(b), or § 1.471-1(b), as applicable. For taxable years beginning on or after January 5, 2021, a taxpayer is required to comply with § 1.471-1(b).

(3) Concurrent automatic changes. A taxpayer making both this change and the change described in section 12.10 of this revenue procedure for the same taxable year of change may file a single Form 3115 for both changes, provided the taxpayer enters the designated automatic change numbers for both changes on the appropriate line on the Form 3115, and complies with the ordering rules of § 1.263A-7(b)(2). See



section 6.03(1)(b) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, for information on making concurrent changes.

(4) Designated automatic accounting method change number. The designated automatic accounting method change number for changes in methods of accounting under this section 22.14 is “203.”

(5) Contact information. For further information regarding a change under this section, contact Michael Supanick at (202) 317-7007 (not a toll-free number).

.15 Certain changes to the cost complement of the retail inventory method.

(1) Description of change. This change, as described in Rev. Proc. 2014-48, 2014-36 I.R.B. 527, applies to a taxpayer using the retail inventory method that wants to make one of the following changes:

(a) From adjusting to not adjusting the numerator of the cost complement by the amount of an allowance, discount, or price rebate that is required under § 1.471-3(e) to reduce only cost of goods sold;

(b) From adjusting to not adjusting the denominator of the cost complement for temporary markups and markdowns;

(c) In the case of a retail LCM taxpayer, to computing the cost complement using a method described in § 1.471-8(b)(3), including changes from a method described in § 1.471-8(b)(3) to another method described in § 1.471-8(b)(3); or

(d) In the case of a retail cost taxpayer, from not adjusting to adjusting the denominator of the cost complement for permanent markups and markdowns.

(2) Inapplicability. This change does not apply to a taxpayer that accounts for inventory, or proposes to account for inventory, under § 471(c), proposed § 1.471-

1(b), or § 1.471-1(b), as applicable. For taxable years beginning on or after January 5, 2021, a taxpayer is required to comply with § 1.471-1(b).

(3) Effective date. This section 22.15 is effective for taxable years beginning after December 31, 2014.

(4) Multiple changes. A taxpayer making multiple changes under this section 22.15 for the same year of change should file a single Form 3115.

(5) Manner of making change. A taxpayer making a change under this section 22.15 for its first or second taxable year beginning after December 31, 2014, may use either a § 481(a) adjustment as provided in sections 7.02 and 7.03 of Rev. Proc. 2015-13 or implement the change on a cut-off basis. If the taxpayer uses a cut-off basis, the change applies only to the computation of ending inventories after the beginning of the year of change, and a § 481(a) adjustment is neither permitted nor required if a change is made on a cut-off basis.

(6) Designated automatic accounting method change number. The designated automatic accounting method change number for changes in methods of accounting under this section 22.15 is “204.”

(7) Contact information. For further information regarding a change under this section, contact Michael Supanick at (202) 317-7007 (not a toll-free number).

.16 Certain changes within the retail inventory method.

(1) Description of change. This change applies to a taxpayer using the retail inventory method that wants to change from including to not including temporary markups and markdowns in determining the retail selling prices of goods on hand at the end of the taxable year.

(2) Inapplicability. This change does not apply to a taxpayer that accounts for inventory, or proposes to account for inventory, under § 471(c), proposed § 1.471-1(b), or § 1.471-1(b), as applicable. For taxable years beginning on or after January 5, 2021, a taxpayer is required to comply with § 1.471-1(b).

(3) Designated automatic accounting method change number. The designated automatic accounting method change number for changes in methods of accounting under this section 22.16 is “225.”

(4) Contact information. For further information regarding a change under this section, contact Michael Supanick at (202) 317-7007 (not a toll-free number).

.17 Change from currently deducting inventories to permissible methods of identification and valuation of inventories.

(1) Description of change.

(a) Applicability. This change applies to a taxpayer that wants to change from currently deducting inventories to a permissible method of identifying and valuing inventories. For example, a taxpayer currently deducting inventories may change to using the first-in, first-out (FIFO) method as its inventory-identification method and cost or market, whichever is lower (LCM), as its inventory-valuation method.

(b) Inapplicability. This change does not apply to:

(i) any change for real property or improvements to the real property because real property is not inventoriable property under § 1.471-1;

(ii) a taxpayer who meets the definition of a “dealer in securities” under both § 1.471-5 and § 475 because such dealer is required to account for securities, as defined in § 475, under § 475 and may not use the rules described in § 1.471-5 for those securities;

(iii) any change described in another section of this revenue procedure or in other guidance published in the Internal Revenue Bulletin, or to any change within the last-in, first-out (LIFO) inventory method. For example, this change does not apply to a taxpayer that wants to change to a rolling-average method (but see section 22.13 of this revenue procedure) or to a taxpayer that accounts for inventory, or proposes to account for inventory, under § 471(c), proposed § 1.471-1(b), or § 1.471-1(b), as applicable. For taxable years beginning on or after January 5, 2021, a taxpayer is required to comply with § 1.471-1(b). See, however, section 22.18, 22.19 or 22.20 of this revenue procedure, as applicable; or

(iv) any change to a method of allocating costs to inventory under § 471 or any change to a method under § 263A (but see sections 12.01 and 12.02 of this revenue procedure).

(c) Permissible method defined. For purposes of this change, a permissible method is an inventory method of identification or valuation, or both, specifically permitted for inventories by the Code, the regulations, or other guidance published in the Internal Revenue Bulletin, or a decision of the United States Supreme Court. However, an otherwise permissible inventory method is not permissible under this section 22.17 for a specific taxpayer if that taxpayer is prohibited from using that method or if that taxpayer is required to use a different method.

(2) Designated automatic accounting method change number. The designated automatic accounting method change number for changes in methods of accounting under this section 22.17 is “230.”

(3) Contact information. For further information regarding a change under this section, contact Adam Kobler at (202) 317-7007 (not a toll-free number).

.18 Small business taxpayer § 471(c) inventory methods.

(1) Description of change. This change applies to a small business taxpayer, as defined in section 22.18(2) of this revenue procedure, that wants to change its § 471 method of accounting for inventory to one of the following methods:

(a) the section 471(c) non-incidental materials and supplies (NIMS) inventory method provided in § 1.471-1(b)(4);

(b) the AFS section 471(c) inventory method provided in § 1.471-1(b)(5), for taxpayers with an AFS, as defined in § 1.471-1(b)(5)(ii), or

(c) the non-AFS section 471(c) inventory method provided in § 1.471-1(b)(6), for taxpayers that do not have an AFS, as defined in § 1.471-1(b)(5)(ii).

(2) Small business taxpayer defined. Small business taxpayer means a taxpayer, other than a tax shelter under § 448(d)(3) and § 1.448-2(b)(2) that meets the § 448(c) gross receipts test as provided in § 448(c) and § 1.471-1(b)(2). The § 448(c) gross receipts test is met if a taxpayer has average annual gross receipts for the three prior taxable years of \$25,000,000 or less (adjusted for inflation), as described in § 448(c) and § 1.448-2(c). For a taxable year beginning in 2022, the inflation-adjusted amount is \$27,000,000. See Rev. Proc. 2021-45, 2021-48 I.R.B. 764. For a taxable year beginning in 2023, the inflation-adjusted amount is \$29,000,000. See Rev. Proc. 2022-38, 2022-45 I.R.B. 445. For a taxable year beginning in 2024, the inflation-adjusted amount is \$30,000,000. See Rev. Proc. 2023-34, 2023-48 I.R.B. 1287.

(3) Inapplicability. This change does not apply to:

(i) any change described in section 22.19 of this revenue procedure; or

(ii) any change from the LIFO inventory method under § 472. See however, section 23.01 of this revenue procedure.

(4) Acceleration of § 481 adjustment. If a taxpayer making a change under this section 22.18 has a § 481(a) adjustment remaining on a prior change in method of accounting to account for inventory in accordance with § 1.471-1(a), then it must take the remaining portion of such prior § 481(a) adjustment into account in the year of change.

(5) Eligibility rule inapplicable. For a change described in section 22.18(1) of this revenue procedure, if the taxpayer changed from accounting for inventory in accordance with § 471(c) and § 1.471-1(b) to accounting for inventory in accordance with § 1.471-1(a) within the prior five taxable years ending with the year of change, and such change was made in the first taxable year that the taxpayer did not qualify as a small business taxpayer, then such prior change is disregarded for purposes of section 5.01(1)(f) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419.

(6) Reduced filing requirement. A taxpayer is required to complete only the following information on Form 3115 (Rev. December 2022) to make this change:

- (i) The identification section of page 1 (above Part I);
- (ii) The signature section at the bottom of page 1;
- (iii) Part I;
- (iv) Part II, all lines except line 16; and
- (v) Part IV, all lines except line 25.

(7) Concurrent automatic changes. A taxpayer making a change under this section 22.18 and a change under section 15.17 and/or 12.16 of this revenue procedure for the same year of change may file a single Form 3115 for all changes provided the taxpayer enters the designated automatic change numbers for the changes on the

appropriate line of Form 3115. See section 6.03(1)(b) of Rev. Proc. 2015-13 for information on making concurrent changes.

(8) Designated automatic accounting method change number.

(a) Change to apply section 471(c) NIMS inventory method, as provided in section 22.18(1)(a) of this revenue procedure. The designated automatic accounting method change number for a change to apply the section 471(c) NIMS inventory method as provided in section 22.18(1)(a) of this revenue procedure is “260.”

(b) Change to apply AFS section 471(c) inventory method or non-AFS section 471(c) inventory method, as provided in section 22.18(1)(b) or (c) of this revenue procedure. The designated automatic accounting method change number for a change to apply the AFS section 471(c) method or the non-AFS section 471(c) method provided in section 22.18(1)(b) or (c) of this revenue procedure is “261.”

(10) Contact information. For further information regarding a change under this section, contact Livia Piccolo at (202) 317-7007 (not a toll-free number).

.19 Changes within a § 471(c) inventory method.

(1) Description of change. This change applies to a small business taxpayer, as defined in section 22.18(2) of this revenue procedure, that:

(a) uses the section 471(c) NIMS inventory method as provided in § 1.471-1(b)(4) and wants to change:

(i) to a method of identification or valuation permitted by § 1.471-1(b)(4)(ii) such as, for example, specific identification, FIFO, cost or average cost;

(ii) its allocation method to a method permitted by § 1.471-1(b)(4)(iii);

or

(iii) to capitalize a direct cost of property produced or acquired for resale, or to deduct an indirect cost of property produced or acquired for resale, as provided in § 1.471-1(b)(4)(ii); or

(b) uses the AFS section 471(c) inventory method provided in § 1.471-1(b)(5), or if the taxpayer does not have an AFS as defined in § 1.471-1(b)(5)(ii) for the taxable year, the non-AFS section 471(c) inventory method provided in § 1.471-1(b)(6), and wants to change the manner in which it accounts for inventory in its AFS or books and records, as applicable; and is required to use such method of accounting for inventory in its AFS or its books and records, as applicable, in applying the AFS section 471(c) inventory method in § 1.471-1(b)(5), or the non-AFS section 471(c) inventory method in § 1.471-1(b)(6), as applicable.

(2) Eligibility rules.

(a) Eligibility rule inapplicable. The eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13 does not apply to a change described in section 22.19(1)(b) of this revenue procedure.

(3) Section 481(a) adjustment period. Beginning with the year of change, a taxpayer making a change described in section 22.19(1)(b) of this revenue procedure must take any applicable net positive § 481(a) adjustment for such change into account ratably over the same number of taxable years, not to exceed four, that the taxpayer used its former method of accounting. Additionally, a taxpayer making a change described in section 22.19(1)(b) of this revenue procedure that has a § 481(a) adjustment remaining on a prior change in method of accounting that is described in section 22.19(1)(b) of this revenue procedure must take the remaining portion of such prior § 481(a) adjustment into account in the year of change.



(4) Reduced filing requirement. A taxpayer is required to complete only the following information on Form 3115 (Rev. December 2022) to make this change:

(a) The identification section of page 1 (above Part I);

(b) The signature section at the bottom of page 1;

(c) Part I;

(d) Part II, all lines except lines 7, 16b and 16c. In the response to line 16a, include a statement that the taxpayer satisfies the § 448(c) gross receipts test for the year of change.

(e) Part IV, all lines except line 25; and

(f) Schedule D, Part II, lines 1-3.

(5) Concurrent automatic changes. A taxpayer that wants to make one or more concurrent changes in method of accounting under this section 22.19 or wants to make a change under this section 22.19 and a change under sections 15.17 or 12.16 of this revenue procedure for the same year of change may file a single Form 3115 for such changes, provided the taxpayer enters the designated automatic accounting method change numbers for each change on the appropriate lines of the Form 3115. See section 6.03(1)(b) of Rev. Proc. 2015-13 for more information on making concurrent changes.

(6) No audit protection. A taxpayer making a change in method of accounting for inventory under section 22.19(1)(b) of this revenue procedure does not receive audit protection under section 8.01 of Rev. Proc. 2015-13.

(7) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 22.19 is “262.”

(8) Contact information. For further information regarding a change under this section, contact Livia Piccolo at (202) 317-7007 (not a toll-free number).

.20 Change from a small business taxpayer § 471(c) inventory method to an inventory method under § 471(a).

(1) Description of change. This change applies to a taxpayer that wants to change from using a small business taxpayer inventory method under § 471(c) and § 1.471-1(b)(4), (5) or (6) to accounting for inventory in accordance with § 471(a) and § 1.471-1(a).

(2) Inapplicability. This change does not apply to any change within the last-in, first-out (LIFO) inventory method.

(3) Eligibility rule inapplicable. The eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, does not apply to a change described in section 22.20(1) of this revenue procedure if such change is being made in the first taxable year that the taxpayer does not qualify as a small business taxpayer as defined in section 22.18(2) of this revenue procedure.

(4) Concurrent automatic changes. A taxpayer making a change under this section 22.20 and a change under sections 12.01 or 12.02 and/or 15.01 of this revenue procedure for the same year of change may file a single Form 3115 for such changes, provided the taxpayer enters the designated automatic accounting method change numbers for each change on the appropriate lines of the Form 3115. See section 6.03(1)(b) of Rev. Proc. 2015-13 for more information on making concurrent changes.

(5) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 22.20 is “263.”

(6) Contact information. For further information regarding a change under this section, contact Livia Piccolo at (202) 317-7007 (not a toll-free number).

## SECTION 23. LAST-IN, FIRST-OUT (LIFO) INVENTORIES (§ 472)

### .01 Change from the LIFO inventory method.

#### (1) Description of change.

(a) In general. This change applies to a taxpayer that wants to:

(i) change from the LIFO inventory method for all its LIFO inventory or for the entire content of one or more dollar-value pools; and

(ii) change to a permitted method or methods as determined in section 23.01(1)(b) of this revenue procedure.

#### (b) Method to be used.

(i) Determining the permitted method to be used. A taxpayer may change to one or more non-LIFO inventory methods for the LIFO inventories that are the subject of this accounting method change, but only if the selected non-LIFO method is a permitted method for the inventory goods to which it will be applied. For example, a heavy equipment dealer may change to the specific identification method for new heavy equipment inventories and the replacement cost method, as described in Rev. Proc. 2006-14, 2006-1 C.B. 350, for heavy equipment parts inventories.

(ii) Permitted method defined. For purposes of this section 23.01, an inventory method (identification or valuation, or both) is a permitted method if it is specifically permitted for the inventory goods by the Code, the regulations, or other guidance published in the Internal Revenue Bulletin, or a decision of the United States Supreme Court and if the taxpayer is neither prohibited from using that method nor required to use a different inventory method for those inventory goods. A permitted

method includes a method described in § 1.471-1(b)(4), (5) or (6), as applicable, provided the taxpayer is a small business taxpayer as defined in section 22.18(2) of this revenue procedure.

(iii) Determining permitted method. Whether an inventory method is a permitted method is determined without regard to the types and amounts of costs capitalized under the taxpayer's method of computing inventory cost. See § 263A and the regulations thereunder, which govern the types and amounts of costs required to be included in inventory cost for taxpayers subject to those provisions.

(2) Eligibility rules inapplicable.

(a) The eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, does not apply for the first taxable year that the taxpayer does not or will not comply with the requirements of § 472(e)(2) because the taxpayer has applied or will apply International Financial Reporting Standards in its financial statements or because the taxpayer has been acquired by an entity that has not or will not use the LIFO method in its financial statements.

(b) For a change by a small business taxpayer to a permitted method described in the last sentence of section 23.01(1)(b)(ii) of this revenue procedure, if the taxpayer changed from accounting for inventory in accordance with § 471(c), proposed § 1.471-1(b) or § 1.471-1(b), as applicable, to accounting for inventory in accordance with § 472 and the accompanying regulations within the prior five taxable years ending with the year of change, and such change was made in the first taxable year that the taxpayer did not qualify as a small business taxpayer, then such change is disregarded for purposes of section 5.01(1)(f) of Rev. Proc. 2015-13.

(3) Limitation on LIFO election. The taxpayer may not re-elect the LIFO inventory method for a period of at least five taxable years beginning with the year of change unless, based on a showing of unusual and compelling circumstances, consent is specifically granted by the Commissioner to change the method of accounting at an earlier time. A taxpayer that wants to re-elect the LIFO inventory method within a period of five taxable years (beginning with the year of change) must file a Form 3115 in accordance with the non-automatic change procedures in Rev. Proc. 2015-13. A taxpayer that wants to re-elect the LIFO inventory method after a period of five taxable years (beginning with the year of change) does not file a Form 3115 using the non-automatic change procedures in Rev. Proc. 2015-13, but, rather, must file a Form 970, Application To Use LIFO Inventory Method, in accordance with § 1.472-3.

(4) Effect of subchapter S election by corporation. See section 7.03(4)(b) and (c) of Rev. Proc. 2015-13.

(5) Additional requirements. The taxpayer must complete the following statements and attach them to its Form 3115. If the taxpayer will use different methods for different inventory goods to which the change applies, the taxpayer must complete the statements for each of those different types of inventory goods.

(a) “The proposed method of identifying [Insert description of inventory goods] is the [Insert method, as appropriate; that is, specific identification; FIFO; retail; etc.] method.”

(b) “The proposed method of valuing [Insert description of inventory goods] is [Insert method, as appropriate; that is, cost; LCM; etc.].”

(6) Pool split and partial termination. If a taxpayer must remove goods from a LIFO inventory pool because those goods are not within the scope of that pool (for

example, removing resale goods from a manufacturing pool), and if the taxpayer wants to change from the LIFO inventory method for those removed goods, the taxpayer may split the pool pursuant to section 23.10 of this revenue procedure and then may change from the LIFO method pursuant to this section 23.01. See section 23.10(2) of this revenue procedure. The taxpayer must file a separate Form 3115 for each such change.

(7) Section 481(a) adjustment required.

(a) General rule. A taxpayer changing from a LIFO inventory method must compute a § 481(a) adjustment for the year of change. See section 7.02 of Rev. Proc. 2015-13.

(b) Special rule for changes that would otherwise be implemented on a cut-off basis. If a taxpayer is changing from the LIFO inventory method to a method of accounting that is implemented on a cut-off basis under another section of this revenue procedure (see, for example, sections 22.06, 22.07, and 22.13 of this revenue procedure), the taxpayer's § 481(a) adjustment is "the LIFO recapture amount" as defined in § 312(n)(4)(B) and (C). A taxpayer computing the § 481(a) adjustment under this special rule must then compute its ending inventory value for the year of change using the proposed method (that is, treat the deemed change from the first-in, first-out (FIFO) method to the proposed method on a cut-off basis).

(8) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 23.01 is "56."

(9) Contact information. For further information regarding a change under this section, contact Mia Romano at (202) 317-7007 (not a toll-free number).

.02 Determining current-year cost under the LIFO inventory method.

(1) Description of change.

(a) Applicability. This change applies to a taxpayer using the LIFO inventory method that wants to change its method of determining current-year cost to:

(i) the actual cost of the goods most recently purchased or produced (most-recent-acquisitions method);

(ii) the actual cost of the goods purchased or produced during the taxable year in the order of acquisition (earliest-acquisitions method);

(iii) the average unit cost equal to the aggregate actual cost of all the goods purchased or produced throughout the taxable year divided by the total number of units so purchased or produced. See § 1.472-8(e)(2)(ii);

(iv) the specific identification method; or

(v) a rolling-average method if the taxpayer uses that rolling-average method in accordance with Rev. Proc. 2008-43, 2008-30 I.R.B. 186, as modified by Rev. Proc. 2008-52, 2008-36 I.R.B. 587 (see section 13).

(b) Inapplicability. This change does not apply to a taxpayer using the lower of cost or market method to determine current-year cost. A taxpayer using the lower of cost or market method that valued inventory below cost may not change to a proper cost valuation under this section 23.02.

(2) Manner of making change. This change is made using a cut-off basis and applies only to the computations of current-year cost after the beginning of the year of change. Accordingly, a § 481(a) adjustment is neither permitted nor required.

(3) Concurrent change to a rolling-average method. A taxpayer making both a change to a rolling-average method of determining current-year cost for its LIFO

inventory under this section 23.02 and a change to a rolling-average method of accounting for non-LIFO inventories under Rev. Proc. 2008-43 (see section 22.13 of this revenue procedure) should file a single Form 3115 for both changes, in which case the taxpayer must enter the designated automatic accounting method change numbers for both changes on the appropriate line on that Form 3115. See section 6.03(1)(b) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, for information on making concurrent changes.

(4) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 23.02 is “57.”

(5) Contact information. For further information regarding a change under this section, contact Mia Romano at (202) 317-7007 (not a toll-free number).

#### .03 Alternative LIFO inventory method for retail automobile dealers.

##### (1) Description of change.

(a) Applicability. This change applies to a taxpayer engaged in the trade or business of retail sales of new automobiles or new light-duty trucks (“automobile dealer”) that wants to change to the “Alternative LIFO method” described in section 4 of Rev. Proc. 97-36, 1997-2 C.B. 450, as modified by Rev. Proc. 2008-23, 2008-1 C.B. 664, for its LIFO inventories of new automobiles and new light-duty trucks. Light-duty trucks are trucks with a gross vehicle weight of 14,000 pounds or less, which also are referred to as class 1, 2, or 3 trucks.

(b) Inapplicability. This change does not apply to an automobile dealer that uses the inventory price index computation (IPIC) method for goods other than new automobiles, new light-duty trucks, parts and accessories, used automobiles, and used trucks.



(2) Manner of making change.

(a) Cut-off basis. This change is made using a cut-off basis and applies only to the computation of ending inventories after the beginning of the year of change. See section 5.03(6) of Rev. Proc. 97-36 for more information regarding a cut-off basis. Accordingly, a § 481(a) adjustment is neither permitted nor required.

(b) Concurrent change from IPIC method. An automobile dealer using the IPIC method that also has parts and accessories, used automobiles, or used light-duty trucks (other goods) inventory may incorporate a change, using a cut-off basis, from IPIC to another acceptable LIFO method for those other goods into this change. When changing from IPIC to a dollar-value LIFO method for its other goods, the automobile dealer must establish separate inventory pools for new automobiles and new light-duty trucks, unless the automobile dealer also concurrently changes to the Vehicle-Pool Method (see section 23.08 of this revenue procedure). Further, the automobile dealer must establish a separate inventory pool for the parts and accessories. See section 6.03(1)(b) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, for information on making concurrent changes.

(c) Additional requirements. An automobile dealer also must comply with the following:

- (i) the conditions in section 5.03 of Rev. Proc. 97-36; and
- (ii) for an automobile dealer changing from the IPIC method under this section 23.03, the automobile dealer also must attach to its Form 3115 a schedule setting forth the classes of goods for which the automobile dealer has elected to use the LIFO method and the accounting method changes being made under this section 23.03 for each class of goods.

(3) Concurrent change to the Vehicle-Pool Method. A taxpayer making both a change to the Alternative LIFO Method under this section 23.03 and a change to the Vehicle-Pool Method under Rev. Proc. 2008-23 (see section 23.08 of this revenue procedure) should file a single Form 3115 for both changes, in which case the taxpayer must enter the designated automatic accounting method change numbers for both changes on the appropriate line on that Form 3115. See section 6.03(1)(b) of Rev. Proc. 2015-13 for information on making concurrent changes.

(4) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 23.03 is “58.”

(5) Contact information. For further information regarding a change under this section, contact Mia Romano at (202) 317-7007 (not a toll-free number).

.04 Used vehicle alternative LIFO method.

(1) Description of change. This change applies to a taxpayer that sells used automobiles and used light-duty trucks (“used vehicle dealers”) that wants to change to the “Used Vehicle Alternative LIFO Method” as described in Rev. Proc. 2001-23, 2001-1 C.B. 784, as modified by Announcement 2004-16, 2004-1 C.B. 668, and Rev. Proc. 2008-23, 2008-1 C.B. 664.

(2) Additional requirements. A taxpayer making this change must comply with the additional conditions set forth in section 5.04 of Rev. Proc. 2001-23.

(3) Manner of making change.

(a) Cut-off basis. This change is made on a cut-off basis, which requires that the value of the taxpayer’s used automobile and used light-duty truck inventory at the beginning of the year of change must be the same as the value of that inventory at

the end of the preceding taxable year, plus cost restorations, if any, required by section 5.04(5) of Rev. Proc. 2001-23. Accordingly, a § 481(a) adjustment is neither permitted nor required.

(b) Bargain purchase. If the taxpayer has previously improperly accounted for a bulk bargain purchase, the taxpayer must, as part of this change, first change its method of accounting to comply with Hamilton Industries, Inc. v. Commissioner, 97 T.C. 120 (1991), and compute a § 481(a) adjustment for that part of the change. See Announcement 91-173, 1991-47 I.R.B. 29. Upon examination, if a taxpayer has properly changed under this section 23.04 except for complying with this section 23.04(3)(b), an examining agent may not deny the taxpayer the change. However, the taxpayer does not receive audit protection under section 8.01 of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, with respect to the improper method of accounting for the bargain purchase. See section 8.02(2) of Rev. Proc. 2015-13. Accordingly, the examining agent may make any necessary adjustments in any year for which the period of limitations on assessment and collection of tax is open to effect compliance with Hamilton Industries, Inc.

(c) New base year. In effecting a change to the Used Vehicle Alternative LIFO Method under this revenue procedure, the taxpayer must retain any LIFO inventory cost increments previously determined and the value of those increments. Instead of using the earliest taxable year for which the taxpayer adopted LIFO as the base year, the taxpayer must use the year of change as the new base year in determining the value of all existing LIFO cost increments for the year of change and later taxable years. (The cumulative index at the beginning of the year of change is 1.00). The taxpayer must restate the base-year cost of all LIFO cost increments at the

beginning of the year of change in terms of new base-year costs, using the year of change as the new base year, and must recompute the indexes for previously determined inventory increments accordingly. The new base-year cost of a pool is equal to the total current-year cost of all the vehicles in the pool.

(d) Form 3115. A completed Form 3115 includes the completion of Part I of Schedule C.

(4) Concurrent change from IPIC method. A used vehicle dealer using the IPIC method that also has parts and accessories, new automobiles, or new light-duty trucks (other goods) inventory may incorporate a change, using a cut-off basis, from IPIC to another acceptable LIFO method for those other goods into this change. When changing from IPIC to a dollar-value LIFO method for its other goods, the used vehicle dealer must establish separate inventory pools for new automobiles and new light-duty trucks, unless the used vehicle dealer also concurrently changes to the Vehicle-Pool Method (see section 23.08 of this revenue procedure). Further, the used vehicle dealer must establish a separate inventory pool for the parts and accessories. See section 6.03(1)(b) of Rev. Proc. 2015-13 for information on making concurrent changes.

(5) Concurrent change to the Vehicle-Pool Method. A taxpayer making both a change to the Used Vehicle Alternative LIFO Method under this section 23.04 and a change to the Vehicle-Pool Method under Rev. Proc. 2008-23 (see section 23.08 of this revenue procedure) should file a single Form 3115 for both changes, in which case the taxpayer must enter the designated automatic accounting method change numbers for both changes on the appropriate line on that Form 3115. See section 6.03(1)(b) of Rev. Proc. 2015-13 for information on making concurrent changes.

(6) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 23.04 is “59.”

(7) Contact information. For further information regarding a change under this section, contact Mia Romano at (202) 317-7007 (not a toll-free number).

.05 Determining the cost of used vehicles purchased or taken as a trade-in.

(1) Description of change.

(a) Applicability. This change applies to a taxpayer using the LIFO inventory method that wants to:

(i) determine the cost of used vehicles acquired by trade-in using the average wholesale price listed by an official used vehicle guide on the date of the trade-in. See Rev. Rul. 67-107, 1967-1 C.B. 115. The taxpayer must consistently use the official used vehicle guide selected unless the taxpayer receives permission to use a different guide;

(ii) use a different official used vehicle guide for determining the cost of used vehicles acquired by trade-in;

(iii) determine the cost of used vehicles purchased for cash using the actual purchase price of the vehicle; or

(iv) reconstruct the beginning-of-the-year cost of used vehicles purchased for cash using values computed by national auto auction companies based on vehicles purchased for cash. The national auto auction company selected must be consistently used.

(b) Inapplicability. This change does not apply to a taxpayer that adopted or changed to the Used Vehicle Alternative LIFO Method (see section 23.04 of this revenue procedure).

(2) Manner of making change. This change is made on a cut-off basis and applies only to used vehicles acquired on or after the beginning of the year of change. Accordingly, a § 481(a) adjustment is neither permitted nor required.

(3) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 23.05 is “60.”

(4) Contact information. For further information regarding a change under this section, contact Mia Romano at (202) 317-7007 (not a toll-free number).

.06 Change to the inventory price index computation (IPIC) method.

(1) Description of change. This change applies to a taxpayer that wants to change:

(a) from a non-IPIC LIFO inventory method to the IPIC method in accordance with all relevant provisions of § 1.472-8(e)(3); or

(b) from the IPIC method as described in T.D. 7814, 1982-1 C.B. 84, (March 15, 1982) (the old IPIC method) to the IPIC method as described in § 1.472-8(e)(3) (see T.D. 8976, 2002-1 C.B. 421, (January 8, 2002)) (the new IPIC method), which includes the following required changes (if applicable):

(i) from using 80% of the inventory price index (IPI) to using 100% of the IPI to determine the base-year cost and dollar-value of a LIFO pool(s);

(ii) from using a weighted arithmetic mean to using a weighted harmonic mean to compute an IPI for a dollar-value pool(s); and

(iii) from using a components-of-cost method to define inventory items to using a total-product-cost method to define inventory items.

(2) Manner of making change. This change is made on a cut-off basis and applies only to the computation of ending inventories after the beginning of the year of change. Accordingly, a § 481(a) adjustment is neither permitted nor required.

(3) Bargain purchase. If the taxpayer has previously improperly accounted for a bulk bargain purchase, the taxpayer must, as part of this change, first change its method of accounting to comply with Hamilton Industries, Inc. v. Commissioner, 97 T.C. 120 (1991), and compute a § 481(a) adjustment for that part of the change. See Announcement 91-173, 1991-47 I.R.B. 29. Upon examination, if a taxpayer has properly changed under this section 23.06 except for complying with section 23.06(3) of this revenue procedure, an examining agent may not deny the taxpayer the change. However, the taxpayer does not receive audit protection under section 8.01 of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, with respect to the improper method of accounting for the bargain purchase. See section 8.02(2) of Rev. Proc. 2015-13. Accordingly, the examining agent may make any necessary adjustments in any year for which the period of limitations on assessment and collection of tax is open to effect compliance with Hamilton Industries, Inc.

(4) Concurrent automatic changes.

(a) A taxpayer making this change and to change its method of determining current-year cost under section 23.02 of this revenue procedure for the same year of change may file a single Form 3115 for both changes, provided the taxpayer enters the designated automatic accounting method change numbers for both

changes on the appropriate line on that Form 3115. See section 6.03(1)(b) of Rev. Proc. 2015-13 for information on making concurrent changes.

(b) A taxpayer making this change and to change its method of pooling to IPIC-method pools described in § 1.472-8(b)(4) or § 1.472-8(c)(2) under section 23.07 of this revenue procedure for the same year of change may file a single Form 3115, provided the taxpayer enters the designated automatic accounting method change numbers for both changes on the appropriate line on that Form 3115. See section 6.03(1)(b) of Rev. Proc. 2015-13 for information on making concurrent changes.

(c) A taxpayer making this change and to change its method of pooling under section 23.10 of this revenue procedure for the same year of change may file a single Form 3115, provided the taxpayer enters the designated automatic accounting method change numbers for both changes on the appropriate line on that Form 3115. See section 6.03(1)(b) of Rev. Proc. 2015-13 for information on making concurrent changes.

(5) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 23.06 is “61.”

(6) Contact information. For further information regarding a change under this section, contact Mia Romano at (202) 317-7007 (not a toll-free number).

.07 Changes within the inventory price index computation (IPIC) method.

(1) Description of change. This change applies to a taxpayer using the IPIC method described in § 1.472-8(e)(3) as revised by T.D. 8976, 2002-1 C.B. 421, (new IPIC method) that wants to make one or more of the following changes:



(a) change from the double-extension IPIC method to the link-chain IPIC method, or vice versa. See § 1.472-8(e)(3)(iii)(E) for principles concerning the computation of the inventory price index under the double-extension IPIC method and the link-chain IPIC method;

(b) change to or from the 10 percent method. See § 1.472-8(e)(3)(iii)(C) for principles concerning the assignment of inventory items to Bureau of Labor Statistics (BLS) categories under the IPIC method;

(c) change to IPIC-method pools described in § 1.472-8(b)(4) or § 1.472-8(c)(2), including a change to begin or discontinue applying one or both of the 5 percent pooling rules;

(d) change to combine or separate pools as a result of the application of a 5 percent pooling rule described in § 1.472-8(b)(4) or § 1.472-8(c)(2);

(e) change its selection of BLS table from Table 3 (Consumer Price Index for All Urban Consumers (CPI-U): U.S. city average, detailed expenditure categories) of the monthly CPI Detailed Report to Table 9 (Producer price indexes (PPI) and percent changes for commodity and service groupings and individual items, not seasonally adjusted) of the monthly PPI Detailed Report (formerly, Table 6), or vice versa. See § 1.472-8(e)(3)(iii)(B)(2) for principles concerning the selection of a BLS table under the IPIC method;

(f) change the assignment of one or more inventory items to BLS categories under either Table 3 (CPI-U): U.S. City average, detailed expenditure categories) of the monthly CPI Detailed Report or Table 9 (PPI and percent changes for commodity and service groupings and individual items, not seasonally adjusted) of the monthly PPI Detailed Report (formerly, Table 6). See § 1.472-8(e)(3)(iii)(C) for

principles concerning the assignment of inventory items to BLS categories under the IPIC method. As part of this change, a taxpayer may separate a reassigned item from an inappropriate pool and combine the reassigned item with items in an appropriate pool. See § 1.472-8(g)(2) for principles concerning the manner of combining and separating dollar-value pools;

(g) change the representative month when necessitated because of a change in taxable year or a change in method of determining current-year cost made pursuant to section 23.02 of this revenue procedure. See § 1.472-8(e)(3)(iii)(B) for principles concerning the determination of a representative month under the IPIC method. A change in method of determining current-year cost and a change of the representative month may be made using a single Form 3115, provided the taxpayer enters the designated automatic accounting method change numbers for both changes on the appropriate line on that Form 3115;

(h) change from using preliminary BLS price indexes to using final BLS price indexes to compute an inventory price index, or vice versa. See § 1.472-8(e)(3)(iii)(D)(2) for principles concerning the selection of BLS price indexes under the IPIC method; and

(i) change from using a representative appropriate month to using an appropriate month. See § 1.472-8(e)(3)(iii)(B)(3) for principles concerning the selection of an appropriate month.

(2) Certain eligibility rule inapplicable. The eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, does not apply to the changes described in sections 23.07(1)(d), (f) in the case of a taxpayer using the 10 percent method described in § 1.472-8(e)(3)(iii)(C)(2), and (g) of this revenue procedure.

(3) Manner of making change.

(a) Cut-off basis. These changes are made on a cut-off basis and apply only to the computation of ending inventories after the beginning of the year of change. Accordingly, a § 481(a) adjustment is neither permitted nor required.

(b) New base year. A taxpayer that changes pursuant to sections 23.07(1)(a), (b), and (e) of this revenue procedure must establish a new base year in the year of change.

(4) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 23.07 is “62.”

(5) Contact information. For further information regarding a change under this section, contact Mia Romano at (202) 317-7007 (not a toll-free number).

.08 Changes to the Vehicle-Pool Method.

(1) Description of change. This change applies to a retail dealer or wholesale distributor (“reseller”) of cars and light-duty trucks that wants to change to the “Vehicle-Pool Method” as described in Rev. Proc. 2008-23, 2008-1 C.B. 664.

(2) Manner of making change.

(a) Cut-off basis. This change is made on a cut-off basis and applies only to the computation of ending inventories after the beginning of the year of change. Accordingly, a § 481(a) adjustment is neither permitted nor required. A reseller that changes its method of pooling under Rev. Proc. 2008-23 and this section 23.08 must comply with § 1.472-8(g).

(b) New base year. Instead of using the earliest taxable year for which the reseller adopted the LIFO method for any items in a pool, the reseller must use the

year of change as the base year when determining the LIFO value of that pool for the year of change and subsequent taxable years (that is, the cumulative index at the beginning of the year of change is 1.00). The reseller must restate the base-year cost of all layers of increment in a pool at the beginning of the year of change in terms of new base-year cost. For an example of establishing a new base year, see § 1.472-8(e)(3)(iv)(B)(1)(ii).

(3) Concurrent change to the Alternative LIFO Method or the Used Vehicle Alternative LIFO Method. A reseller making both a change to the Vehicle-Pool Method under this section 23.08 and a change to the Alternative LIFO Method under Rev. Proc. 97-36 (see section 23.03 of this revenue procedure) or the Used Vehicle Alternative LIFO Method under Rev. Proc. 2001-23 (see section 23.04 of this revenue procedure) should file a single Form 3115 for both changes, in which case the taxpayer must enter the designated automatic accounting method change numbers for both changes on the appropriate line on that Form 3115. See section 6.03(1)(b) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, for information on making concurrent changes.

(4) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 23.08 is “112.”

(5) Contact information. For further information regarding a change under this section, contact Mia Romano at (202) 317-7007 (not a toll-free number).

#### .09 Changes within the used vehicle alternative LIFO method.

(1) Description of change. This change applies to a taxpayer using the “Used Vehicle Alternative LIFO Method” as described in Rev. Proc. 2001-23, 2001-1 C.B. 784, as modified by Announcement 2004-16, 2004-1 C.B. 668, and Rev. Proc.

2008-23, 2008-1 C.B. 664, that wants to change the particular “official used vehicle guide” utilized by the taxpayer in connection with the Used Vehicle Alternative LIFO Method or any change in the precise manner of its utilization (for example, a change in the specific guide category that a taxpayer uses to represent vehicles of average condition for purposes of section 4.02(5)(a) of Rev. Proc. 2001-23).

(2) Manner of making change.

(a) Cut-off basis. This change is made on a cut-off basis and applies only to the computation of ending inventories after the beginning of the year of change. Accordingly, a § 481(a) adjustment is neither permitted nor required.

(b) New base year. A taxpayer that changes its method pursuant to this section 23.09 must establish a new base year in the year of change.

(3) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 23.09 is “140.”

(4) Contact information. For further information regarding a change under this section, contact Mia Romano at (202) 317-7007 (not a toll-free number).

.10 Changes to dollar-value pools of manufacturers.

(1) Description of change. This change applies to a manufacturer that:

(a) purchases goods for resale (resale goods) and, thus, must reassign resale goods from the pool(s) it maintains for the goods it manufactures to one or more resale pools;

(b) wants to change from using multiple pools described in § 1.472-8(b)(3) to using natural business unit (NBU) pools described in § 1.472-8(b)(1), or vice versa; or

(c) wants to reassign items in NBU pools described in § 1.472-8(b)(1) into the same number or a greater number of NBU pools.

(2) Manner of making change. This change is made on a cut-off basis and applies only to the computation of ending inventories after the beginning of the year of change. Accordingly, a § 481(a) adjustment is neither permitted nor required. A taxpayer that changes its method of pooling pursuant to this section 23.10 must combine or separate pools as required by § 1.472-8(g). If a taxpayer splits a pool into two or more permissible pools pursuant to this section 23.10, which must be implemented on a cut-off basis, the taxpayer then may file a separate Form 3115 to change from the LIFO inventory method for one or more of the resulting pools pursuant to section 23.01 of this revenue procedure, which must be implemented with a § 481(a) adjustment.

(3) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 23.10 is “141.”

(4) Contact information. For further information regarding a change under this section, contact Mia Romano at (202) 317-7007 (not a toll-free number).

## SECTION 24. MARK-TO-MARKET ACCOUNTING METHODS (Including § 475 )

.01 Commodities dealers, securities traders, and commodities traders electing to use the mark-to-market method of accounting under § 475(e) or (f).

(1) Description of change. This change applies to certain taxpayers that have elected to use the mark-to-market method of accounting under § 475(e) or (f). Under § 475(e) and (f) and Rev. Proc. 99-17, 1999-1 C.B. 503, if a taxpayer makes a timely election under § 475(e) or (f), then beginning with the first taxable year for which

the election is effective (election year), mark to market is the only permissible method of accounting for securities or commodities, as defined in § 475(c)(2), subject to the election. Thus, if the electing taxpayer's method of accounting for its taxable year immediately preceding the election year for securities or commodities subject to the election is inconsistent with § 475, the taxpayer is required to change its method of accounting to comply with the election by filing a Form 3115 under the procedures in section 24.01(5) of this revenue procedure. A taxpayer that makes a § 475(e) or (f) election but fails to change its method of accounting under the procedures in section 24.01(5) of this revenue procedure to comply with that election is using an impermissible method. See section 4 of Rev. Proc. 99-17.

(2) Applicability. This change applies to a taxpayer if all of the following conditions are satisfied:

(a) the taxpayer is a commodities dealer, securities trader, or commodities trader that has made a valid election under § 475(e) or (f) (see section 5.03(1) of Rev. Proc. 99-17) and that is required to change its method of accounting to comply with the election;

(b) the method of accounting to which the taxpayer changes is in accordance with its election under § 475(e) or (f);

(c) the year of change is the election year; and

(d) the taxpayer has not revoked a previous § 475(e) or (f) election, whichever is applicable, within the five taxable years ending with the election year. (If this condition is not met, the taxpayer must request the change to resume using the mark-to-market method under the procedures in section 24.01(7) of this revenue procedure.)

(3) Certain eligibility rule inapplicable. The eligibility rule in section 5.01(1)(d) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, does not apply to this change.



(4) Election under Rev. Proc. 99-17. In accordance with section 5.03(1) of Rev. Proc. 99-17, to make a § 475(e) or (f) election, a taxpayer must file a statement satisfying the requirements in section 5.04 of Rev. Proc. 99-17 (Election Statement). The taxpayer must file the Election Statement not later than the due date (without regard to any extension) of the original federal income tax return for the taxable year immediately preceding the election year and must attach the Election Statement either to that return or, if applicable, to a request for an extension of time to file that return. For example, if a calendar year individual taxpayer wants to make a § 475(e) or (f) election for 2024 (the election year), the taxpayer must file the Election Statement on or before April 15, 2024, with the taxpayer's timely filed (without regard to any extension) federal income tax return for 2023 or the taxpayer's timely filed request for an extension of time to file the 2023 federal income tax return.

(5) Form 3115 filing requirements. In addition to filing the Election Statement described in section 24.01(4) of this revenue procedure, unless the election year is the first taxable year in which the taxpayer owns securities or commodities, whichever is applicable, a Form 3115 is required to be filed with the federal income tax return for the year of change (the election year) in accordance with the procedures in section 6.03(1) of Rev. Proc. 2015-13. On the Form 3115, a taxpayer should indicate that the taxpayer has filed the Election Statement in compliance with section 5.03(1) of Rev. Proc. 99-17.

(6) Limited § 301.9100 relief. Section 301.9100-3 relief for failure to comply with the requirements of this section 24.01 will be granted only in unusual and compelling circumstances.



(7) Section 475(e) or (f) election made within five taxable years of revoking a previous election. If a taxpayer has revoked a previous § 475(e) election within the five taxable years ending with the election year for a new § 475(e) election, then the taxpayer may not use the automatic change procedures in Rev. Proc. 2015-13 and this section 24.01 to resume using the mark-to-market method of accounting pursuant to the new § 475(e) election. Similarly, if a taxpayer has revoked a previous § 475(f) election within the five taxable years ending with the election year for a new § 475(f) election, then the taxpayer may not use the automatic change procedures in Rev. Proc. 2015-13 and this section 24.01 to resume using the mark-to-market method of accounting pursuant to the new § 475(f) election. To resume using the mark-to-market method of accounting described in § 475 during this 5-year period, a taxpayer must: (i) timely file, by the due date described in section 5.03 of Rev. Proc. 99-17, an Election Statement that satisfies the requirements of section 5.04 of Rev. Proc. 99-17 and (ii) request a change in method of accounting using the non-automatic change procedures in Rev. Proc. 2015-13.

(8) Revocation within five taxable years of making a § 475(e) or (f) election requires a non-automatic change. If a taxpayer wants to revoke a § 475(e) or (f) election, whichever is applicable, within the five taxable years ending with the year of change for the election (the election year), the taxpayer must follow the non-automatic change procedures in section 24.02(9) of this revenue procedure to make the change.

(9) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 24.01 is “64.”

(10) Contact information. For further information regarding a change under this section, contact Grace Cho at (202) 317-6945 (not a toll-free number).

.02 Taxpayers requesting to change their method of accounting from the mark-to-market method of accounting described in § 475 to a realization method.

(1) Description of change. This change applies to any taxpayer requesting permission to change its method of accounting for securities or commodities as defined in § 475 from the mark-to-market method of accounting described in § 475 to a realization method of accounting. For example, this section 24.02 applies when a taxpayer is required to change its method of accounting to a realization method after revoking an election under § 475(e), (f)(1), or (f)(2). This change is not limited to a change required by § 475 (for example, this section 24.02 applies to a change from a mark-to-market method of accounting for notional principal contracts providing for nonperiodic payments even if the taxpayer is not subject to § 475) and, in such a case, references to § 475 in this section 24.02 are interpreted accordingly. For purposes of this section 24.02, a change to a realization method of accounting includes a change in which the taxpayer also is required to use a mark-to-market method of accounting under a specific Code section to account for all or some of the taxpayer's securities or commodities (for example, § 1256 for commodities).

(2) Exclusive procedure. The procedure set forth in this section 24.02 is the exclusive procedure for changing a taxpayer's method of accounting from the mark-to-market method described in § 475 to a realization method. Thus, filing the Notification Statement described in section 24.02(7) of this revenue procedure is the exclusive manner of revoking a § 475(e), (f)(1), or (f)(2) election. Moreover, any taxpayer requesting permission to change to a realization method must follow the procedures

described in this section 24.02 (including the requirement for a timely-filed Notification Statement) and other applicable provisions of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, to request consent to change its method of accounting for securities described in § 475(c)(2) (Section 475 Securities), commodities described in § 475(e)(2) (Section 475 Commodities), or both.

(3) Applicability. This change applies to a taxpayer if all of the following conditions in paragraphs (a) through (d) below are satisfied:

(a) the taxpayer is using, properly or improperly, the mark-to-market method of accounting described in § 475;

(b) the taxpayer is requesting permission to change to a realization method of accounting and report gains or losses from the disposition of Section 475 Securities, Section 475 Commodities, or both, under § 1001;

(c) the taxpayer meets the requirements of this section 24.02, including the requirement that it timely file the Notification Statement described in section 24.02(7) of this revenue procedure; and

(d) the taxpayer has not changed to a mark-to-market method for Section 475 Securities, Section 475 Commodities, or both, whichever are applicable, within the five taxable years ending with the year of change. (If this condition is not met, the taxpayer must request the change from a mark-to-market method to a realization method under the procedures in section 24.02(9) of this revenue procedure).

(4) Inapplicability. This change does not apply to a dealer in securities, as defined in § 475(c)(1). A dealer in securities must request a change from a mark-to-market method to a realization method under the non-automatic change procedures in Rev. Proc. 2015-13 and file a Notification Statement that satisfies all applicable

requirements of section 24.02(7) of this revenue procedure, including the timely filing requirements. This change will be made on a cut-off basis in the same manner as described in section 24.02(6) of this revenue procedure.

(5) Certain eligibility rule inapplicable. The eligibility rule in section 5.01(1)(d) of Rev. Proc. 2015-13 does not apply to this change.

(6) Manner of making change. This change is made using a cut-off basis and applies only to Section 475 Securities, Section 475 Commodities, or both, that are accounted for using the mark-to-market method of accounting described in § 475 and for which a change in method is requested under this section 24.02. Accordingly, a § 481(a) adjustment is neither permitted nor required.

Under the cut-off basis, a taxpayer must make a final mark of all Section 475 Securities, Section 475 Commodities, or both, that are being marked to market and that are the subject of the accounting method change being requested, on the last business day of the year preceding the year of change. As a result of the final mark, gain or loss attributable to those securities and commodities is also recognized on the last business day of the year preceding the year of change. In the case of any Section 475 Security or Section 475 Commodity that a taxpayer holds on the first day of the year of change, the taxpayer must make proper adjustment in the amount of any subsequently realized gain or loss to take into account adjustments for the gain or loss recognized prior to the first day of the year of change pursuant to the use of the mark-to-market method of accounting described in § 475 in order to prevent amounts from being duplicated or omitted. Any change in value on or after the first day of the year of change will be taken into account using a realization method of accounting unless section 24.02(10) of this

revenue procedure permits the taxpayer to resume a mark-to-market method and the taxpayer resumes a mark-to-market method.

(7) Notification Statement required. In addition to filing the Form 3115 required under section 6.03(1) of Rev. Proc. 2015-13, to change to a realization method of accounting under this section 24.02, a taxpayer must also file a Notification Statement that satisfies the requirements in section 24.02(7) of this revenue procedure. The Notification Statement must be filed not later than the due date (without regard to any extension) of the original federal income tax return for the taxable year immediately preceding the year of change and must be attached either to that return or, if applicable, to a request for an extension of time to file that return. For example, a calendar year individual taxpayer who wishes to revoke a § 475(e) or (f) election for the 2024 taxable year must file a Notification Statement that satisfies the requirements of section 24.02(7) on or before April 15, 2024. The Notification Statement must be attached to the taxpayer's original federal income tax return for the 2023 taxable year or to a request for an extension of time to file that return.

(a) Notification Statement contents. The Notification Statement must contain (1) the name of the taxpayer that will change its method of accounting (that is, the applicant), and, if applicable, the filer (for example, its parent corporation); (2) a statement that the taxpayer is requesting to change its method of accounting from the mark-to-market method of accounting described in § 475 to a realization method; (3) the year of change (both the beginning and ending dates); and (4) the types of instruments subject to the method change, that is, Section 475 Securities, Section 475 Commodities, or both. If a taxpayer has made an election under § 475(e), (f)(1), or (f)(2), the taxpayer must also include a statement revoking the taxpayer's section 475

election or elections for the Section 475 Securities, Section 475 Commodities, or both, for which a change in accounting method is sought.

(b) Effect of filing Notification Statement. Once the taxpayer files a Notification Statement for the year of change, a realization method of accounting is the only permissible method of accounting for Section 475 Securities, Section 475 Commodities, or both, described in the Notification Statement for the entire year of change and all subsequent years (unless section 24.02(10) of this revenue procedure applies). A taxpayer that files the Notification Statement described in this section 24.02 but fails to change its method of accounting using the procedures described in Rev. Proc. 2015-13 and this section 24.02 is using an impermissible method.

(c) Limited § 301.9100 relief. Section 301.9100 relief for failure to comply with the requirements of this section 24.02(7) will be granted only in unusual and compelling circumstances.

(8) Additional requirements.

(a) Form 3115 filing requirements. In addition to filing the Notification Statement described in section 24.02(7) of this revenue procedure, a Form 3115 is required to be filed with the federal income tax return for the year of change in accordance with the procedures described in section 6.03(1) of Rev. Proc. 2015-13.

(b) Copy of Notification Statement. A taxpayer must attach a copy of the Notification Statement required in section 24.02(7) of this revenue procedure to its Form 3115 filed under this section 24.02.

(c) No audit protection for valuation. A taxpayer does not receive audit protection under section 8.01 of Rev. Proc. 2015-13 for the method of valuation used by the taxpayer to determine the fair market value of the taxpayer's Section 475 Securities,

Section 475 Commodities, or both, for a taxable year prior to the year of change, or for a failure to comply with the requirements in Rev. Proc. 99-17 to properly elect the mark-to-market method. See section 8.02(2) of Rev. Proc. 2015-13.

(9) Change from a mark-to-market method to a realization method within five taxable years of changing to the mark-to-market method requires a non-automatic change. If a taxpayer wants to change from a mark-to-market method to a realization method for Section 475 Securities, Section 475 Commodities, or both, within the five taxable years ending with the year of change in which the taxpayer changed to the mark-to-market method for the same item, the automatic change procedures of Rev. Proc. 2015-13 and this section 24.02 do not apply. Instead, the taxpayer must request the change from a mark-to-market method to a realization method under the non-automatic change procedures in Rev. Proc. 2015-13 and file a Notification Statement that satisfies all applicable requirements of section 24.02(7) of this revenue procedure, including the timely filing requirements. This change is made on a cut-off basis as described in section 24.02(6) of this revenue procedure.

(10) Resuming the mark-to-market method of accounting. A taxpayer may not use the automatic change procedures in Rev. Proc. 2015-13 and section 24.01 of this revenue procedure to resume using the mark-to-market method of accounting described in § 475 for the Section 475 Securities, Section 475 Commodities, or both, that are the subject of the method change being requested using this section 24.02 during any of the five taxable years beginning with the year of change. To resume using the mark-to-market method of accounting described in § 475 during this 5-year period, a taxpayer must: (i) timely file, by the due date described in section 5.03 of Rev. Proc. 99-17, an Election Statement that satisfies the requirements of section 5.04 of

Rev. Proc. 99-17 and (ii) request a change in method of accounting using the non-automatic change procedures in Rev. Proc. 2015-13.

(11) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 24.02 is “218.”

(12) Contact information. For further information regarding a change under this section, contact Grace Cho at (202) 317-6945 (not a toll-free number).

## SECTION 25. BANK RESERVES FOR BAD DEBTS (§ 585)

.01 Changing from the § 585 reserve method to the § 166 specific charge-off method.

### (1) Description of change.

(a) Applicability. This change applies to a bank (as defined in § 581, including a bank for which a qualified subchapter S subsidiary (Qsub) election is filed) that wants to change its method of accounting for bad debts from the § 585 reserve method to the § 166 specific charge-off method.

(b) Inapplicability. This change does not apply to a large bank as defined in § 585(c)(2).

(2) Certain eligibility rule inapplicable. A bank that changed from the § 593 reserve method under § 593(g) to the § 585 reserve method is not prohibited under section 5.01(1)(f) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, from changing its method of accounting for bad debts under this section 25.01 solely because of the § 593(g) change. A bank for which a Qsub election is filed will not be prohibited under section 5.01(1)(f) of Rev. Proc. 2015-13 from changing its method of accounting for bad debts



under this section 25.01 solely because of the deemed liquidation of the bank arising from a Qsub election.

(3) Section 481(a) adjustment. Generally, the amount of the § 481(a) adjustment for a change in method of accounting under this section 25.01 is the amount of the bank's reserve for bad debts as of the close of the taxable year immediately before the year of change. However, the amount of the § 481(a) adjustment does not include the amount of a bank's pre-1988 reserves (as described in § 593(g)(2)(A)(ii), without taking into account § 593(g)(2)(B)) if the bank changed in a prior year from the § 593 reserve method to the § 585 reserve method and § 593(g) applied to that change. The deemed liquidation of a bank occurring solely because its parent makes a Qsub election does not accelerate the § 481(a) adjustment. In accordance with section 7.03(4)(a) of Rev. Proc. 2015-13, a bank that ceases to be a bank under § 581 must accelerate its § 481(a) adjustment.

(4) Change from § 585 required when electing S corporation status.

(a) General rule. A bank electing S corporation status (or a bank for which a Qsub election is filed) cannot use the § 585 reserve method. The filing by a bank of a Form 2553, Election by a Small Business Corporation, or the filing by a bank's parent of Form 8869, Qualified Subchapter S Subsidiary Election, with respect to the bank will constitute an agreement by the bank to change its method of accounting for bad debts from the § 585 reserve method to the § 166 specific charge-off method effective as of the taxable year for which the S corporation election or Qsub election is effective (year of change) in accordance with all of the automatic change procedures of Rev. Proc. 2015-13 and this section 25.01. The resulting § 481(a) adjustment is recognized built-in gain under § 1374, unless the bank elects under § 1361(g) and

section 25.01(4)(b) of this revenue procedure to take the § 481(a) adjustment into account in determining taxable income for the taxable year immediately preceding the year of change. See § 1.1374-4(d).

(b) Election to include § 481(a) adjustment in taxable year immediately preceding the year of change.

(i) Election requirements. A bank that changes its method of accounting for bad debts under this section 25.01, from the § 585 reserve method to the § 166 specific charge-off method for the first taxable year for which the bank's S corporation election is effective (year of change) may elect under § 1361(g) to take into account the amount of the resulting § 481(a) adjustment in determining taxable income for the taxable year immediately preceding the year of change. To make this election, a bank must (1) file an original and copy of Form 3115 under section 6.03(1) of Rev. Proc. 2015-13 (and any other copy required under section 6.03) for the year of change, (2) file an additional copy of the Form 3115 with its original (or amended) federal income tax return for the taxable year immediately preceding the year of change filed no later than the date the original Form 3115 is properly filed under section 6.03(1) of Rev. Proc. 2015-13 (and any other copy required under section 6.03) and (3) include the amount of the § 481(a) adjustment in gross income for the taxable year immediately preceding the year of change. The bank must attach a statement to the original and both copies of Form 3115 stating that the bank elects under § 1361(g) to take the § 481(a) adjustment into account in determining taxable income for the taxable year immediately preceding the year of change.

(ii) Special rule for Qsub banks. In the case of a Qsub bank, the S corporation parent must file an original and copy of Form 3115 under section 6.03(1) of

Rev. Proc. 2015-13 for the year of change. The Qsub bank must file an additional copy of the Form 3115 with its original (or amended) federal income tax return for the taxable year immediately preceding the year of change filed no later than the date the original Form 3115 is properly filed under section 6.03(1) of Rev. Proc. 2015-13, and include the amount of the § 481(a) adjustment in gross income for the taxable year immediately preceding the year of change. In the case of a Qsub bank, the Form 3115 should indicate that the “filer” is the S corporation parent and the “applicant” is the Qsub bank.

(iii) The following example illustrates the principles of section 25.01(4)(b) of this revenue procedure.

Example. X, a calendar year taxpayer, is a calendar year bank as defined in § 581 and is not a large bank as defined in § 585(c)(2). For taxable years before 2015, X accounted for its bad debts under the § 585 reserve method. By March 15, 2015, X properly filed a Form 2553 electing to be an S corporation effective January 1, 2015. Pursuant to section 25.01(4)(a) of this revenue procedure, the filing of the Form 2553 constituted an agreement by X to change from the § 585 reserve method to the § 166 specific charge-off method for 2015 in accordance with all of the automatic change procedures of Rev. Proc. 2015-13, and the applicable provisions of this section 25.01. Thus, for example, X must file a Form 3115 for this 2015 change in duplicate, in accordance with section 6.03(1) of Rev. Proc. 2015-13, by attaching the original Form 3115 to X’s timely filed (including any extension) original federal income tax return for 2015 and filing a duplicate copy of the Form 3115 with the Ogden, UT, office. The amount of X’s § 481(a) adjustment for the change is the amount of X’s bad debt reserve as of the close of December 31, 2014. X wishes to elect under § 1361(g) to include the § 481(a) adjustment in income in the taxable year ending December 31, 2014, the taxable year immediately preceding the year of change. To make this election, X must (1) file an original and copy of Form 3115 for the 2015 change under section 6.03(1) of Rev. Proc. 2015-13, (2) file an additional copy of that Form 3115 with its original (or amended) federal income tax return for 2014 filed no later than the date the original Form 3115 is properly filed under section 6.03(1) of Rev. Proc. 2015-13, and (3) include the amount of its § 481(a) adjustment in gross income in its return for 2014. X must attach a statement to the original and both copies of Form 3115 stating that X elects under § 1361(g) to take the § 481(a) adjustment into account in determining taxable income for 2014, the taxable year immediately preceding the year of change.

(5) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 25.01 is “66.”

(6) Contact information. For further information regarding a change under this section, contact K. Scott Brown at (202) 317-4423 or Laura Fields at (202) 317-6850 (not toll-free numbers).

## SECTION 26. INSURANCE COMPANIES (§§ 807, 816, 832, 833)

### .01 Safe harbor method of accounting for premium acquisition expenses.

(1) Description of change. Rev. Proc. 2002-46, 2002-2 C.B. 105, sets forth a safe harbor method of accounting for premium acquisition expenses of certain non-life insurance companies. Under this method, an insurance company is permitted to treat as premium acquisition expenses incurred for the taxable year an amount equal to the sum of (a) the amount of premium acquisition expenses paid during the taxable year; (b) the difference between the unpaid premium acquisition expenses shown on the company’s annual statement for the taxable year and the unpaid premium acquisition expenses shown on the company’s annual statement for the preceding taxable year; and (c) the difference between the amount of the insurance company’s pro forma premium acquisition expenses at the end of the taxable year and the company’s pro forma premium acquisition expenses at the end of the preceding taxable year. The amount taken into account as a net increase in the pro forma premium acquisition expenses, however, cannot exceed the insurance company’s unearned premium reserve offset amount for that year. A special rule applies to premium acquisition expenses with respect to certain contracts with installment premiums. See Rev. Proc. 2002-46.

(2) Applicability. The automatic change in this section 26.01 applies to any insurance company that is subject to tax under § 831(a) and determines its premiums earned for insurance contracts during the taxable year under § 832(b)(4) in accordance with the provisions of § 1.832-4. The automatic change does not apply to an existing Blue Cross or Blue Shield organization or any other organization to which § 833 applies.

(3) Certain eligibility rules inapplicable. The eligibility rules in sections 5.01(1)(d) and (f) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, do not apply to this change.

(4) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 26.01 is “67.”

(5) Contact information. For further information regarding a change under this section, contact Rebecca L. Baxter at (202) 317-6995 (not a toll-free number).

.02 Certain changes in method of accounting for organizations to which § 833 applies.

(1) Description of change. This change applies to an existing Blue Cross or Blue Shield organization within the meaning of § 833(c)(2), or an organization described in § 833(c)(3), that is required to change its method of accounting for unearned premiums by reason of failing to meet the Medical Loss Ratio (MLR) requirements of § 833(c)(5), or by reason of meeting the MLR requirements of § 833(c)(5) after failing to meet those requirements in a prior year. See Notice 2011-4, 2011-2 I.R.B. 282.

(2) Certain eligibility rules inapplicable. The eligibility rules in sections 5.01(1)(d) and (f) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, do not apply to this change.

(3) Accelerated § 481(a) adjustment period in certain situations. In addition to the circumstances set forth in section 7.03(4) of Rev. Proc. 2015-13, the § 481

adjustment period provided in section 7.03 of Rev. Proc. 2015-13 will be accelerated in the event a taxpayer with a remaining balance of a § 481(a) adjustment that arose by reason of a change in method of accounting described in this section 26.02 is required to effect another change in method of accounting described in this section 26.02. Thus, for example, a taxpayer that fails to satisfy the requirements of § 833(c)(5) and as a result has a positive § 481(a) adjustment, is required to accelerate the remaining balance, if any, of that adjustment in a subsequent taxable year in which the taxpayer meets the requirements of § 833(c)(5).

(4) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 26.02 is “155.”

(5) Contact information. For further information regarding this section, contact Rebecca L. Baxter at (202) 317-6995 (not a toll-free number).

### .03 Change in qualification as life/nonlife insurance company under § 816.

(1) Description of change. This change applies to an insurance company that changes from being taxed as a life insurance company under part I of subchapter L to being taxed as a non-life insurance company under part II of subchapter L, or vice versa. Whether an insurance company is taxed under § 801 as a life insurance company under part I of subchapter L is determined under § 816.

(2) Certain eligibility rules inapplicable. The eligibility rules in sections 5.01(1)(d) and (f) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, do not apply to this change.

(3) No audit protection or ruling on qualification as a life insurance company. The taxpayer does not receive either: (a) any audit protection under section 8.01 of Rev. Proc. 2015-13 or (b) ruling reliance under section 10 of Rev. Proc. 2015-13 in

connection with the consent granted under section 9 of Rev. Proc. 2015-13 for a change under this section 26.03 regarding whether the taxpayer qualifies as a life insurance company. The director will ascertain whether the taxpayer qualifies as a life insurance company.

(4) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 26.03 is “219.”

(5) Contact information. For further information regarding a change under this section, contact Rebecca L. Baxter at (202) 317-6995 (not a toll-free number).

.04 Changes in basis of computing reserves under § 807(f).

(1) Description of change and applicability. This automatic change applies to a change in basis of computing any item referred to in § 807(c), as described in § 807(f), by a life insurance company or by an insurance company that is not a life insurance company (nonlife insurance company). See § 1.807-4.

(2) Manner of making change.

(a)(i) Life insurance companies. If a life insurance company changes its basis of computing any item referred to in § 807(c) during a taxable year (year of change), then for purposes of applying § 807(a) and (b) with respect to contracts issued before the year of change, the amount of the item at the close of the year of change attributable to those contracts is computed on the old basis and the amount of the item at the opening of the succeeding taxable year attributable to those contracts is computed on the new basis. The amount of such item attributable to contracts issued during the year of change and thereafter must be computed on the new basis. See § 1.807-4(c)(1).

(ii) Nonlife insurance companies. If a nonlife insurance company changes its basis of computing an item referred to in § 807(c)(1) (life insurance reserves (as defined in § 816(b))) during a taxable year (year of change), then for purposes of applying § 832(b)(4), (A) for the year of change, life insurance reserves at the end of the year of change with respect to contracts issued before the year of change are computed on the old basis and (B) for the year following the year of change, life insurance reserves at the end of the preceding taxable year with respect to contracts issued before the year of change are computed on the new basis. Life insurance reserves attributable to contracts issued during the year of change and thereafter must be computed on the new basis. See § 1.807-4(c)(2).

(iii) Requirement to file Form 3115. A taxpayer that changes its basis of computing any item referred to in § 807(c) is subject to the procedures that apply to obtain the automatic consent of the Commissioner to change a method of accounting. Under these procedures, (A) the taxpayer must file Form 3115 as provided in this section 26.04, (B) the taxpayer will receive audit protection for taxable years prior to the year of change as provided in section 8 of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, in connection with the change, and (C) the § 481(a) adjustment period generally will be one taxable year (year of change) for a negative § 481(a) adjustment and four taxable years (year of change and next three taxable years) for a positive § 481(a) adjustment in accordance with section 7.03(1) of Rev. Proc. 2015-13.

(iv) Examples. The following examples each illustrate the rules of sections 26.04(2)(a)(i) and (ii) of this revenue procedure in two situations: (A) a change in basis in computing life insurance reserves (reserves) for contracts issued prior to the year of change that results in an increase in the reserves at the end of the year of change (negative § 481(a) adjustment) and (B) a change in basis in computing reserves for contracts issued prior to the year of change that results in a decrease in the



reserves at the end of the year of change (positive § 481(a) adjustment). The following table summarizes the reserve amounts for contracts issued before the year of change.

**Reserve amounts.**

<b>Description</b>	<b>Old Basis</b>	<b>New Basis (Negative § 481(a) Adjustment)</b>	<b>New Basis (Positive § 481(a) Adjustment)</b>
End of Year Prior to Year of Change	100		
End of Year of Change	105	109	101
End of Year Following Year of Change		112	104
Section 481(a) Adjustment		105-109=(4)	105-101=4

A. Example 1. The taxpayer is a life insurance company. Under section 26.04(2)(a)(i) of this revenue procedure, reserves for contracts issued before the year of change are reported under the old basis at the close of the year of change and under the new basis at the beginning of the year following the year of change; reserves for contracts issued during the year of change and thereafter are computed under the new basis. The remainder of this example describes only the deductions and income inclusions relating to reserves for contracts issued before the year of change.

Deduction for a net increase in reserves for the year of change. In both the negative and positive § 481(a) adjustment situations, the company must take \$105 of reserves into account (on the old basis) at the end of the year of change, resulting in a \$5 increase in reserves (\$105-\$100) and a corresponding deduction for a net increase in reserves for the year of change.

Negative § 481(a) adjustment situation. As described in section 26.04(2)(a)(iii) of this revenue procedure, the negative § 481(a) adjustment of \$4 (\$109-\$105) is taken into account in the year of change, such that the company recognizes a deduction for an increase in reserves under § 807(f) of \$4 in the year of change. This results in total deductions in the year of change of \$9 (\$5+\$4).

At the beginning of the following year, the company must take \$109 of reserves into account (new basis) and the deduction for the net increase in reserves for that year is \$3 (\$112-\$109).

Positive § 481(a) adjustment situation. As described in section 26.04(2)(a)(iii) of this revenue procedure, the positive § 481(a) adjustment of \$4 (\$101-\$105) is taken into account over four taxable years, such that the company recognizes additional income from a decrease in reserves under § 807(f) of \$1 (1/4th of the § 481(a) adjustment) in the year of change. This results in a net reduction in taxable income in the year of change of \$4 (\$5-\$1).

At the beginning of the following year, the company takes \$101 of reserves into account (new basis), and the deduction for the net increase in reserves for that year is \$3 (\$104-\$101). The company also recognizes another 1/4th of the § 481(a) adjustment, resulting in a \$1 increase in income due to a decrease in reserves under § 807(f) and a net reduction in taxable income of \$2 (\$3-\$1) in that year. The remaining \$2 of the § 481(a) adjustment is recognized as a \$1 increase in income due to a decrease in reserves under § 807(f) in each of the two remaining years of the § 481(a) adjustment period.

B. Example 2. The taxpayer is a nonlife insurance company. Under section 26.04(2)(a)(ii) of this revenue procedure, reserves at the end of the year of change with respect to contracts issued before the year of change are computed under the old basis for the year of change and under the new basis for the taxable year following the year of change; reserves for contracts issued during the year of change and thereafter are computed under the new basis. The remainder of this example only relates to reserves for contracts issued before the year of change.

Effect on premiums earned in year of change. In both the negative and positive § 481(a) adjustment situations, the company must add to the result obtained under § 832(b)(4)(A) the \$100 of reserves on outstanding business at the end of the preceding taxable year and then deduct the \$105 of reserves (computed under the old basis) on outstanding business at the end of the year of change.

Negative § 481(a) adjustment situation. As described in section 26.04(2)(a)(iii) of this revenue procedure, the negative § 481(a) adjustment of \$4 (\$109-\$105) is taken into account in the year of change, such that the company recognizes an additional reduction in premiums earned of \$4 in the year of change. This results in a total reduction in premiums earned of \$9 (\$5+\$4).

In the taxable year after the year of change, the reserves on outstanding business at the end of the preceding year are \$109 (computed on the new basis) and the net reduction in premiums earned is \$3 (\$109-\$112).

Positive § 481(a) adjustment situation. As described in section 26.04(2)(a)(iii) of this revenue procedure, the positive § 481(a) adjustment of \$4 (\$101-\$105) is taken into account over four taxable years, such that the company recognizes an additional \$1 (1/4th of the § 481(a) adjustment) increase in premiums earned in the year of change. This results in a net reduction in premiums earned in the year of change of \$4 (\$5-\$1).

In the taxable year after the year of change, the reserves on outstanding business at the end of the preceding year are \$101 (computed on the new basis) and the net reduction in premiums earned is \$3 (\$101-\$104). The company also recognizes another 1/4th of the § 481(a) adjustment, resulting in an additional \$1 increase in premiums earned and a net reduction in premiums earned of \$2 (\$3-\$1) in that year. The remaining \$2 of the § 481(a) adjustment is recognized as a \$1 increase in premiums earned in each of the two remaining years of the § 481(a) adjustment period.

(b) Section 481(a) adjustment.

(i) Computation of § 481(a) adjustment at end of year. In general, a change in basis of computing any item referred to in § 807(c) requires an adjustment under § 481(a). The § 481(a) adjustment is computed as of the end of the year of change and is only with respect to contracts issued before the year of change. See § 1.807-4(b)(1).

(ii) Number of § 481(a) adjustments. Multiple changes during the same taxable year in methods, assumptions, or factors, each of which alone would constitute a change in basis of computing any item referred to in § 807(c), are considered a single change in basis, and the effects of such multiple changes are netted and treated as a single net negative § 481(a) adjustment or net positive § 481(a) adjustment. A separate § 481(a) adjustment must be determined for each item referred to in § 807(c) and each such § 481(a) adjustment must be taken into account separately.

(iii) Loss of company status. If for any taxable year a taxpayer that was an insurance company for the year of change is no longer an insurance company, then the taxpayer must take into account in the preceding taxable year (that is, the last taxable year it was an insurance company) the balance of any § 481(a) adjustment. A taxpayer that was an insurance company for the year of change does not accelerate the balance of any § 481(a) adjustment merely because it changes from a life insurance

company to a nonlife insurance company or because it changes from a nonlife insurance company to a life insurance company. See § 1.807-4(b)(2).

(c) No ruling protection for year of change or subsequent years. The consent granted under section 9 of Rev. Proc. 2015-13 for a change under this section 26.04 is not a determination by the Commissioner that the new basis of computing any item referred to in § 807(c) is a permissible basis of computing such item and does not create any presumption that the new basis is a permissible basis of computing such item. The director may ascertain whether the new method of accounting is a permissible method of accounting. Thus, a taxpayer that changes its basis of computing any item referred to in § 807(c) under this section 26.04 may be required to change or modify that basis of computing such item for the year of change or any subsequent year if it is determined by the Commissioner that the basis to which the taxpayer changed does not meet the requirements of federal income tax law.

(d) Information required to be furnished. A taxpayer that files a Form 3115 (Rev. December 2022) under this section 26.04 is required to complete or provide only the following information on Form 3115:

- (i) The identification section of page 1 (above Part I);
- (ii) The signature section at the bottom of page 1;
- (iii) Part I;
- (iv) Part II, lines 4, 5, 6a-d, 7a-b, 8a-d, 9, 11a-c, 12, 17, and 18;
- (v) The following information, in lieu of completing Part II, line 14:
  - The item in § 807(c) to which the change in basis relates,
  - The type of contract to which the change relates,
  - If a life insurance reserve, a description of the applicable tax reserve method (e.g., Commissioners'

Reserve Valuation Method or Commissioners' Annuity Reserve Valuation Method),

- A description of the change in basis,
- A description of the reason for the change in basis, including (i) whether the change results from a change in the method prescribed by the National Association of Insurance Commissioners or from another change (such as a change in assumption for mortality, morbidity, or interest rate), regardless of whether the change is reflected on an annual statement and (ii) whether the change results from a prior incorrect application of federal income tax law and the nature of such incorrect application.

(vi) Part IV. (The taxpayer may indicate that the § 481(a)

adjustment is an estimate or is to be determined.)

(e) Concurrent automatic changes. A taxpayer that makes multiple changes in basis under this section 26.04 may file a single Form 3115 that includes all the changes in basis for the year of change. Likewise, a single Form 3115 may be filed for all changes in basis for members of a group filing a consolidated return. The information required by section 26.04(2)(d) of this revenue procedure is required for each separate change for each member of the group.

(f) Certain eligibility rule inapplicable. The eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13 does not apply to a change under this section 26.04.

(3) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 26.04 is "240."

(4) Contact information. For further information regarding a change under this section, contact Dan Phillips at (202) 317-6995 (not a toll-free number).

## SECTION 27. DISCOUNTED UNPAID LOSSES (§ 846)

.01 Composite method for discounting unpaid losses.

(1) Description of change. Section 846 defines “discounted unpaid losses” for purposes of computing the insurance company taxable income of certain insurance companies. Notice 88-100, 1988-2 C.B. 439, section V, sets forth a composite method for computing unpaid losses with respect to accident years not separately stated on the NAIC annual statement. Rev. Proc. 2002-74, 2002-2 C.B. 980, section 3.01, clarifies that the composite method of Notice 88-100, section V, is permitted, but not required; section 3.02 sets forth an alternative method for those taxpayers that do not use the composite method of section 3.01. An insurance company using a method provided in section 3.01 or 3.02 of Rev. Proc. 2002-74 to compute discounted unpaid losses, must use the same method to compute discounted estimated salvage recoverable. An insurance company that currently uses a permissible method of accounting for discounted unpaid losses may change its method of accounting to or from the composite method of Notice 88-100, section V, without the consent of the Commissioner. This change applies to insurance companies that are required to discount unpaid losses under § 846. See Rev. Proc. 2002-74.

(2) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 27.01 is “68.”

(3) Contact information. For further information regarding a change under this section, contact Rebecca L. Baxter at (202) 317-6995 (not a toll-free number).

## SECTION 28. REAL ESTATE MORTGAGE INVESTMENT CONDUIT (REMIC) (§§ 860A-860G)

### .01 REMIC inducement fees.

(1) Description of change. A taxpayer that receives an inducement fee in connection with becoming the holder of a noneconomic residual interest in a REMIC must take that fee into account over the remaining expected life of the applicable REMIC in accordance with § 1.446-6. This change applies to a taxpayer that seeks to change from any method of accounting for such inducement fees to one of the safe harbor methods provided under § 1.446-6(e)(1)-(2). See Rev. Proc. 2004-30, 2004-1 C.B. 950, for additional guidance relating to this change.

(2) Manner of making change. A taxpayer making this change must identify the specific safe harbor method under § 1.446-6(e) to which the taxpayer is changing.

(3) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 28.01 is “79.”

(4) Contact information. For further information regarding a change under this section, contact K. Scott Brown at (202) 317-4423 (not a toll-free number).

## SECTION 29. FUNCTIONAL CURRENCY (§ 985)

### .01 Change in functional currency.

(1) Description of change. This change applies to a taxpayer that wants to change its functional currency or the functional currency of a qualified business unit (QBU) of the taxpayer. The preceding sentence does not apply to a QBU of a taxpayer described in § 1.985-1(b)(1)(iii).

(2) Manner of making change. A taxpayer making this change must make all necessary adjustments required by such change. See §§ 1.985-5, 1.985-8(c). A taxpayer must attach a statement to the Form 3115 representing that it has made the adjustments set forth in § 1.985-5 or § 1.985-8(c). The statement must also provide the

amount of any unrealized exchange gain or loss required to be taken into account pursuant to § 1.985-5 or § 1.985-8(c) and the date on which a taxpayer took such amount into account. Finally, the statement must provide a detailed and complete description of any other adjustments required pursuant to § 1.985-5 or § 1.985-8(c).

(3) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 29.01 is “70.”

(4) Contact information. For further information regarding a change under this section, contact Peter Merkel at (202) 317-4919 (not a toll-free number).

## SECTION 30. ORIGINAL ISSUE DISCOUNT (§§ 1272, 1273)

### .01 De minimis original issue discount (OID).

(1) Description of change. This change applies to a taxpayer that wants to change to the principal-reduction method of accounting described in section 5 of Rev. Proc. 97-39, 1997-2 C.B. 485. The principal-reduction method of accounting is an aggregate method of accounting for de minimis OID (discount) on certain loans originated by the taxpayer.

(2) Certain eligibility rule inapplicable. The eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, does not apply to this change.

(3) Description. The principal-reduction method of accounting is a permissible method for use by taxpayers to account for discount on one or more categories of loans described in section 4.02 or 4.03 of Rev. Proc. 97-39. If the principal-reduction method is used to account for any loans in a category of loans, the method must be used for the entire category of loans. The principal-reduction method applies only to loans described in section 3 of Rev. Proc. 97-39.



(4) Manner of making change.

(a) This change is made on a cut-off basis and applies only to loans described in section 3 of Rev. Proc. 97-39 that were acquired on or after the beginning of the year of change. Accordingly, a § 481(a) adjustment is neither permitted nor required.

(b) The taxpayer must maintain books and records sufficient to satisfy the director that old and new loans have been adequately segregated.

(5) Additional requirements. On a statement attached to the Form 3115, the taxpayer must:

(a) identify the categories of loans to which the proposed method will apply; and

(b) describe any “additional categories” permitted under section 4.03 of Rev. Proc. 97-39.

(6) No audit protection. A taxpayer does not receive audit protection under section 8.01 of Rev. Proc. 2015-13 in connection with this change. See section 8.02(2) of Rev. Proc. 2015-13.

(7) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 30.01 is “72.”

(8) Contact information. For further information regarding a change under this section, contact K. Scott Brown at (202) 317-4423 (not a toll-free number).

.02 Proportional method of accounting for OID on a pool of credit card receivables.

(1) Description of change. This change applies to a taxpayer that wants to change to the proportional method of accounting for OID on a pool of credit card receivables as described in Rev. Proc. 2013-26, 2013-22 I.R.B. 1160, as modified by Rev. Proc. 2021-35, 2021-35 I.R.B. 355, to reflect changes made to the treatment of certain credit card fees by § 451(b), as amended by Public Law 115-97, 131 Stat. 2054 (Dec. 22, 2017), commonly referred to as the Tax Cuts and Jobs Act (TCJA), and §§ 1.451-3 and 1.1275-2(l). The proportional method of accounting applies to OID and certain amounts that would not otherwise be treated as OID (for example, market discount or bond premium). Under § 1.1275-2(l), OID does not include items that are subject to the timing rules in § 1.451-3, such as credit card late fees, credit card cash advance fees, and interchange fees (specified credit card fees). Therefore, items subject to the timing rules in § 1.451-3, such as specified credit card fees, are excluded from the proportional method. See section 16.08 of this revenue procedure for the procedures by which a taxpayer, including a taxpayer using the proportional method of accounting, can change its method of accounting for specified credit card fees to comply with § 451(b), as amended by the TCJA, and §§ 1.451-3 and 1.1275-2(l).

(2) Manner of making change.

(a) This change is made on a cut-off basis. Accordingly, a § 481(a) adjustment is neither required nor permitted.

(b) The unaccrued OID for the pool as of the beginning of the first period in the year of change is equal to the unaccrued OID for the pool as of the end of the preceding taxable year under the taxpayer's previous method of accounting for OID on the pool, reduced by any amounts representing charges or fees that are not properly treated as OID (for example, specified credit card fees).

(3) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 30.02 is “183.”

(4) Contact information. For further information regarding this section, please contact Chris Lieu at (202) 317-6945 (not a toll-free number).

## SECTION 31. MARKET DISCOUNT BONDS (§ 1278)

### .01 Revocation of § 1278(b) election.

(1) Description of change. This change applies to a taxpayer that wants to change its method of accounting for market discount bonds by revoking its § 1278(b) election. Under § 1278(b), a taxpayer may elect a method of accounting under which market discount is currently included in gross income for the taxable years to which the discount is attributable. See Rev. Proc. 92-67, 1992-2 C.B. 429, for the procedures to make a § 1278(b) election (including a deemed § 1278(b) election for certain taxable years). For purposes of this section 31.01, a taxpayer also is treated as having made a deemed § 1278(b) election for a taxable year if, for one or more market discount bonds that were acquired by the taxpayer during that taxable year, the taxpayer includes in gross income on the tax return for that taxable year and on the tax return for the following taxable year the market discount attributable to each taxable year, other than as a result of a disposition of the bond or a partial principal payment on the bond. The procedures for revoking a § 1278 election were formerly provided in section 7 of Rev. Proc. 92-67.

(2) Revocation of election. The revocation of a § 1278(b) election (or a deemed § 1278(b) election) applies to all market discount bonds that are held by the taxpayer on the first day of the first taxable year for which the revocation is effective

(year of change), and to all market discount bonds that are subsequently acquired by the taxpayer. If a § 1278(b) election (or a deemed § 1278(b) election) is revoked, then for purposes of § 1278(a), accrued market discount with respect to any bond previously subject to the election means accrued market discount as defined in § 1276(b) less any market discount included in income while the bond was subject to the § 1278(b) election (or the deemed § 1278(b) election).

(3) Manner of making change. This change is made on a cut-off basis and applies only to market discount accruing on or after the beginning of the year of change. Accordingly, a § 481(a) adjustment is neither permitted nor required. Market discount accruing on a bond prior to the year of change was currently included in income and market discount accruing on the bond on and after the first day of the year of change is included in income generally upon disposition of the bond. See § 1276(a). Because a cut-off basis is prescribed for this change, the basis of any bond, adjusted for amounts previously included in income during the period of the election, is not affected by the revocation.

(4) Additional requirements. On a statement attached to the Form 3115, the taxpayer must provide:

(a) the reason(s) for revoking the § 1278(b) election (or deemed § 1278(b) election);

(b) a description of the method by which, and the date on which, the taxpayer made the § 1278(b) election (or deemed § 1278(b) election) that is being revoked; and

(c) a statement that, after the revocation, the taxpayer will not make a constant interest rate election for any bond that has been subject to the § 1278(b)

election (or deemed § 1278(b) election) being revoked and for which a constant interest rate election was not effective in the year of acquisition.

(5) Audit protection. A taxpayer may receive audit protection, as provided in section 8.01 of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, in connection with this change. Any audit protection applicable to this change under section 8.01 of Rev. Proc. 2015-13 does not preclude the Commissioner from examining the method used by the taxpayer to determine the amount of accrued market discount under § 1276(b) for a taxable year prior to the year of change.

(6) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 31.01 is “73.”

(7) Contact information. For further information regarding a change under this section, contact Matthew P. Howard at (202) 317-7053 (not a toll-free number).

## SECTION 32. SHORT-TERM OBLIGATIONS (§ 1281)

### .01 Interest income on short-term obligations.

#### (1) Description of change.

(a) This change applies to a taxpayer that wants to change its method of accounting to comply with § 1281 for interest income on short-term obligations.

(b) Under § 1281, a holder of certain short-term obligations, including a bank as defined in § 581, must include in gross income any accrued interest income on such obligations, regardless of the holder’s overall method of accounting. Section 1281 applies to all types of interest income, including acquisition discount, original issue discount (OID), and stated interest. See S. Rep. No. 99-313, 99<sup>th</sup> Cong., 2d Sess. 903 (1986), 1986-3 (Vol. 3) C.B. 903.

(c) Section 1283(a)(1) generally defines a short-term obligation as any bond, debenture, note, certificate, or other evidence of indebtedness that matures in one year or less from its issue date.

(d) Under §§ 1281(a) and 1283(c), a holder of a short-term obligation subject to § 1281 must include in gross income an amount equal to the sum of the daily portions of the acquisition discount or OID, whichever is applicable, on the obligation for each day during the taxable year that the obligation is held by the holder. See § 1283(b), as modified by § 1283(c), to determine the daily portions of acquisition discount or OID. In addition, § 1281(a) requires the holder to include in gross income any stated interest that is payable on the short-term obligation (other than stated interest taken into account to determine the amount of the acquisition discount or OID) as it accrues.

(2) Section 481(a) adjustment period. A taxpayer must take the entire § 481(a) adjustment into account in computing taxable income for the year of change.

(3) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 32.01 is “74.”

(4) Contact information. For further information regarding a change under this section, contact Jonathan LaPlante at (202) 317-6945 (not a toll-free number).

.02 Stated interest on short-term loans of cash method banks.

(1) Description of change. This change applies to a bank that uses the cash receipts and disbursements (cash) method of accounting as its overall accounting method and that wants to change its method of accounting from accruing stated interest on short-term loans made in the ordinary course of business to using the cash method

for that interest. For example, see Security State Bank v. Commissioner, 214 F.3d 1254 (10<sup>th</sup> Cir. 2000), aff'g 111 T.C. 210 (1998), acq., 2001-1 C.B. xix; and Security Bank Minnesota v. Commissioner, 994 F.2d 432 (8<sup>th</sup> Cir. 1993), aff'g 98 T.C. 33 (1992), in which the courts held that § 1281 does not apply to short-term loans made by a cash method bank in the ordinary course of its business.

(2) Certain eligibility rule inapplicable. The eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, does not apply to this change.

(3) Section 481(a) adjustment period. A taxpayer making this change must take the entire § 481(a) adjustment into account in computing taxable income for the year of change.

(4) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 32.02 is “75.”

(5) Contact information. For further information regarding a change under this section, contact Jonathan LaPlante at (202) 317-6945 (not a toll-free number).

## EFFECTIVE DATE

.01 In general. Except as otherwise provided under this EFFECTIVE DATE section, this revenue procedure is effective for a Form 3115 filed on or after April 30, 2024, for a year of change ending on or after September 30, 2023, that is filed under the automatic change procedures of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, as clarified and modified by Rev. Proc. 2015-33, 2015-24 I.R.B. 1067, and as modified by Rev. Proc. 2021-34, 2021-35 I.R.B. 337, Rev. Proc. 2021-26, 2021-22 I.R.B. 1163, Rev. Proc. 2017-59, 2017-48 I.R.B. 543, and section 17.02(b) and (c) of Rev. Proc. 2016-1, 2016-1 I.R.B. 1.

.02 Transition rules. The following transition rules apply:

(1) Limited time period to convert a Form 3115 filed under the non-automatic change procedures in Rev. Proc. 2015-13. If, before April 30, 2024, a taxpayer properly filed a Form 3115 under the non-automatic change procedures in Rev. Proc. 2015-13 requesting the Commissioner's consent for a change in method of accounting described in this revenue procedure, and the Form 3115 is pending with the national office on April 30, 2024, the taxpayer may choose to make the change in method of accounting under the automatic change procedures in Rev. Proc. 2015-13 if the taxpayer is otherwise eligible to use this revenue procedure and the automatic change procedures in Rev. Proc. 2015-13. The taxpayer must notify the national office contact person (if unknown, fax the notification to 855-574-9031 or send the notification to the attention of Control Clerk, CC:ITA, Room 4512 at the address specified in section 9.08(6) of Rev. Proc. 2024-1, 2024-1 I.R.B. 1 (or its successor) for the Form 3115 of the taxpayer's intent to make the change in method of accounting under the automatic change procedures in Rev. Proc. 2015-13 before the later of (a) May 30, 2024, or (b) the issuance of a letter ruling granting or denying consent for the change. The notification should indicate that the taxpayer chooses to convert the Form 3115 to the automatic change procedures in Rev. Proc. 2015-13. If the taxpayer timely notifies the national office that it chooses to convert the Form 3115 to the automatic change procedures in Rev. Proc. 2015-13, the national office will send a letter to the taxpayer acknowledging its request and will return the user fee submitted with the Form 3115.

A taxpayer converting a Form 3115 to the automatic change procedures in Rev. Proc. 2015-13 for a change in method of accounting described in this revenue procedure must resubmit a Form 3115 that conforms to the automatic change



procedures, with a copy of the national office letter sent acknowledging the taxpayer's request attached, to the IRS in Ogden, UT by the earlier of (a) the 30<sup>th</sup> calendar day after the date of the national office's letter acknowledging the taxpayer's request, or (b) the date the taxpayer is required to file the duplicate copy of the Form 3115 under SECTION 6.03(1)(a)(i)(B) of Rev. Proc. 2015-13. See SECTION 6.03(3) of Rev. Proc. 2015-13 regarding additional required copies of Form 3115.

For purposes of the eligibility rules in SECTION 5 of Rev. Proc. 2015-13, the duplicate copy of the timely resubmitted Form 3115 will be considered filed as of the date the taxpayer originally filed the converted Form 3115 under the non-automatic change procedures in Rev. Proc. 2015-13. This paragraph (1) does not extend the date the taxpayer must file the original (converted) Form 3115 under SECTION 6.03(1)(a)(i)(A) of Rev. Proc. 2015-13.

A Form 3115 filed under the non-automatic change procedures in Rev. Proc. 2015-13 before April 30, 2024, for a change in method of accounting described in this revenue procedure, will be disregarded for purposes of the prior five-year change rules in SECTIONS 5.04 and 5.05 of Rev. Proc. 2015-13 if the taxpayer converts the Form 3115 pursuant to this paragraph (1).

(2) Forms 3115 for changes in methods of accounting that can no longer be filed under the automatic change procedures. Except as provided in subsection .02(2)(a) of this EFFECTIVE DATE section, the following transition rules apply to the changes in methods of accounting that can no longer be filed under the automatic change procedures in Rev. Proc. 2015-13 because of changes made in this revenue procedure. Examples of such changes in methods of accounting are described in

subsection .01(8) and (9) of the SIGNIFICANT CHANGES section of this revenue procedure.

(a) If before April 30, 2024, a taxpayer properly filed the original, or the duplicate copy, of a Form 3115 under the automatic change procedures in Rev. Proc. 2015-13 for a change in method of accounting that can no longer be filed under the automatic change procedures in Rev. Proc. 2015-13, the taxpayer may continue to make that change in method of accounting under the automatic change procedures in Rev. Proc. 2015-13 for the year of change. The taxpayer is not required to resubmit a duplicate copy of the Form 3115 to the IRS in Ogden, UT under section 6.03(1)(a)(i)(B) of Rev. Proc. 2015-13.

(b) If before April 30, 2024, a taxpayer did not properly file the original, or the duplicate copy, of a Form 3115 under the automatic change procedures in Rev. Proc. 2015-13 for a change in method of accounting that can no longer be filed under the automatic change procedures in Rev. Proc. 2015-13, the taxpayer must make that change in method of accounting under the non-automatic change procedures in Rev. Proc. 2015-13. Notwithstanding § 1.446-1(e)(3)(i), the taxpayer may file a Form 3115 to request the Commissioner's consent to change the method of accounting under the non-automatic change procedures in Rev. Proc. 2015-13 for the taxpayer's last taxable year ending before April 30, 2024, on or before the due date of the federal income tax return for that taxable year. Solely for purposes of this paragraph (2)(b), the due date of the taxpayer's federal income tax return includes extensions, notwithstanding that the taxpayer may not have extended the due date.

(3) Transition rule for taxpayers that properly filed the duplicate copy of Form 3115 before April 30, 2024, for a change that continues to qualify under the automatic change procedures.

(a) Option to implement change as described in Rev. Proc. 2023-24 or under this revenue procedure. If, before April 30, 2024, a taxpayer properly filed the duplicate copy of the Form 3115, pursuant to section 6.03(1)(a)(i)(B) of Rev. Proc. 2015-13, requesting consent to change its method of accounting for a change described in Rev. Proc. 2023-24, 2023-28 I.R.B. 1207, as modified prior to April 30, 2024, that continues to be eligible for the automatic change procedures in this revenue procedure, but has not filed its timely filed (including extensions) original Federal income tax return for the year of change implementing the change, the taxpayer may choose to implement the change as described in either Rev. Proc. 2023-24 or this revenue procedure, but not both.

(b) Procedures to implement change as described in Rev. Proc. 2023-24. A taxpayer who meets the requirements of paragraph (3)(a) and chooses to implement the change as described in Rev. Proc. 2023-24 is not required to resubmit a duplicate copy of the Form 3115 to the IRS in Ogden, UT. However, if requested by the Director, the taxpayer must provide written substantiation that the duplicate copy of the Form 3115 was filed before April 30, 2024, pursuant to section 6.03(1)(a)(i)(B) of Rev. Proc. 2015-13. Such written substantiation may include proof of mailing or faxing, as appropriate, of the duplicate copy of the Form 3115.

(c) Procedures to implement the change as described in this revenue procedure. A taxpayer who meets the requirements of paragraph (3)(a) and chooses to implement the change as described in this revenue procedure, must resubmit a duplicate copy

(with signature) of the Form 3115 to the IRS in Ogden, UT for the year of change under this revenue procedure, pursuant to the requirements of section 6.03(1)(a)(i)(B) of Rev. Proc. 2015-13. The resubmitted duplicate copy must include the following statement on the top of page 1 of the Form 3115: “FILED UNDER REV. PROC. 2024-23, AS PROVIDED IN SECTION .02(3)(c) OF THE EFFECTIVE DATE SECTION OF REV. PROC. 2024-23”. For purposes of the eligibility rules in section 5 of Rev. Proc. 2015-13, the duplicate copy of the resubmitted Form 3115 will be considered filed as of the date the taxpayer originally filed the duplicate copy of the Form 3115 requesting the change under Rev. Proc. 2023-24. This paragraph (3)(c) does not extend the date the taxpayer must file either the resubmitted duplicate copy or original Form 3115 under section 6.03(1)(a) of Rev. Proc. 2015-13. If requested by the Director, the taxpayer must provide written substantiation that the duplicate copy of the Form 3115 requesting the change under Rev. Proc. 2023-24 was filed before April 30, 2024, pursuant to section 6.03(1)(a)(i)(B) of Rev. Proc. 2015-13. Such written substantiation may include proof of mailing or faxing, as appropriate, of the duplicate copy of the Form 3115.

#### EFFECT ON OTHER DOCUMENTS

.01 This revenue procedure amplifies and modifies Rev. Proc. 2023-24, 2023-28 I.R.B. 1207. Rev. Proc. 2023-24, as amplified and modified, is superseded in part. The second sentence in the subsection .01 under the EFFECT ON OTHER DOCUMENTS section of Rev. Proc. 2023-24 remains in effect (that is, the second sentences in sections 14.01 and 14.02, and sections 14.04, 14.05, 14.06, and 14.07 of Rev. Proc. 2011-14, 2011-4 I.R.B. 330, remain in effect). All other sections of Rev. Proc. 2023-24 are superseded.

.02 Rev. Proc. 2011-46, 2011-42 I.R.B. 518, is modified as follows:

(1) Section 5.02(3)(a) is modified to remove the first two sentences in the Manner of Making Change section and to substitute the following three new sentences in its place:

(a) In accordance with § 1.446-1(e)(3)(ii), the requirement under § 1.446-1(e)(3)(i) to file a Form 3115 is waived and a statement in lieu of a Form 3115 is authorized for this change. Notwithstanding the definition of Form 3115 in section 3.07 of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, the statement in lieu of a Form 3115 that is permitted under this paragraph 5.02(3)(a) is considered a Form 3115 for purposes of the automatic change procedures in Rev. Proc. 2015-13. However, the requirement to file the duplicate copy, under section 6.03(1)(a) of Rev. Proc. 2015-13, is waived.

(2) Section 5.03(2)(a) is modified to remove the first two sentences in the Manner of Making Change section and to substitute the following three new sentences in its place:

(a) In accordance with § 1.446-1(e)(3)(ii), the requirement under § 1.446-1(e)(3)(i) to file a Form 3115 is waived and a statement in lieu of a Form 3115 is authorized for this change. Notwithstanding the definition of Form 3115 in section 3.07 of Rev. Proc. 2015-13, the statement in lieu of a Form 3115 that is permitted under this paragraph 5.03(2)(a) is considered a Form 3115 for purposes of the automatic change procedures in Rev. Proc. 2015-13. However, the requirement to file the duplicate copy, under section 6.03(1)(a) of Rev. Proc. 2015-13, is waived.

.03 Rev. Rul. 2004-62, 2004-1 C.B. 1072, is modified to remove the second sentence in the CHANGE IN METHOD OF ACCOUNTING section and to substitute the following new two sentences in its place:

A taxpayer that wants to change its method of accounting to comply with this revenue ruling must follow the automatic change procedures in Rev. Proc. 2015-13, 2015-5 I.R.B. 419, (or successor) if the taxpayer is eligible to request such consent under the automatic change procedures therein. The eligibility rules in section 5.01(1) of Rev. Proc. 2015-13 (or successor) apply to a change in method of accounting described in section 3.04 of Rev. Proc. 2024-23, 2024-23 I.R.B. \_\_\_\_ (or successor).

.04 Rev. Rul. 2000-7, 2000-9 C.B. 712, is modified to remove the fourth sentence of the paragraph in the APPLICATION section and to substitute the following new fourth sentence:

A taxpayer that wants to change its method of accounting to conform with the holding in this revenue ruling must follow the automatic change procedures in Rev. Proc. 2015-13, 2015-5 I.R.B. 419, (or successor) if the taxpayer is eligible to request such consent under the automatic change procedures therein, except that the eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13 (or successor) does not apply to a change described in section 11.03 of Rev. Proc. 2024-23, 2024-23 I.R.B. \_\_\_\_ (or successor).

.05 Rev. Rul. 2000-4, 2000-1 C.B. 331, is modified to remove the second sentence of the paragraph in the APPLICATION section, and to substitute the following two new sentences in that paragraph in its place:

A taxpayer that wants to change its method of accounting to conform with the holding in this revenue ruling must follow the automatic change procedures in Rev. Proc. 2015-13, 2015-5 I.R.B. 419, (or successor) if the taxpayer is eligible to request such consent under the automatic change procedures therein. The eligibility rules in section 5.01(1) of Rev. Proc. 2015-13 (or successor) apply to a change in method of

accounting under section 3.02 of Rev. Proc. 2024-23, 2024-23 I.R.B. \_\_\_\_ (or successor).

.06 Rev. Proc. 2007-48, 2007-2 C.B. 110, is modified to remove section 5.06(1) and to substitute it with the following sentence:

The eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, (or successor) does not apply to a change in method of accounting described in section 5.06 of Rev. Proc. 2007-48, and made under section 22.08 of Rev. Proc. 2024-23, 2024-23 I.R.B. \_\_\_\_ (or successor).

.07 Rev. Proc. 2007-16, 2007-1 C.B. 358, is modified as follows:

(1) The second sentence in section 4.01 is modified by substituting “and Rev. Proc. 2015-13, 2015-5 I.R.B. 419” for “and, as applicable, Rev. Proc. 97-27 or Rev. Proc. 2002-9.”

(2) The first sentence in section 4.02 is modified by:

(a) Substituting “the non-automatic change or automatic change procedures of Rev. Proc. 2015-13” for “Rev. Proc. 97-27 or Rev. Proc. 2002-9, as applicable,”; and

(b) Substituting “(as defined in section 3.19 of Rev. Proc. 2015-13)” for “(as defined in section 5.02(2) of Rev. Proc. 97-27 or section 5.02 of Rev. Proc. 2002-9, as applicable)”.

(3) Section 4.03 is modified by substituting “Rev. Proc. 2015-13,” for “Rev. Proc. 97-27 or Rev. Proc. 2002-9, as applicable,”.

.08 Rev. Proc. 2000-50, 2000-2 C.B. 601, is modified for amounts paid or incurred in taxable years beginning after December 31, 2021, as follows:

(1) Section 5.01 is removed as obsolete.

(2) Section 5 is modified to add the following sentence: Reserved.

(3) Section 8 is modified to remove all references to section 5.

## PAPERWORK REDUCTION ACT

The collection of information contained in this revenue procedure has been reviewed and approved by the Office of Management and Budget under OMB control numbers 1545-0074 for individual filers, 1545-0123 for business filers, and 1545-0047 for tax-exempt filers, in accordance with the Paperwork Reduction Act (44 U.S.C. 3507(d)). 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 this revenue procedure are in sections 3, 5, 6, 7, 8, 9, 11, 12, 15, 16, 17, 18, 20, 21, 22, 23, 24, 25, 26, 29, 30, 31, and .02(3) of the EFFECTIVE DATE section. This information is necessary and will be used to determine whether the taxpayer properly changed to a permitted method of accounting. The collections of information are required for the taxpayer to obtain consent to change its method of accounting.

## SIGNIFICANT CHANGES

.01 Significant changes made by this revenue procedure to the List of Automatic Changes in Rev. Proc. 2023-24 include:

(1) The following sections are removed because these sections are obsolete:

(a) Section 7.01, relating to changes to a different method or different amortization period for research and experimental expenditures;

(b) Section 12.18, relating to late revocation of elections under § 263A(d)(3); and



(c) Section 20.13, relating to an accrual method taxpayer that wants to change its method of accounting for one or more inventory costs to treat such costs as incurred in accordance with § 1.461-1(a)(2) and 1.461-4(d)(4);

(2) Section 3.12, relating to a taxpayer that wants to change its treatment of natural gas transmission and distribution property costs to use the natural gas transmission and distribution property safe harbor method of accounting (NGSH Method) under Rev. Proc. 2023-15, is clarified as follows. First, by adding new paragraph 3.12(8) to allow a taxpayer changing to the NGSH Method to choose to treat a method change filed for the taxpayer's second taxable year ending after May 1, 2023, as filed for the taxpayer's first taxable year ending after May 1, 2023, solely for purposes of the special rule under section 5.08(3)(a) of Rev. Proc. 2023-15. Second, section 3.12(3)(c)(ii) is clarified to provide that if the taxpayer's change to the NGSH Method described in Rev. Proc. 2023-15 applies to any asset that is public utility property within the meaning of § 168(i)(1), then the taxpayer will adjust its deferred tax reserve account or similar account in the taxpayer's regulatory books of account by the amount of the deferral of federal income tax liability associated with the § 481(a) adjustment applicable to the public utility property subject to the Form 3115 if such amount is no longer being normalized for regulatory purposes by the taxpayer;

(3) Section 6.01, relating to changing from an impermissible to a permissible method of accounting for depreciation or amortization, is modified to remove the second sentence of section 6.01(1)(c)(xx), providing that the change in method of accounting under section 6.21 could be filed under section 6.01 if the duplicate copy

was properly filed under section 6.01 before May 11, 2021, because this language is obsolete;

(4) Section 6.18, relating to changing from an impermissible to a permissible method of accounting for an item of qualified improvement property placed in service after December 31, 2017, is modified by removing paragraph (2), providing a temporary waiver of the eligibility rule in sections 5.01(1)(d) and 5.01(1)(f) of Rev. Proc. 2015-13, because this language is obsolete;

(5) Section 6.19, relating to certain late elections under §§ 168 and 1502 or revocation of certain elections under § 168, is modified to remove all references to Rev. Proc. 2020-25, 2020-19 I.R.B. 785, because these references as used in section 6.19 are obsolete;

(6) Section 6.21, relating to depreciation of tangible property under § 168(g) by controlled foreign corporations, is modified by removing the sunset provision in paragraph (3) to permit CFCs to continue to change their depreciation method to the alternative depreciation system (ADS) in § 168(g) under the automatic change procedures of Rev. Proc. 2015-13 (regardless of whether the CFC's historic depreciation method was permissible or impermissible);

(7) Section 7.01, relating to a changing the method of accounting for SRE expenditures, is modified and clarified as follows. First, new section 7.01(2)(c) is added to clarify that section 7.01(1)(a) of this revenue procedure does not apply to a change to rely on interim guidance provided in sections 8 and 9 of Notice 2023-63, as modified by Notice 2024-12. Second, section 7.01(5)(a) is modified to provide that the eligibility rule in section 5.01(1)(d) of Rev. Proc. 2015-13 (relating to changes in the final year of a trade or business) does not apply to a change described in section 7.01(1)(a) of this

revenue procedure for the taxpayer's first or second taxable year beginning after December 31, 2021. Third, section 7.01(5)(b) is clarified to provide that a taxpayer may make a change described in section 7.01(1)(a) of this revenue procedure for its second taxable year beginning after December 31, 2021, regardless of whether the taxpayer made a change for the same item for its first taxable year beginning after December 31, 2021. Fourth, section 7.01(6) is clarified to provide that a taxpayer does not receive audit protection under section 8.01 of Rev. Proc. 2015-13 for a change under section 7.01(1)(a) of this revenue procedure in the second taxable year beginning after December 31, 2021, with respect to expenditures paid or incurred in the first taxable year beginning after December 31, 2021, if the taxpayer did not change its method of accounting under section 7.01(1)(a) in an effort to comply with § 174 for the first taxable year beginning after December 31, 2021. Fifth, section 7.01(7) is modified to provide that the designated automatic accounting method change number for all changes under section 7.01 of this revenue procedure is "265";

(8) Section 12.01, relating to certain uniform capitalization (UNICAP) methods used by resellers and reseller-producers, is modified as follows. First, section 12.01(2)(b), providing a temporary waiver of the eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13, is removed because this language is obsolete. Second, to add section 12.01(1)(b)(vi) to provide that the change under section 12.01 does not apply to a taxpayer changing to or from the direct reallocation method or the step-allocation method. Instead, this change must be requested under the non-automatic change procedures provided in Rev. Proc. 2015-13. Third, to add new section 12.01(1)(b)(vii) to provide that the change under section 12.01 does not apply to a taxpayer using the direct reallocation method or step-allocation method that wishes to either make an

election or revoke an election to use the 90-10 de minimis rule to allocate a mixed service department's costs to resale activities. Instead, this change must be requested under the non-automatic change procedures provided in Rev. Proc. 2015-13;

(9) Section 12.02, relating to certain uniform capitalization (UNICAP) methods used by producers and reseller-producers, is modified as follows. First, section 12.02(4)(b), providing a temporary waiver of the eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13, is removed because this language is obsolete. Second, section 12.02(1)(b)(vi) is added to provide that the change under section 12.02 does not apply to a taxpayer changing to or from the direct reallocation method or the step-allocation method. Instead, this change must be requested under the non-automatic change procedures provided in Rev. Proc. 2015-13. Third, new section 12.02(1)(b)(vii) is added to provide that the change under section 12.02 does not apply to a taxpayer using the direct reallocation method or step-allocation method that wishes to either make an election or revoke an election to use the 90-10 de minimis rule to allocate a mixed service department's costs to production or resale activities. Instead, this change must be requested under the non-automatic change procedures provided in Rev. Proc. 2015-13;

(10) Section 12.07, relating to a change not to apply § 263A to one or more plants removed from the list of plants that have a preproductive period in excess of two years, is modified to remove section 12.07(2), providing audit protection that applies to blackberry, raspberry, and papaya plants for taxable years that end on or before February 15, 2013, because this language is obsolete;

(11) Section 12.16, relating to the small taxpayer exception from the requirement to capitalize costs under section 263A, is modified to remove section

12.16(3)(b), providing a temporary waiver of the eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13 for certain taxpayers, because this language is obsolete.

(12) Section 15.01, relating to changes in overall method from the cash receipts and disbursements method (cash method) to an accrual method is modified to remove section 15.01(5)(b), providing a temporary waiver of the eligibility rule in section 5.01(1)(e) of Rev. Proc. 2015-13 for changes to comply with §451(b), because this language is obsolete;

(13) Section 15.17, relating to small business taxpayers changing the overall method of accounting to the cash method or to a method of accounting in which the small business taxpayer uses an accrual method for purchases and sales of inventories and uses the cash method of accounting for computing all other items of income and expense, is modified to remove section 15.17(6)(b), providing a temporary waiver of the eligibility rule in section 5.01(1)(e) of Rev. Proc. 2015-13 for certain taxpayers, because this language is obsolete;

(14) Section 16.08, relating to changes in the timing of income recognition under § 451(b) and (c), is modified and clarified as follows. First, section 16.08(3)(a) is added, to clarify that a change under section 16.02 does not apply to a change to comply with the all events test in § 1.451-1(a). Instead, this change must be requested under the non-automatic change procedures provided in Rev. Proc. 2015-13. Second, section 16.08 is modified to remove section 16.08(4)(a), relating to short Form 3115, because it is obsolete. Third, section 16.08 is modified to remove section 16.08(4)(c), relating to streamlined method change procedures for certain taxpayers, because it is obsolete. Fourth, section 16.08 is modified to remove section 16.08(5)(c), relating to certain changes with a § 481(a) adjustment of zero being disregarded for eligibility rules,

because it is obsolete. Fifth, section 16.08 is modified to remove section 16.08(6)(a), relating to audit protection for taxpayers using the streamlined method change procedures, because it is obsolete. Sixth, section 16.08 is modified to remove section 16.08(6)(b)(i), relating to audit protection for taxpayers under examination, because it is obsolete. Seventh, section 16.08(7)(b), which provides an ordering rule for concurrent cost-offset related inventory method changes and changes to apply a cost offset method, is modified to require a taxpayer making a cost-offset related inventory method change(s) and a change to the AFS cost offset method or advance payment cost offset method in the same year of change to make the cost-offset related inventory method change(s) first. Sections 16.08(2)(a)(i)(E), 16.08(2)(a)(ii)(F) and 16.08(2)(b)(v), which provide corresponding changes to a cost offset method as a result of cost-offset related inventory method changes, have been modified to apply only to taxpayers presently using a cost offset method, consistent with the new ordering rule. Eighth, the ordering rule for concurrent cost-offset related inventory method changes and corresponding changes to a cost offset method in section 16.08(7)(b) has been moved to a new section 16.08(7)(c); section 16.08(7)(c) is also clarified to provide that a taxpayer may file a single Form 3115 that includes both the cost-offset related inventory method change and the corresponding cost offset change. Ninth, section 16.08(7)(d) is added to provide examples to illustrate the operation of the ordering rules which require a taxpayer to make a cost-offset related inventory method change before a change to apply a cost offset method and a cost-offset related inventory method change before a corresponding change to a cost offset method;

(15) Section 19.02, regarding changes in method of accounting under § 460 to rely on the interim guidance provided in section 8 of Notice 2023-63, 2023-39 I.R.B.

919, is modified as follows. Section 19.02(4) is modified to provide that the eligibility rule in section 5.01(1)(d) of Rev. Proc. 2015-13 (relating to changes in the final year of a trade or business) does not apply to a change described in section 19.02(1) of this revenue procedure for the taxpayer's first or second taxable year beginning after December 31, 2021;

(16) Section 22.04, relating to a taxpayer that wants to change from an impermissible method of identifying or valuing inventories to a permissible method of identifying or valuing inventories, is modified to remove section 22.04(1)(d), providing a temporary waiver of the eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13 for certain changes related to a cost offset method, because this language is obsolete;

(17) Section 22.10, relating to changes to permissible methods of identification and valuation of inventories, is modified by removing section 22.10(1)(d), providing a temporary waiver of the eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13 for certain changes related to a cost offset method, because this language is obsolete;

(18) Section 22.17, relating to changes from currently deducting inventories to permissible methods of identification and valuation of inventories, is modified by removing section 22.10(1)(d), providing a temporary waiver of the eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13 for certain changes related to a cost offset method, because this language is obsolete;

(19) Section 22.18, relating to a change by a small business taxpayer to certain § 471 methods of accounting, is modified as follows. First, section 22.18(5)(b) and (c), providing a temporary waiver of the eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13 for certain changes, is removed because the language is obsolete.

Second, section 22.18 (6)(b), providing streamlined method change procedures for certain taxpayers, is removed because this language is obsolete;

(20) Section 23.01, relating to certain changes from the LIFO inventory method, is modified as follows. First, section 23.01(2)(b), providing a temporary waiver of the eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13 for certain changes, is removed because the language is obsolete. Second, section 23.01(8), denying ruling protection in certain cases, is removed because this language is obsolete; and

(21) Section 24.02, relating to taxpayers requesting to change their method of accounting from the mark-to-market method of accounting described in § 475 to a realization method, is clarified to provide that a dealer in securities making such change under the non-automatic change procedures in Rev. Proc. 2015-13 must also file a Notification Statement that satisfies all applicable requirements of section 24.02(7) of this revenue procedure, including the timely filing requirements.

#### DRAFTING INFORMATION

The principal author of this revenue procedure is Bruce Chang of the Office of Associate Chief Counsel (Income Tax and Accounting). For further information regarding this revenue procedure, contact Mr. Chang at (202) 317-4870 (not a toll-free number).

For further information regarding a specific change in method of accounting in this revenue procedure, contact the individual listed in the “Contact Person(s)” section located at the end of each section of the revenue procedure (numbers are not toll-free) or see the CONTACT LIST at the end of this revenue procedure. The contact person is with one of the following Offices of Associate Chief Counsel: Corporate (CORP), Financial Institutions and Products (FI&P), Income Tax & Accounting (IT&A),



International (INTL), Passthroughs and Special Industries (P&SI), or Employee Benefits, Exempt Organizations, and Employment Taxes (EEE).

**LIST OF AUTOMATIC CHANGES CONTACT LIST**

<b>Section Number</b>	<b>Designated Automatic Accounting Change Number</b>	<b>Contact Name</b>	<b>Telephone Number</b>	<b>Office</b>
1.01	91	William E. Blanchard	(202) 317-3900	FI&P
2.01	1	Michael Finn	(202) 317-4718	IT&A
3.01	2	Alicia Lee-Won	(202) 317-7003	IT&A
3.02	3	Alicia Lee-Won	(202) 317-7003	IT&A
3.03	4	Renay France	(202) 317-7003	IT&A
3.04	86	Maria Castillo Valle	(202) 317-7003	IT&A
3.05	See § 11.08	See § 11.08	See § 11.08	IT&A
3.06	See § 11.08	See § 11.08	See § 11.08	IT&A
3.07	158	Ian Heminsley	(202) 317-5100	IT&A
3.08	159	Samuel Terhaar	(202) 317-5100	IT&A
3.09	160	Nathaniel Kupferman	(202) 317-5100	IT&A
3.10	182	Morgan Lawrence	(202) 317-7011	IT&A
3.11	208, 209	Elizabeth Boone	(202) 317-5100	IT&A
3.12	269	Kasey A. Place	(202) 317-5100	IT&A
		Merrill Feldstein	(202) 317-5100	IT&A
4.01	5	Renay France	(202) 317-7003	IT&A
4.02	211	K. Scott Brown	(202) 317-4423	FI&P
5.01	16	Steven Harrison	(202) 317-6842	FI&P
5.02	212	Anisa Afshar	(202) 317-6934	INTL
6.01	7	James Liechty	(202) 317-7005	IT&A
6.02	8	Bruce Chang	(202) 317-7005	IT&A
6.03	10	Edward Schwartz	(202) 317-7006	IT&A
6.04	87	Elizabeth Binder	(202) 317-7005	IT&A
6.05	88	Elizabeth Binder	(202) 317-7005	IT&A
6.06	89	C. Dylan Durham	(202) 317-7005	IT&A
6.07	107	James Liechty	(202) 317-7005	IT&A

6.08	145	Elizabeth Binder	(202) 317-7005	IT&A
6.09	157	Charles Magee	(202) 317-7005	IT&A
6.10	198	Patrick Clinton	(202) 317-7005	IT&A
6.11	199	Patrick Clinton	(202) 317-7005	IT&A
6.12	200	Patrick Clinton	(202) 317-7005	IT&A
6.13	205	Patrick Clinton	(202) 317-7005	IT&A
6.14	206	Patrick Clinton	(202) 317-7005	IT&A
6.15	207	Patrick Clinton	(202) 317-7005	IT&A
6.16		Summary of changes related to dispositions of MACRS property		
6.17	210	Charles Magee	(202) 317-7005	IT&A
6.18	244	Elizabeth Binder	(202) 317-7005	IT&A
6.19	245	Elizabeth Binder	(202) 317-7005	IT&A
6.20	246, 247	Elizabeth Binder	(202) 317-7005	IT&A
6.21	248	Melinda Harvey	(202) 317-6934	INTL
6.22	264	James Liechty	(202) 317-7005	IT&A
7.01	265	Bruce Chang	(202) 317-7005	IT&A
8.01	152	Charles Hyde	(202) 317-5214	P&SI
9.01	18	Bruce Chang	(202) 317-7005	IT&A
10.01	223	Elizabeth Binder	(202) 317-7005	IT&A
10.02	228	Sharon Horn	(202) 317-7003	IT&A
10.03	229	Elizabeth Zanet	(202) 317-5279	P&SI
11.01	19	Maria Castillo Valle	(202) 317-7003	IT&A
11.02	20	Douglas Kim	(202) 317-7003	IT&A
11.03	21	Douglas Kim	(202) 317-7003	IT&A
11.04	47	Maria Castillo Valle	(202) 317-7003	IT&A
11.05	78	Alicia Lee-Won	(202) 317-7003	IT&A
11.06	109	Eugene Kirman	(202) 317-7003	IT&A
11.07	121	Eugene Kirman	(202) 317-7003	IT&A
11.08	184-193	Douglas Kim	(202) 317-7003	IT&A

11.09	213	Douglas Kim	(202) 317-7003	IT&A
11.10	222	Samuel Terhaar	(202) 317-5100	IT&A
12.01	22	Livia Piccolo	(202) 317-7007	IT&A
12.02	23	Livia Piccolo	(202) 317-7007	IT&A
12.03	25	Livia Piccolo	(202) 317-7007	IT&A
12.04	77	Livia Piccolo	(202) 317-7007	IT&A
12.05	92	Livia Piccolo	(202) 317-7007	IT&A
12.06	150, 151	Livia Piccolo	(202) 317-7007	IT&A
12.07	181	Patrick Clinton	(202) 317-7005	IT&A
12.08	194	Livia Piccolo	(202) 317-7007	IT&A
12.09	195	Roy Hirschhorn	(202) 317-7007	IT&A
12.10	201	Mia Romano	(202) 317-7007	IT&A
12.11	202	Michael Supanick	(202) 317-7007	IT&A
12.12	214	Livia Piccolo	(202) 317-7007	IT&A
12.13	215	Michael Supanick	(202) 317-7007	IT&A
12.14	224	Livia Piccolo	(202) 317-7007	IT&A
12.15	232	Livia Piccolo	(202) 317-7007	IT&A
12.16	234	Livia Piccolo	(202) 317-7007	IT&A
12.17	237	Livia Piccolo	(202) 317-7007	IT&A
13.01	26	Livia Piccolo	(202) 317-7007	IT&A
		Anisa Afshar	(202) 317-6934	INTL
14.01	28	Thomas Scholz	(202) 317-5600	EEE
14.02	29	John Ricotta	(202) 317-4102	EEE
		Joyce Kahn	(202) 317-4148	EEE
15.01	122, 123, 257, 258	Mia Romano	(202) 317-7007	IT&A
15.02	31	David Sill	(202) 317-7011	IT&A
15.03	34, 35	Livia Piccolo	(202) 317-7007	IT&A
15.04	71	William E. Blanchard	(202) 317-3900	FI&P
15.05	85	Christian Lagorio	(202) 317-7005	IT&A
15.06	90	Rebecca L. Baxter	(202) 317-6995	FI&P

15.07	108	K. Scott Brown	(202) 317-4423	FI&P
15.08	124	Douglas Kim	(202) 317-7003	IT&A
15.09	125	Morgan Lawrence	(202) 317-7011	IT&A
15.10	126	Mia Romano	(202) 317-7007	IT&A
15.11	127	K. Scott Brown	(202) 317-4423	FI&P
15.12	128	Daniyal Husain	(202) 317-5100	IT&A
15.13	129	David H. McDonnell	(202) 317-4137	P&SI
15.14	148	Jonathan A. LaPlante	(202) 317-6945	FI&P
15.15	226	Barbara Campbell	(202) 317-4137	P&SI
15.16	227	Grace Cho	(202) 317-6945	FI&P
15.17	233, 259	Livia Piccolo	(202) 317-7007	IT&A
16.01	36	K. Scott Brown	(202) 317-4423	FI&P
16.02	37	Daniel Cassano	(202) 317-7011	IT&A
16.03	38	Daniel Cassano	(202) 317-7011	IT&A
16.04	39	Michael Finn	(202) 317-4718	IT&A
16.05	80, 81	Kate Sleeth	(202) 317-7053	FI&P
16.06	130, 217	Peter Cohn	(202) 317-7011	IT&A
16.07	153	Maria Castillo Valle	(202) 317-7003	IT&A
16.08	239, 242, 250-255	Sharon Horn	(202) 317-7003	IT&A
	FIP questions only	Chris Lieu	(202) 317-6945	FI&P
17.01	131	Steven Harrison	(202) 317-6842	FI&P
18.01	132	Patrick Clinton	(202) 317-7005	IT&A
19.01	236	Innessa Glazman	(202) 317-7006	IT&A
19.02	271	John Aramburu	(202) 317-7006	IT&A
20.01	42, 133, 134, 249	Maria Castillo Valle	(202) 317-7003	IT&A
		Alicia Lee-Won	(202) 317-7003	IT&A
20.02	43	Christine Merson	(202) 317-5100	IT&A
20.03	44	Christine Merson	(202) 317-5100	IT&A
20.04	45, 113	James Williford	(202) 317-5100	IT&A
20.05	46	Clifford Sovich	(202) 317-5100	IT&A

20.06	106	Sharon Horn	(202) 317-7003	IT&A
20.07	135	Elizabeth Choi	(202) 317-5100	IT&A
20.08	149	Daniel Cassano	(202) 317-7011	IT&A
20.09	154	Sharon Horn	(202) 317-7003	IT&A
20.10	156	Alicia Lee-Won	(202) 317-7003	IT&A
20.11	161	Aliza Schechet	(202) 317-7003	IT&A
20.12	220	Douglas Kim	(202) 317-7003	IT&A
20.13	266-268	Maria Castillo Valle	(202) 317-7003	IT&A
21.01	136	Michael Finn	(202) 317-4718	IT&A
22.01	48	Michael Supanick	(202) 317-7007	IT&A
22.02	49	Michael Supanick	(202) 317-7007	IT&A
22.03	53	Michael Supanick	(202) 317-7007	IT&A
22.04	54	Michael Supanick	(202) 317-7007	IT&A
22.05	55	Adam Kobler	(202) 317-7007	IT&A
22.06	63	Adam Kobler	(202) 317-7007	IT&A
22.07	96	Adam Kobler	(202) 317-7007	IT&A
22.08	110	Eugene Kirman	(202) 317-7003	IT&A
22.09	111	Adam Kobler	(202) 317-7007	IT&A
22.10	137	Adam Kobler	(202) 317-7007	IT&A
22.11	138	Adam Kobler	(202) 317-7007	IT&A
22.12	139	Adam Kobler	(202) 317-7007	IT&A
22.13	114	Mia Romano	(202) 317-7007	IT&A
22.14	203	Michael Supanick	(202) 317-7007	IT&A
22.15	204	Michael Supanick	(202) 317-7007	IT&A
22.16	225	Michael Supanick	(202) 317-7007	IT&A
22.17	230	Adam Kobler	(202) 317-7007	IT&A
22.18	235, 260, 261	Livia Piccolo	(202) 317-7007	IT&A
22.19	262	Livia Piccolo	(202) 317-7007	IT&A
22.20	263	Livia Piccolo	(202) 317-7007	IT&A
23.01	56	Mia Romano	(202) 317-7007	IT&A
23.02	57	Mia Romano	(202) 317-7007	IT&A

23.03	58	Mia Romano	(202) 317-7007	IT&A
23.04	59	Mia Romano	(202) 317-7007	IT&A
23.05	60	Mia Romano	(202) 317-7007	IT&A
23.06	61	Mia Romano	(202) 317-7007	IT&A
23.07	62	Mia Romano	(202) 317-7007	IT&A
23.08	112	Mia Romano	(202) 317-7007	IT&A
23.09	140	Mia Romano	(202) 317-7007	IT&A
23.10	141	Mia Romano	(202) 317-7007	IT&A
24.01	64	Grace Cho	(202) 317-6945	FI&P
24.02	218	Grace Cho	(202) 317-6945	FI&P
25.01	66	K. Scott Brown	(202) 317-4423	FI&P
		Laura Fields	(202) 317-6850	P&SI
26.01	67	Rebecca L. Baxter	(202) 317-6995	FI&P
26.02	155	Rebecca L. Baxter	(202) 317-6995	FI&P
26.03	219	Rebecca L. Baxter	(202) 317-6995	FI&P
26.04	240	Dan Phillips	(202) 317-6995	FI&P
27.01	68	Rebecca L. Baxter	(202) 317-6995	FI&P
28.01	79	K. Scott Brown	(202) 317-4423	FI&P
29.01	70	Peter Merkel	(202) 317-4919	INTL
30.01	72	K. Scott Brown	(202) 317-4423	FI&P
30.02	183	Chris Lieu	(202) 317-6945	FI&P
31.01	73	Matthew P. Howard	(202) 317-7053	FI&P
32.01	74	Jonathan LaPlante	(202) 317-6945	FI&P
32.02	75	Jonathan LaPlante	(202) 317-6945	FI&P