



Tax Reduction Letter

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Revenue Procedure 2011-14

January 10, 2011

SECTION 1. PURPOSE

This [*2] revenue procedure provides the procedures by which a taxpayer may obtain automatic consent for a change in method of accounting described in the APPENDIX of this revenue procedure. This revenue procedure amplifies, clarifies, modifies, and supersedes Rev. Proc. 2008-52, 2008-2 C.B. 587, as amplified, clarified, and modified by Rev. Proc. 2009-39, 2009-38 I.R.B. 371, and provides additional changes in methods of accounting for which a taxpayer may obtain automatic consent.

A taxpayer complying with all the applicable provisions of this revenue procedure obtains the consent of the Commissioner of Internal Revenue to change its method of accounting under § 446 (e) of the Internal Revenue Code and the Income Tax Regulations thereunder.

This revenue procedure also modifies Rev. Proc. 97-27, 1997-1 C.B. 680, as amplified and modified by Rev. Proc. 2002-19, 2002-1 C.B. 696, as amplified and clarified by Rev. Proc. 2002-54, 2002-2 C.B. 432, as modified by Rev. Proc. 2007-67, 2007-2 C.B. 1072, and as clarified and modified by Rev. Proc. 2009-39, which provides the general procedures for obtaining the advance (non-automatic) consent of the Commissioner to change a method of accounting.

Section 16 [*3] of this revenue procedure lists the significant changes to Rev. Proc. 2008-52 and Rev. Proc. 97-27.

SECTION 2. BACKGROUND

.01 Change in method of accounting defined.

(1) Section 1.446-1 (e) (2) (ii) (a) provides that a change in method of accounting includes a change in the overall plan of accounting for gross income or deductions, or a change in the treatment of any material item. A material item is any item that involves the proper time for the inclusion of the item in income or the taking of the item as a deduction. In determining whether a taxpayer's accounting practice for an item involves timing, generally the relevant question is whether the practice permanently changes the amount of the taxpayer's lifetime income. If the practice does not permanently affect the taxpayer's lifetime income, but does or could change the taxable year in which income is reported, it involves timing and is therefore a method of accounting. See Rev. Proc. 91-31, 1991-1 C.B. 566.

(2) Although a method of accounting may exist under this definition without a pattern of consistent treatment of an item, a method of accounting is not adopted in most instances without consistent treatment. The treatment of a [*4] material item in the same way in determining the gross income or deductions in two or more consecutively filed federal income tax returns (without

regard to any change in status of the method as permissible or impermissible) represents consistent treatment of that item for purposes of § 1.446-1 (e) (2) (ii) (a). If a taxpayer treats an item properly in the first return that reflects the item, however, it is not necessary for the taxpayer to treat the item consistently in two or more consecutive returns to have adopted a method of accounting. If a taxpayer has adopted a method of accounting under these rules, the taxpayer may not change the method by amending its prior income tax return (s). See Rev. Rul. 90-38, 1990-1 C.B. 57.

(3) A change in method of accounting does not include correction of mathematical or posting errors, or errors in the computation of tax liability (such as errors in computation of the foreign tax credit, net operating loss, percentage depletion, or investment credit). See § 1.446-1 (e) (2) (ii) (b).

.02 Securing permission to make a method change. Section 446 (e) and § 1.446-1 (e) (2) (i) state that, except as otherwise provided, a taxpayer must secure the consent [*5] of the Commissioner before changing a method of accounting for federal income tax purposes. Section 1.446-1 (e) (3) (i) requires that, in general, in order to obtain the Commissioner's consent to a method change, a taxpayer must file a Form 3115, Application for Change in Accounting Method, during the taxable year for which the taxpayer wants to make the proposed change.

.03 Terms and conditions of a method change. Section 1.446-1 (e) (3) (ii) provides that the Commissioner may prescribe administrative procedures setting forth the limitations, terms, and conditions deemed necessary to permit a taxpayer to obtain consent to change a method of accounting in accordance with § 446 (e). The terms and conditions the Commissioner may prescribe include the year of change, whether the change is to be made with a § 481 (a) adjustment or on a cut-off basis, and the § 481 (a) adjustment period.

.04 No retroactive method change. Unless specifically authorized by the Commissioner, a taxpayer may not request, or otherwise make, a retroactive change in method of accounting, regardless of whether the change is from a permissible or an impermissible method. See generally Rev. Rul. 90-38. But see section 6.02 (3) (d) (i) [*6] of this revenue procedure.

.05 Method change with a § 481 (a) adjustment.

(1) Need for adjustment. Section 481 (a) requires those adjustments necessary to prevent amounts from being duplicated or omitted to be taken into account when the taxpayer's taxable income is computed under a method of accounting different from the method used to compute taxable income for the preceding taxable year. When there is a change in method of accounting to which § 481 (a) is applied, income for the taxable year preceding the year of change must be determined under the method of accounting that was then employed, and income for the year of change and the following taxable years must be determined under the new method of accounting as if the new method had always been used. The § 481 (a) adjustment is computed notwithstanding that the period of limitations on assessment and collection of tax may have closed on the years (closed years) in which the events giving rise to the need for an adjustment occurred. See *Superior Coach of Fla., Inc. v. Commissioner*, 80 T.C. 895, 912 (1983). In computing the net § 481 (a) adjustment, a taxpayer must take into account all relevant accounts. For example, the § 481 (a) [*7] adjustment for a change in the proper time for deducting salary bonuses under § 461 reflects any necessary adjustments for amounts of salary bonuses capitalized to inventory under § 263A.

Example. A taxpayer that is not required to use inventories uses the overall cash receipts and disbursements method and changes to an overall accrual method. The taxpayer has \$120,000 of income earned but not yet received (accounts receivable) and \$100,000 of expenses incurred but not yet paid (accounts payable) as of the end of the taxable year preceding the year of change. A positive § 481 (a) adjustment of \$20,000 (\$120,000 accounts receivable less \$100,000 accounts payable) is required as a result of the change.

(2) Adjustment period. Section 481 (c) and §§ 1.446-1 (e) (3) (ii) and 1.481-4 provide that the adjustment required by § 481 (a) may be taken into account in determining taxable income in the manner and subject to the conditions agreed to by the Commissioner and the taxpayer. Generally, in the absence of such an agreement, the § 481 (a) adjustment is taken into account completely in the year of change, subject to § 481 (b), which limits the amount of tax where the § 481 (a) adjustment is [*8] substantial. However, under the Commissioner's authority in § 1.446-1 (e) (3) (ii) to prescribe terms and conditions for changes in methods of accounting, this revenue procedure provides specific adjustment periods that are intended to achieve an appropriate balance between the goals of mitigating distortions of income that result from accounting method changes and providing appropriate incentives for voluntary compliance.

.06 Method change using a cut-off basis. The Commissioner may determine that certain changes in methods of accounting will be made without a § 481 (a) adjustment, using a cut-off basis. When a change in method of accounting is made on a cut-off basis, in general, only the items arising on or after the beginning of the year of change (or other operative date) are accounted for under the new method of accounting. Any items arising before the year of change (or other operative date) continue to be accounted for under the taxpayer's former method of accounting. See, for example, sections 2.01, 10.04 and 22.02 of the APPENDIX of this revenue procedure. Because no amounts are duplicated or omitted when a change in method of accounting is made on a cut-off basis, no § 481 (a) [*9] adjustment is necessary.

.07 Consistency and clear reflection of income. Methods of accounting should clearly reflect income on a continuing basis, and the Commissioner exercises discretion under §§ 446 (e) and 481 (c) in a manner that generally minimizes distortions of income across taxable years and on an annual basis.

.08 Separate trades or businesses.

(1) Sections 1.446-1 (d) (1) and (2) provide that when a taxpayer has two or more separate and distinct trades or businesses, the taxpayer may use a different method of accounting for each trade or business provided the method of accounting used for each trade or business clearly reflects the overall income of the taxpayer as well as that of each particular trade or business. No trade or business is separate and distinct unless the taxpayer keeps a complete and separable set of books and records for that trade or business.

(2) Section 1.446-1 (d) (3) provides that if, by reason of maintaining different methods of accounting, there is a creation or shifting of profits or losses between the taxpayer's trades or businesses (for example, through inventory adjustments, sales, purchases, or expenses) so that the

taxpayer's income is not clearly [*10] reflected, the taxpayer's trades or businesses are not separate and distinct.

.09 Penalties. Any otherwise applicable penalty, addition to the tax, or additional amount for the failure of a taxpayer to change its method of accounting (for example, the accuracy-related penalty under § 6662 or the fraud penalty under § 6663) may be imposed if the taxpayer does not timely file a request to change a method of accounting. See § 446 (f). Additionally, the taxpayer's return preparer may also be subject to the preparer penalty under § 6694. However, penalties, additions to the tax, or additional amounts will not be imposed when a taxpayer changes from an impermissible method of accounting to a permissible one by complying with all applicable provisions of this revenue procedure.

.10 Change made as part of an examination. Section 446 (b) and § 1.446-1 (b) (1) provide that if a taxpayer does not regularly employ a method of accounting that clearly reflects its income, the computation of taxable income must be made in a manner that, in the opinion of the Commissioner, does clearly reflect income. If a taxpayer under examination is not eligible to change a method of accounting under this revenue [*11] procedure, the director may make the change. A change resulting in a positive § 481 (a) adjustment ordinarily will be made in the earliest taxable year under examination with a one-year § 481 (a) adjustment period. See Rev. Proc. 2002-18, 2002-1 C.B. 678.

SECTION 3. DEFINITIONS

.01 Application. The term "application" means a Form 3115 or any statement that is authorized in the APPENDIX of this revenue procedure to be filed in lieu of a Form 3115, and any attachments.

.02 Applicable provisions. The term "applicable provisions" means all provisions and requirements of this revenue procedure pertinent to the taxpayer or its requested change, including but not limited to:

- (1) the scope requirements and limitations in section 4 of this revenue procedure;
- (2) the terms and conditions of change in section 5 of this revenue procedure;
- (3) the requirements regarding the form and content of an application in section 6 of this revenue procedure;
- (4) the filing requirements in section 6 of this revenue procedure, including (but not limited to) the timely duplicate filing requirements of section 6.02 (3); and
- (5) the APPENDIX of this revenue procedure, including:

- (a) the [*12] available changes in method of accounting;
- (b) any restrictions on the availability of a requested change that is applicable to the taxpayer (including provisions that render the change inapplicable to the taxpayer); and
- (c) any special terms, conditions, and requirements applicable to a change, such as the use of a cut-off basis or a § 481 (a) adjustment, the spread period for any § 481 (a) adjustment, the year of change, and any special filing requirement.

.03 Taxpayer.

(1) In general. The term "taxpayer" has the same meaning as the term "person" defined in § 7701 (a) (1) (rather than the meaning of the term "taxpayer" defined in § 7701 (a) (14)).

(2) Consolidated group. For purposes of the following sections of this revenue procedure, the term "taxpayer" includes a consolidated group: (a) sections 3.08 (1), 3.09 (1), and 4.02 (1) (taxpayer under examination), (b) section 3.09 (2) (taxpayer before an appeals office), and (c) section 3.09 (3) (taxpayer before a federal court).

.04 Timely mailing as timely filing. Under the provisions of § 7502, any application, statement, or other document required to be filed under this revenue procedure is considered timely filed if it is timely postmarked [*13] and mailed, postage prepaid, to the proper address (or an address similar enough to complete delivery). If these requirements are met, the date of filing is the date of the U.S. postmark or the applicable date recorded or marked by a designated private delivery service. See Notice 2004-83, 2004-2 C.B. 1030. If the requirements of § 7502 are not met, the application, statement, or other document is considered filed on the date it is delivered to the Service.

.05 Timely performance of acts. The rules of § 7503 apply when the last day for the taxpayer's timely performance of any act (for example, filing an application or submitting additional information) falls on a Saturday, Sunday, or legal holiday. The performance of any act is timely if the act is performed on the next succeeding day that is not a Saturday, Sunday, or legal holiday.

.06 Year of change. The year of change is the taxable year for which a change in method of accounting is effective, that is, the first taxable year the new method is to be used, even if no affected items are taken into account for that year.

.07 Section 481 (a) adjustment period. The § 481 (a) adjustment period is the applicable number of taxable years for [*14] taking into account the § 481 (a) adjustment required as a result of the change in method of accounting. The year of change is the first taxable year in the adjustment period and the § 481 (a) adjustment is taken into account ratably over the number of taxable years in the adjustment period. The applicable adjustment periods are set forth in section 5.04 of this revenue procedure.

.08 Under examination.

(1) In general.

(a) Except as provided in sections 3.08 (2), 3.08 (3) and 3.08 (5) of this revenue procedure, an examination of a taxpayer with respect to a federal income tax return begins on the date the taxpayer is contacted in any manner by a representative of the Internal Revenue Service (Service) for the purpose of scheduling any type of examination of the return. Except as provided in sections 3.08 (1) (b), 3.08 (1) (c), 3.08 (2), 3.08 (3) and 3.08 (4) of this revenue procedure, an examination ends:

- (i) in a case in which the Service accepts the return as filed, on the date the "no change" letter is sent to the taxpayer;
- (ii) in a fully agreed case, on the earliest of the date the taxpayer executes a waiver of restrictions on assessment or acceptance of overassessment (for example, [*15] Form 870, Waiver of Restrictions on Assessment and Collection of Deficiency in Tax and Acceptance of Overassessment, Form 4549, Income Tax Examination Changes, or Form 4605, Examination Changes - Partnerships, Fiduciaries, S Corporations, and Interest Charge Domestic International Sales Corporations), the date the taxpayer makes a payment of tax that equals or exceeds the proposed deficiency, or the date of the "closing" letter (for example, Letter 987 - Agreed Income Tax Change) sent to the taxpayer; or
- (iii) in an unagreed or a partially agreed case, on the earliest of the date the taxpayer (or its representative) is notified by Appeals that the case has been referred by the examining agent (s) to Appeals, the date the taxpayer files a petition in the Tax Court, the date on which the period for filing a petition with the Tax Court expires, or the date of the notice of claim disallowance.

(b) An examination does not end as a result of the early referral of an issue to Appeals under the provisions of Rev. Proc. 99-28, 1999-2 C.B. 109.

(c) An examination resumes on the date the taxpayer (or its representative) is notified by Appeals (or otherwise) that the case has been referred to the [*16] examining agent (s) for reconsideration. Further, notwithstanding sections 3.08 (1) (a) (iii) and 6.03 (3), if the taxpayer is within the 120-day window period provided in section 6.03 (3) of this revenue procedure, that 120-day window period ends as of the date the taxpayer is notified, ordinarily by Appeals, that the case has been referred to the examining agent (s) for reconsideration. The 120-day window period in section 6.03 (3) will be available to the taxpayer in its entirety when the resumed examination ends.

(2) Partnerships subject to TEFRA. Except as provided in sections 3.08 (4) and (5) of this revenue procedure, for an entity (including a limited liability company) treated as a partnership for federal income tax purposes that is subject to the TEFRA unified audit and litigation provisions for partnerships, an examination begins on the date of the notice of the beginning of an administrative proceeding sent to the Tax Matters Partner (TMP), and ends:

- (a) in a case in which the Service accepts the partnership return as filed, on the date of the "no adjustments" letter or the "no change" notice of final administrative adjustment sent to the TMP;
- (b) in a fully agreed case, when [*17] all the partners or members execute a Form 870-P, Agreement to Assessment and Collection of Deficiency in Tax for Partnership Adjustments, 870-L, Agreement to Assessment and Collection of Deficiencies in Tax for Partnership Adjustments, Additions to Tax, and Affected Items; or
- (c) in an unagreed or a partially agreed case, on the earliest of the date the TMP (or its representative) is notified by Appeals that the case has been referred by the examining agent (s) to Appeals, the date the TMP (or a partner or member) requests judicial review, or the date on which the period for requesting judicial review expires. But see section 4.02 (3) of this revenue procedure for certain rules that preclude an entity from requesting a change in accounting method.

(3) Certain foreign corporations. A foreign corporation that is not required to file a federal income tax return is under examination if any of its controlling domestic shareholders, as defined in § 6.02 (3) (b) of this revenue procedure, is under examination for a taxable year (s) in which it was a United States shareholder of the foreign corporation. For purposes of this revenue procedure, a foreign corporation is no longer under examination [*18] when the controlling domestic shareholders are no longer under examination, as defined in section 3.08 of this revenue procedure.

(4) Taxpayer before Joint Committee on Taxation. If a taxpayer is under examination (including an examination that begins on the date a taxpayer is contacted in any manner for additional information as a result of a Joint Committee on Taxation inquiry pursuant to § 6405) then, notwithstanding the performance of an act described in section 3.08 (1), (2), or (3), for purposes of this revenue procedure, the taxpayer continues to be under examination while the taxpayer has a refund or credit under review by the Joint Committee on Taxation. The examination ends on the later of (i) the performance of the applicable act described in section 3.08 (1), (2), or (3); or (ii) the date of the Service's written notification to the taxpayer that the Joint Committee on Taxation has completed its consideration (for example, Letter 1574 (P)), or that the case has been withdrawn from consideration by the Joint Committee on Taxation. See Rev. Proc. 2005-32, 2005-1 C.B. 1206.

(5) Taxpayer in Compliance Assurance Process. For purposes of this revenue procedure, a taxpayer participating [*19] in the Compliance Assurance Process (CAP) is considered to be under examination as of the date the taxpayer executes the Memorandum of Understanding for the CAP.

.09 Issue under consideration.

(1) Under examination. A taxpayer's method of accounting for an item is an issue under consideration for the taxable years under examination if the taxpayer receives written notification (for example, by examination plan, information document request (IDR), or notification of proposed adjustments or income tax examination changes) from the examining agent (s) specifically citing the treatment of the item as an issue under consideration. For example, a taxpayer's method of

pooling under the dollar-value, last-in, first-out (LIFO) inventory method is an issue under consideration as a result of an examination plan that identifies LIFO pooling as a matter to be examined, but it is not an issue under consideration as a result of an examination plan that merely identifies LIFO inventories as a matter to be examined. Similarly, a taxpayer's method of determining inventoriable costs under § 263A is an issue under consideration as a result of an IDR that requests documentation supporting the costs included [*20] in inventoriable costs, but it is not an issue under consideration as a result of an IDR that requests documentation supporting the amount of costs of goods sold reported on the return. The question of whether a method of accounting is an issue under consideration may be referred to the national office as a request for technical advice under the provisions of Rev. Proc. 2011-2 (or successor).

(2) Before an appeals office. A taxpayer's method of accounting for an item is an issue under consideration for the taxable years before an appeals office if the treatment of the item is included as an item of adjustment in the examination report referred to Appeals or is specifically identified in writing to the taxpayer by Appeals. If an appeals office submits to the Joint Committee on Taxation pursuant to § 6405 a report of a refund or credit that includes a method of accounting for an item that is an issue under consideration, that method of accounting continues to be an issue under consideration by the appeals office while the refund or credit is under review by the Joint Committee on Taxation.

(3) Before a federal court. A taxpayer's method of accounting for an item is an [*21] issue under consideration for the taxable years before a federal court if the treatment of the item is included in the statutory notice of deficiency, the notice of claim disallowance, the notice of final administrative adjustment, the pleadings (for example, the petition, complaint, or answer) or amendments thereto, or is specifically identified in writing to the taxpayer by the counsel for the government. If a settlement stipulation that includes a method of accounting for an item that is an issue under consideration is submitted to the Joint Committee on Taxation pursuant to § 6405, that method of accounting continues to be an issue under consideration by the federal court while the settlement stipulation is under review by the Joint Committee on Taxation.

(4) Certain foreign corporations. In the case of a controlled foreign corporation (CFC) as defined in § 953 (c) (1) (B) or § 957 or a noncontrolled section 902 corporation as defined in § 904 (d) (2) (E) (10/50 corporation), a foreign corporation's method of accounting for an item is an issue under consideration if any of the corporation's controlling domestic shareholders receives notification described in section 3.09 (1), (2) [*22] or (3) that the treatment of a distribution or deemed distribution from the foreign corporation, or the amount of its earnings and profits or foreign taxes deemed paid, is an issue under consideration.

.10 Change within the LIFO inventory method. A change within the LIFO inventory method is a change from one LIFO inventory method or sub-method to another LIFO inventory method or sub-method. A change within the LIFO inventory method does not include a change in method of accounting that could be made by a taxpayer that does not use the LIFO inventory method (for example, a method governed by § 471 or § 263A).

.11 Director. The term "director" has the same meaning as this term has in Rev. Proc. 2011-1, 2011-1 I.R.B. 1 (or successor).

SECTION 4. SCOPE

.01 Applicability. This revenue procedure applies to a taxpayer requesting the Commissioner's consent to change to a method of accounting described in the APPENDIX of this revenue procedure. This revenue procedure is the exclusive procedure for a taxpayer within its scope to obtain the Commissioner's consent.

.02 Inapplicability. Except as otherwise provided in the APPENDIX of this revenue procedure (see, for example, section 2.01 of the APPENDIX [*23] of this revenue procedure), this revenue procedure does not apply in the following situations:

(1) Under examination. If, on the date the taxpayer (or if section 6.02 (3) (b) of this revenue procedure applies, the designated shareholder) would otherwise file a copy of the application with the national office, or, if applicable, with the Ogden office, pursuant to section 6.02 (3) of this revenue procedure, the taxpayer is under examination (as provided in section 3.08 of this revenue procedure), except as provided in sections 6.03 (2) (90-day window), 6.03 (3) (120-day window), 6.03 (4) (consent of director), 6.03 (5) (changes lacking audit protection), 6.03 (6) (issue pending), 6.04 (issue under consideration by an appeals office), and 6.05 (issue under consideration by a federal court) of this revenue procedure;

(2) Consolidated group member. A corporation that is (or was formerly) a member of a consolidated group is under examination, for purposes of section 4.02 (1) of this revenue procedure, if the consolidated group is under examination for a taxable year (s) that the corporation was a member of the group;

(3) Partnerships and S corporations. For an entity (including a limited liability [*24] company) treated as a partnership or an S corporation for federal income tax purposes, if, on the date the entity would otherwise file a copy of the application with the national office or, if applicable, the Ogden office, pursuant to section 6.02 (3) of this revenue procedure, the entity's accounting method to be changed is an issue under consideration in an examination of a partner, member, or shareholder's federal income tax return;

(4) Section 381 (a) transaction. Except as otherwise provided in this section 4.02 (4) or in final regulations issued under § 381, if the taxpayer engages in a transaction to which § 381 (a) applies within the proposed taxable year of change (determined without regard to any potential closing of the year under § 381 (b) (1)):

- (a) No differences in methods. An acquiring corporation may change its method of accounting pursuant to this revenue procedure if the acquiring corporation would be permitted to continue to use its prior method of accounting under the rules of §§ 1.381 (c) (4)-1 (b) (1) and (3) (i) (taking into account the third sentence of § 1.381 (c) (4)-1 (b) (4) relating to no prior method established by a party to the transaction) or §§ 1.381 (c) (5)-1 (b) (1) [*25] and (3) (i) (taking into account the second sentence of § 1.381 (c) (5)-1 (b) (4) (i) relating to no prior inventory method established by a party to the transaction) because all of the parties to the transaction used the same method of accounting on the date of distribution or transfer. The change pursuant to this revenue procedure is ignored for purposes of determining whether on the date of distribution or transfer the parties to the transaction used the same methods of accounting under §

1.381 (c) (4)-1 (b) or § 1.381 (c) (5)-1 (b), and thus §§ 1.381 (c) (4)-1 (b) (3) (ii) and (c) and §§ 1.381 (c) (5)-1 (b) (3) (ii) and (c) will not apply.

- (b) Separate trades or businesses. An acquiring corporation may change pursuant to this revenue procedure a method of accounting used by a trade or business operated by such corporation if the trade or business would be permitted to continue to use its prior method of accounting under the rules of § 1.381 (c) (4)-1 (b) (2) or § 1.381 (c) (5)-1 (b) (2). The change pursuant to this revenue procedure is ignored for purposes of determining whether on the date of distribution or transfer the parties to the transaction used the same methods of accounting [*26] under § 1.381 (c) (4)-1 (b) or § 1.381 (c) (5)-1 (b), and thus §§ 1.381 (c) (4)-1 (b) (3) and (c) and §§ 1.381 (c) (5)-1 (b) (3) and (c) will not apply.

(5) Final year of trade or business. If, in the year of change, a taxpayer requesting a change in method of accounting ceases to engage in the trade or business to which the change in accounting method relates or terminates its existence, as described in section 5.04 (3) (c) of this revenue procedure. For purposes of this section 4.02 (5), a taxpayer is treated as ceasing to engage in the trade or business or terminating its existence without regard to whether the taxpayer's change in method of accounting request would result in either a positive or negative § 481 (a) adjustment or be made on a cut-off basis.

(6) Prior five-year overall method change. Except as provided in section 13.02 (1) and the APPENDIX of this revenue procedure, if during any of the five taxable years ending with the year of change a taxpayer changed its overall method of accounting, or applied for consent to change its overall method of accounting, regardless of whether it implemented that change, the taxpayer may not obtain automatic consent to change its overall [*27] method of accounting under this revenue procedure. However, a taxpayer that changed its overall method of accounting during the five taxable years ending with the year of change may obtain automatic consent to change a method of accounting for an item when that change may otherwise be implemented under the provisions of this revenue procedure. For purposes of this section 4.02 (6), a change in overall method of accounting does not include the use of an overall method of accounting when computing taxable income for the taxable year that the taxpayer first files a federal income tax return ("adopts an overall method of accounting") or a change in method of accounting imposed by the Service pursuant to Rev. Proc. 2002-18 (or any successor). The five-year change prohibition in this section 4.02 (6) applies regardless of whether the taxpayer's current or prior method is a permissible method or clearly reflects the taxpayer's income and regardless of the administrative guidance used to request consent or to change the prior method of accounting.

Example. A, an attorney, began business in 2003 and adopted the overall cash method of accounting. For 2008, A changed to an overall accrual method [*28] of accounting using the then appropriate administrative guidance. A may not use the provisions of this revenue procedure for 2010 to change to the overall cash method because of the five-year change prohibition contained in this section 4.02 (6). However, A may still be able to use the provisions of this revenue procedure to change the

method of accounting the taxpayer will use to treat advances made on behalf of clients for 2010. See section 3.01 of the APPENDIX of this revenue procedure.

(7) Prior five-year item change.

(a) In general. Except as provided in sections 4.02 (7) (b), 13.02 (1), and the APPENDIX of this revenue procedure, if during any of the five taxable years ending with the year of change a taxpayer changed its method of accounting for a specific item, or applied for consent to change a method of accounting for a specific item regardless of whether it implemented that change, the taxpayer may not obtain automatic consent to change its method of accounting for that same item. For purposes of this section 4.02 (7) (a), a change in method of accounting for an item does not include the use of a method of accounting for the first taxable year that the taxpayer accounts for [*29] the item (for example, include in income, deduct, or capitalize) to which the method of accounting relates, or a change in method of accounting imposed by the Service pursuant to Rev. Proc. 2002-18 (or any successor). The five-year change prohibition in this section 4.02 (7) applies regardless of whether the taxpayer's current or prior method is a permissible method or clearly reflects the taxpayer's income and regardless of the administrative guidance used to request consent or to change the prior method of accounting.

(b) Exceptions. Notwithstanding section 4.02 (7) (a) of this revenue procedure, a taxpayer may obtain automatic consent to change its method of accounting for an item when that change is required as part of another change in method of accounting that the taxpayer may otherwise implement under the provisions of this revenue procedure. In addition, a taxpayer is not prohibited from changing a last-in, first-out (LIFO) inventory sub-method (for example, the method of determining current-year cost or the method of computing a dollar-value pool index) within five years of adopting or changing to the LIFO inventory method or another LIFO inventory sub-method. However, a taxpayer [*30] that changes a LIFO inventory sub-method within five years of adopting or changing to the LIFO inventory method does not receive audit protection under section 7 of this revenue procedure.

(c) Examples.

Example 1. A uses the LIFO inventory method. For 2007, A changed a LIFO inventory sub-method. Specifically, A changed from the average-cost method of determining the current-year cost of inventories to the earliest-acquisitions cost method. For 2010, A seeks to change to the IPIC method of computing the index and value of its dollar-value pools, a method that A has never used. As part of this change, A seeks to change its method of determining the current-year cost of inventories from the earliest-acquisitions cost method to the most-recent acquisitions cost method. A is eligible to change its method of computing the index and value of its dollar-value pools to the IPIC method under this revenue procedure. However, A is not eligible to change its method of determining the current-year costs of inventories under this revenue procedure because A changed this LIFO inventory sub-method within the proscribed five-year period.

Example 2. B uses the dollar-value LIFO inventory method and maintains [*31] separate dollar-value pools for its inventory of (1) new cars; (2) new trucks; (3) used

cars; and (4) used trucks. For 2006, B terminated its use of the LIFO inventory method for its used cars and used trucks under Rev. Proc. 2002-9. For 2010, B seeks to terminate its use of the LIFO inventory method for its new cars and new trucks. B is eligible to change its method of accounting for new cars and new trucks under this revenue procedure because it has not changed the inventory-identification method for those pools within the proscribed five-year period.

Example 3. C, a driving instruction school, uses an overall accrual method of accounting. C obtains payment in full from its students at the beginning of each session of classes. For 2009, C properly elected the deferral method for advance payments as described in Rev. Proc. 2004-34. For 2010, C seeks to change its overall method of accounting to the cash method as described in Rev. Proc. 2001-10 which it qualifies to use. C is eligible to change its method of accounting for advance payments even though it made a prior change in its method of accounting for advance payments within the previous 5 taxable years ending with 2010 because [*32] C is required to change its treatment of advance payments as part of its change to the overall cash method of accounting.

.03 Nonautomatic changes. If a taxpayer is precluded other than by sections 4.02 (1) through 4.02 (3) of this revenue procedure from using this revenue procedure to make a change in method of accounting, the taxpayer requesting such a change must file a Form 3115 with the Commissioner in accordance with the requirements of § 1.446-1 (e) (3) (i) and Rev. Proc. 97-27, 1997-1 C.B. 680, as amplified and modified by Rev. Proc. 2002-19, as amplified and clarified by Rev. Proc. 2002-54, as modified by Rev. Proc. 2007-67, as clarified and modified by Rev. Proc. 2009-39, and as clarified and modified by Rev. Proc. 2011-14 (or any other applicable Code, regulation, or guidance published in the Internal Revenue Bulletin (IRB)).

SECTION 5. TERMS AND CONDITIONS OF CHANGE

.01 In general. An accounting method change filed under this revenue procedure must be made pursuant to the terms and conditions provided in this revenue procedure.

.02 Year of change. The year of change is the taxable year designated on the application and for which the application is timely filed under section 6.02 (3) [*33] of this revenue procedure.

.03 Section 481 (a) adjustment. Unless otherwise provided in this revenue procedure, a taxpayer making a change in method of accounting under this revenue procedure must apply § 481 (a) and take into account a § 481 (a) adjustment in the manner provided in section 5.04 of this revenue procedure.

.04 Section 481 (a) adjustment period.

(1) In general. Except as otherwise provided in section 5.04 (3) or the APPENDIX of this revenue procedure, or in other guidance published in the IRB, the § 481 (a) adjustment period for a change in method of accounting is one taxable year (year of change) for a net negative § 481 (a) adjustment and four taxable years (year of change and next three taxable years) for a net positive § 481 (a) adjustment. A net positive § 481 (a) adjustment is taken into account ratably over the § 481 (a) adjustment period.

(2) Short period as a separate taxable year. If the year of change or any other taxable year during the § 481 (a) adjustment period is a short taxable year, the § 481 (a) adjustment must be included in income as if that short taxable year were a full 12-month taxable year. See Rev. Rul. 78-165, 1978-1 C.B. 276.

Example 1. A calendar [*34] year taxpayer changed its method of accounting under this revenue procedure beginning with the 2010 calendar year. The net § 481 (a) adjustment for this method change is a positive adjustment of \$30,000 and the adjustment period is four taxable years. The taxpayer subsequently receives permission to change its annual accounting period to September 30, effective for the taxable year ending September 30, 2011. The taxpayer must include \$7,500 of the § 481 (a) adjustment in gross income for the short period from January 1, 2011, through September 30, 2011.

Example 2. Corporation X, a calendar year taxpayer, changed its method of accounting under this revenue procedure beginning with the 2010 calendar year. The net § 481 (a) adjustment for this method change is a positive adjustment of \$30,000 and the adjustment period is four taxable years. On July 1, 2012, Corporation Z acquires Corporation X in a transaction to which § 381 (a) applies. Corporation Z is a calendar year taxpayer that uses the same method of accounting to which Corporation X changed in 2010. Corporation X must include \$7,500 of the § 481 (a) adjustment in gross income for its short period income tax return for January 1, [*35] 2012, through June 30, 2012. In addition, Corporation Z must include \$7,500 of the § 481 (a) adjustment in gross income in its income tax return for calendar year 2012.

(3) Shortened or accelerated § 481 (a) adjustment periods. The § 481 (a) adjustment period provided in section 5.04 (1) or the APPENDIX of this revenue procedure will be shortened or accelerated in the following situations.

(a) De minimis rule. A taxpayer may elect to use a one-year § 481 (a) adjustment period (the year of change) in lieu of the § 481 (a) adjustment period otherwise provided by this revenue procedure for a positive § 481 (a) adjustment if the net § 481 (a) adjustment for the change is less than \$25,000. To make this election, the taxpayer must complete the appropriate line on Form 3115 and take the entire § 481 (a) adjustment into account in the year of change.

(b) Cooperatives. A cooperative within the meaning of § 1381 (a) generally must take the entire amount of a § 481 (a) adjustment into account in computing taxable income for the year of change. See Rev. Rul. 79-45, 1979-1 C.B. 284.

(c) Ceasing to engage in the trade or business or terminating existence.

(i) In general. A taxpayer that ceases to engage [*36] in a trade or business or terminates its existence must take the remaining balance of any § 481 (a) adjustment relating to the trade or business into account in computing taxable income in the taxable year of the cessation or termination. Except as provided in sections 5.04 (3) (c) (iv) and (v) of this revenue procedure, a taxpayer is treated as ceasing to engage in a trade or business if the operations of the trade or

business cease or substantially all the assets of the trade or business are transferred to another taxpayer. For this purpose, "substantially all" has the same meaning as in section 3.01 of Rev. Proc. 77-37, 1977-2 C.B. 568.

(ii) Examples of transactions that are treated as the cessation of a trade or business. The following is a nonexclusive list of transactions that are treated as the cessation of a trade or business for purposes of accelerating the § 481 (a) adjustment under section 5.04 (3) (c) of this revenue procedure:

- (A) the trade or business to which the § 481 (a) adjustment relates is incorporated;
- (B) the trade or business to which the § 481 (a) adjustment relates is purchased by another taxpayer in a transaction to which § 1060 applies;
- (C) the trade or business [*37] to which the § 481 (a) adjustment relates is terminated or transferred pursuant to a taxable liquidation;
- (D) a division of a corporation ceases to operate the trade or business to which the § 481 (a) adjustment relates; or
- (E) the assets of a trade or business to which the § 481 (a) adjustment relates are contributed to a partnership.

(iii) Conversion to or from S corporation status. Except as provided in section 22.01 of the APPENDIX of this revenue procedure, no acceleration of a § 481 (a) adjustment is required under section 5.04 (3) (c) of this revenue procedure when a C corporation elects to be treated as an S corporation or an S corporation terminates its S election and is then treated as a C corporation.

(iv) Certain transfers to which § 381 (a) applies. No acceleration of the § 481 (a) adjustment is required under section 5.04 (3) (c) of this revenue procedure when a taxpayer transfers substantially all the assets of the trade or business that gave rise to the § 481 (a) adjustment to another taxpayer in a transfer to which § 381 (a) applies and the accounting method (the change to which gave rise to the § 481 (a) adjustment) is a tax attribute that is carried over and used by the [*38] acquiring corporation immediately after the transfer pursuant to § 381 (c). The acquiring corporation is subject to any terms and conditions imposed on the transferor (or any predecessor of the transferor) as a result of its change in method of accounting.

(v) Certain transfers pursuant to § 351 within a consolidated group.

(A) In general. No acceleration of the § 481 (a) adjustment is required under section 5.04 (3) (c) of this revenue procedure when one member of an affiliated group filing a consolidated return transfers substantially all the assets of the trade or business that gave rise to the § 481 (a) adjustment to another member of the same consolidated group in an exchange qualifying under § 351 and the

transferee member adopts and uses the same method of accounting (the change to which gave rise to the § 481 (a) adjustment) used by the transferor member. The transferor member must continue to take the § 481 (a) adjustment into account pursuant to the terms and conditions set forth in this revenue procedure. The transferor member must take into account activities of the transferee member (or any successor) in determining whether acceleration of the § 481 (a) adjustment is required. [*39] For example, except as provided in the following sentence, the transferor member must take any remaining § 481 (a) adjustment into account in computing taxable income in the taxable year in which the transferee member ceases to engage in the trade or business to which the § 481 (a) adjustment relates. The § 481 (a) adjustment is not accelerated when the transferee member engages in a transaction described in section 5.04 (3) (c) (iv) or this section 5.04 (3) (c) (v) (A).

(B) Exception. The provisions of section 5.04 (3) (c) (v) (A) of this revenue procedure cease to apply and the transferor member must take any remaining balance of the § 481 (a) adjustment into account in the taxable year immediately preceding any of the following: (1) the taxable year the transferor member ceases to be a member of the group; (2) the taxable year any transferee member owning substantially all the assets of the trade or business that gave rise to the § 481 (a) adjustment ceases to be a member of the group; or (3) a separate return year of the common parent of the group. In applying the preceding sentence, the rules of §§ 1.1502-13 (j) (2), (j) (5) and (j) (6) apply, but only if the method of accounting [*40] to which the transferor member changed and to which the § 481 (a) adjustment relates is adopted, carried over, or used by any transferee member acquiring the assets of the trade or business that gave rise to the § 481 (a) adjustment immediately after acquisition of such assets. For example, the transferor member is not required to accelerate the § 481 (a) adjustment if a transferee member ceases to be a member of a consolidated group by reason of an acquisition to which § 381 (a) applies and the acquiring corporation (1) is a member of the same group as the transferor member, and (2) continues, under §381 (c) (4) and the regulations thereunder, to use the same method of accounting as that used by the transferor member with respect to the assets of the trade or business to which the § 481 (a) adjustment relates.

.05 NOL carryback limitation for taxpayer subject to criminal investigation. No portion of any net operating loss that is attributable to a negative § 481 (a) adjustment may be carried back to a taxable year prior to the year of change that is the subject of any pending or future criminal investigation or proceeding concerning (1) directly or indirectly, any issue relating to [*41] the taxpayer's federal tax liability, or (2) the possibility of false or fraudulent statements made by the taxpayer with respect to any issue relating to its federal tax liability.

.06 Certain foreign corporations. If the change in method of accounting is on behalf of a controlled foreign corporation (CFC) as defined in § 953 (c) (1) (B) or § 957 or a noncontrolled section 902 corporation as defined in § 904 (d) (2) (E), the following additional terms and conditions apply:

- (1) If the functional currency of the foreign corporation is not the U.S. dollar, the § 481 (a) adjustment must be stated in the functional currency of the foreign corporation and not in U.S. dollars;

- (2) A positive § 481 (a) adjustment necessary to prevent the duplication of an expense item must take the same source, separate limitation classification, character, and treatment for purposes of subpart F as the foreign corporation's gross income that was offset by the expense in the prior year or years. A positive § 481 (a) adjustment necessary to prevent the omission of amounts of an income item must take the same source, separate limitation classification, character, and treatment for purposes of subpart F as the foreign [*42] corporation's income would have had in the prior year or years. A negative § 481 (a) adjustment necessary to prevent the omission of amounts of an expense item is allocated to the class of gross income that has the same source, separate limitation classification, character, and treatment for purposes of subpart F as the foreign corporation's income that would have been offset by the expense in the prior year or years. A negative § 481 (a) adjustment necessary to prevent the duplication of amounts of an income item offsets gross income that has the same source, separate limitation classification, character, and treatment for purposes of subpart F as the foreign corporation's income had in the prior year or years;
- (3) For each taxable year of the adjustment period beginning with the year of change, the appropriate amount of the § 481 (a) adjustment must be taken into account in computing the foreign corporation's subpart F income under § 952 and its earnings and profits under §§ 964 and 986 (b);
- (4) The written statement required by § 1.964-1 (c) (3) (i) and (ii) must be filed by each controlling domestic shareholder (or its common parent) with its tax return for its taxable year with or [*43] within which ends the foreign corporation's year of change;
- (5) The shareholder (s) of the foreign corporation must maintain records and accounts with respect to the foreign corporation, for the year of change and for subsequent taxable years, in conformity with the requirements of §§ 905 (b) and 964 (c). This condition is considered satisfied if the shareholder (s) of the foreign corporation reconcile (s) the results obtained under the method used in keeping the foreign corporation's books and records and the method used for federal income tax purposes and maintain (s) sufficient records to support such reconciliation;
- (6) If a foreign corporation loses its status as a CFC or noncontrolled section 902 corporation at any time prior to the expiration of the adjustment period, the foreign corporation must take into account in computing its subpart F income under § 952 (if applicable) and earnings and profits under §§ 964 and 986 (b), on the final day on which it is a CFC or noncontrolled section 902 corporation, the balance of the § 481 (a) adjustment not previously taken into account;

- (7) Each U.S. shareholder of a CFC (or its common parent) must comply with its obligations to report changes [*44] in the ownership of the CFC on Form 5471, Information Return of U.S. Persons With Respect To Certain Foreign Corporations, during the adjustment period; and
- (8) In the case of any disposition of stock of the foreign corporation that is owned directly or indirectly by a United States person if the disposition (i) represents ten percent or more of the total value of the stock of the foreign corporation, or (ii) results in the person no longer meeting the stock ownership requirements of § 6046 (a) (2) with respect to the foreign corporation, then the foreign corporation must take into account, prior to the disposition, the remaining balance of the § 481 (a) adjustment in computing its subpart F income under § 952 and earnings and profits under §§ 964 and 986 (b). This condition also applies if the foreign corporation issues stock so that either of the situations applies to the United States person. This condition does not apply to any change in ownership of the foreign corporation if the stock disposed of continues to be owned, directly or indirectly, by a member of the U.S. consolidated group of which the former shareholder is a member.

.07 Foreign division of a domestic corporation taxpayer. [*45] If the change in method of accounting is on behalf of a foreign division of a domestic corporation, the following additional terms and conditions apply:

- (1) If the functional currency of the division is not the U.S. dollar, the § 481 (a) adjustment must be stated in the functional currency of the division and not in U.S. dollars;
- (2) A positive § 481 (a) adjustment necessary to prevent the duplication of an expense item must take the same source, separate limitation classification, and character as the foreign division's gross income that was offset by the expense in the prior year or years. A positive § 481 (a) adjustment necessary to prevent the omission of amounts of an income item must take the same source, separate limitation classification, and character as the foreign division's income would have had in the prior year or years. A negative § 481 (a) adjustment necessary to prevent the omission of amounts of an expense item is allocated to the class of gross income that has the same source, separate limitation classification, and character as the division's income that would have been offset by the expense in the prior year or years. A negative § 481 (a) adjustment necessary to prevent [*46] the duplication of amounts of an income item offsets gross income that has the same source, separate limitation classification, and character as the foreign division's income had in the prior year or years;
- (3) For each taxable year of the adjustment period beginning with the year of change, the appropriate amount of the § 481 (a) adjustment must be taken into account in computing the taxable income of the taxpayer;

- (4) The taxpayer must maintain records and accounts of the foreign division, for the year of change and for subsequent taxable years, in conformity with the method of accounting granted to the taxpayer. This condition is considered satisfied if taxpayer reconciles the results obtained under the method used in keeping foreign division's books and records and the method used for federal income tax purposes and maintains sufficient records to support such reconciliation;
- (5) Taxpayer complies with its obligation to file Form 926, Return by a U.S. Transferor of Property to a Foreign Corporation, with respect to a transfer of assets of the foreign division to a foreign corporation during the adjustment period; and

.08 Foreign partnerships. If the change in method of accounting is made [*47] by a foreign partnership, the following additional terms and conditions apply:

- (1) If the functional currency of the foreign partnership is not the U.S. dollar, the § 481 (a) adjustment must be stated in the functional currency of the foreign partnership and not in U.S. dollars;
- (2) A positive § 481 (a) adjustment necessary to prevent the duplication of an expense item must take the same source, separate limitation classification, and character as the foreign partnership's gross income that was offset by the expense in the prior year or years. A positive § 481 (a) adjustment necessary to prevent the omission of amounts of an income item must take the same source, separate limitation classification, and character as the foreign partnership's income would have had in the prior year or years. A negative § 481 (a) adjustment necessary to prevent the omission of amounts of an expense item is allocated to the class of gross income that has the same source, separate limitation classification, and character as the foreign partnership's income that would have been offset by the expense in the prior year or years. A negative § 481 (a) adjustment necessary to prevent the duplication of amounts of [*48] an income item offsets gross income that has the same source, separate limitation classification, and character as the foreign partnership's income had in the prior year or years;
- (3) For each taxable year of the adjustment period beginning with the year of change, the appropriate amount of the § 481 (a) adjustment must be taken into account in computing the taxable income of the foreign partnership;
- (4) The foreign partnership must maintain records and accounts for the year of change and for subsequent taxable years, in conformity with the method of accounting granted to the foreign partnership. This condition is considered satisfied if the foreign partnership

reconciles the results obtained under the method used in keeping its books and records and the method used for federal income tax purposes and maintains sufficient records to support such reconciliation;

- (5) Each partner (and any subsequent transferee) of the foreign partnership complies with its obligation to file Form 926, Return by a U.S. Transferor of Property to a Foreign Corporation, with respect to a transfer of assets of the foreign partnership to a foreign corporation during the adjustment period; and
- (6) Each partner (and [*49] any subsequent transferee) of the foreign partnership complies with its obligation to file Form 8865, Return of U.S. persons with respect to Certain Foreign Partnerships, during the adjustment period.

.09 Change treated as initiated by the taxpayer. For purposes of § 481, a change in method of accounting made under this revenue procedure is a change in method of accounting initiated by the taxpayer.

SECTION 6. GENERAL APPLICATION PROCEDURES

.01 Consent. Pursuant to § 1.446-1 (e) (2) (i), the consent of the Commissioner is hereby granted to any taxpayer within the scope of this revenue procedure to change its method (s) of accounting as described in the APPENDIX to this revenue procedure for the requested year of change. Such consent is granted only for the change (s) in method of accounting and the affected item (s) that are clearly and expressly identified in the taxpayer's application. See section 6.02 (1) (c) of this revenue procedure. Further, such consent is granted only to the extent that the taxpayer complies with all the applicable provisions of this revenue procedure and implements the change in method of accounting on its federal income tax return for the requested year of change [*50] to which the original application is attached pursuant to section 6.02 (3) of this revenue procedure. In the case of a CFC or 10/50 corporation that does not file a federal income tax return, the CFC or 10/50 corporation implements the change in method of accounting for the requested year of change and the controlling domestic shareholder (s) reflect the change in method of accounting on their federal income tax return (s), as applicable, for the year with or within which ends the CFC's or 10/50 corporation's year of change.

.02 Filing requirements.

(1) Applications.

(a) Form. Ordinarily, a taxpayer applies for consent to change a method of accounting pursuant to this revenue procedure or other guidance published in the IRB by completing and filing a current Form 3115. In some cases, however, the provisions of this revenue procedure applicable to a particular change require or allow a taxpayer to file a statement in lieu of a Form 3115 as an application for consent to make such change. See, for example, section 14.10 of the APPENDIX of this revenue procedure.

(b) Separate applications.

(i) In general. Ordinarily, a taxpayer must submit a separate application for each change in method of [*51] accounting.

(ii) Single application for two or more changes. In some cases, the provisions of this revenue procedure or other guidance published in the IRB applicable to particular changes in method of accounting require or allow a taxpayer to file a single application for two or more concurrent changes. See, for example, section 14.03 of the APPENDIX of this revenue procedure.

When the taxpayer is required or allowed to file a single Form 3115 for two or more concurrent changes, the taxpayer must attach to the single Form 3115 the information required by Part II, line 12, and Part IV, line 25 (including the amount of any § 481 (a) adjustment), of Form 3115 for each change in method of accounting included on that single Form 3115. Also attach an explanation for any other line (s) on the single Form 3115 where the taxpayer's answer is different for any of the concurrent changes to which the single Form 3115 relates.

(c) Contents. The taxpayer must submit an application that is accurate and complete as to all information required by this revenue procedure. Further, unless this revenue procedure provides that a Form 3115 is not required for the requested change in method of accounting, the [*52] taxpayer must submit a current Form 3115 that contains all information required by the applicable portions of the Form 3115 and its instructions.

For example, an application must identify the taxpayer making the change; the year of change (both the beginning and ending dates); the designated automatic accounting method change number (s) for the requested change (s) in method of accounting; and the amount of the adjustment under § 481 (a), unless the change is required to be made using a cut-off basis. Also, the application must fully describe the item (s) being changed; the present method (s) of accounting from which the taxpayer is changing and the proposed method (s) of accounting to which the taxpayer is changing. Further, unless a Form 3115 is not required for the requested change in method of accounting, the taxpayer must provide all other information required by Parts I, II, and IV, and any applicable schedule (s) on the Form 3115.

(2) Waiver of taxable year filing requirement. The requirement under § 1.446-1 (e) (3) (i) to file a Form 3115 within the taxable year for which the change is requested is waived for any application for a change in method of accounting filed pursuant [*53] to this revenue procedure. See § 1.446-1 (e) (3) (ii).

(3) Timely duplicate filing requirements.

(a) In general. A taxpayer changing a method of accounting pursuant to this revenue procedure must complete and file an application in duplicate, except as otherwise provided in this revenue procedure.

(i) Original application. The original application must be attached to the taxpayer's timely filed (including any extension) original federal income tax return implementing the change in method of accounting for the year of change; and

(ii) Copy of application.

(A) National office copy of application. Except as provided in section 6.02 (3) (a) (ii) (B), a copy of the application (with the original signature or a photocopy of the original signature) must be filed with the national office (national office copy) no earlier than the first day of the year of change and no later than the date the taxpayer files the original with the federal income tax return for the

year of change. For the national office copy of Form 3115, the taxpayer need only include the pages containing Parts I through IV, any applicable schedule (s), and required attachments. See section 6.02 (7) (a) of this revenue procedure [*54] for the address for the national office copy.

(B) Ogden copy of application in lieu of the national office copy. Some sections of the APPENDIX of this revenue procedure require a copy of the application (with the original signature or a photocopy of the original signature) to be filed with the IRS in Ogden, UT (Ogden copy), instead of with the national office. In these cases, the signed copy must be filed with the Ogden office no earlier than the first day of the year of change and no later than the date the taxpayer files the original with the federal income tax return for the year of change. See, e.g., sections 6.01, 6.02, 6.04, and 9.01 of the APPENDIX of this revenue procedure. For the Ogden copy of Form 3115, the taxpayer need only include the pages containing Parts I through IV, any applicable schedule (s), and required attachments. See section 6.02 (7) (b) of this revenue procedure for the address for the Ogden copy.

(b) Certain foreign corporations. In the case of a controlled foreign corporation as defined in section 953 (c) (1) (B) or 957 (a) ("CFC") or a noncontrolled section 902 corporation as defined in section 904 (d) (2) (E) that is not required to file a federal income [*55] tax return, the controlling domestic shareholders (as defined in § 1.964-1 (c) (5)) that want to change the foreign corporation's method of accounting pursuant to the provisions of this revenue procedure must satisfy the requirements set forth in § 1.964-1 (c) (3). The designated shareholder who retains the jointly executed consent described in § 1.964-1 (c) (3) (ii) must complete and file an application in duplicate on behalf of the foreign corporation. An original application must be attached to the designated shareholder's (or its common parent's) timely filed (including any extension) original federal income tax return for its taxable year with or within which ends the year of change of the foreign corporation, and a copy (with the original signature or a photocopy of the original signature) of the application must be filed with the national office (or, if applicable, with the IRS in Ogden, UT) (see section 6.02 (7) of this revenue procedure for the national office copy or Ogden copy address) no earlier than the first day of the year of change and no later than the date the designated shareholder (or its common parent) files the original with the designated shareholder's (or its [*56] common parent's) federal income tax return for its taxable year with or within which ends the year of change of the foreign corporation. Each other controlling domestic shareholder (or its common parent) must also attach a copy of the application to its federal income tax return filed for its taxable year with or within which ends such year of change.

(c) Additional copies required for a taxpayer under examination, before an appeals office, or before a federal court. If the taxpayer is under examination (as defined in section 3.08 of this revenue procedure), or before an appeals office or a federal court (including a taxpayer to which section 3.09 (2) and (3) of this revenue procedure applies), with respect to any income tax issue, in all cases the taxpayer (or if section 6.02 (3) (b) of this revenue procedure applies, the designated shareholder) must provide an additional copy of the application to the examining agent (s), appeals officer (s) and counsel to the government, as applicable, no later than the date the taxpayer files the national office copy or, if applicable, the Ogden copy, of the application.

(d) Limited relief for late application.

(i) Automatic extension. An automatic [*57] extension of 6 months from the due date of the return for the year of change (excluding any extension) is granted to file an application, provided

the taxpayer (or if section 6.02 (3) (b) of this revenue procedure applies, the designated shareholder):

- (A) timely filed (including any extension) its federal income tax return for the year of change;
- (B) files an amended return within the 6-month extension period in a manner that is consistent with the new method of accounting;
- (C) attaches the original application to the amended return;
- (D) files a copy of the application with the national office, or, if applicable, with the IRS in Ogden, UT, no later than when the original is filed with the amended return; and
- (E) attaches a statement to the application that the application is being filed pursuant to § 301.9100-2 (b) of the Procedure and Administration Regulations.

(ii) Other extensions. A taxpayer (or if section 6.02 (3) (b) of this revenue procedure applies, the designated shareholder) that fails to file the application for the year of change as provided in section 6.02 (3) (a), (b), or (d) (i) of this revenue procedure will not be granted an extension of time to file under § 301.9100-1, except [*58] in unusual and compelling circumstances. See § 301.9100-3 (c) (2) and Rev. Proc. 2011-1 (or successor).

(4) Designated automatic accounting method change number. The taxpayer (or if section 6.02 (3) (b) of this revenue procedure applies, the designated shareholder) must type or clearly print the designated automatic accounting method change number for the requested change in method of accounting on the application. When the requested change in method of accounting is made using Form 3115, the taxpayer must enter the designated automatic accounting method change number for the requested change on the appropriate line on the Form 3115. For example, a taxpayer requesting the change in method of accounting identified in section 1.01 of the APPENDIX of this revenue procedure for the year ending December 31, 2010, must enter the number "91" on Line 1 (a) of Form 3115. When the requested change in method of accounting is made using a statement in lieu of Form 3115 the taxpayer must enter the designated automatic accounting method change number for the requested change in method of accounting at the top of the first page of the statement, directly above the taxpayer's name and employer identification [*59] number (or social security number in the case of an individual). For example, enter the number "125" for the change in method of accounting identified in section 14.10 of the APPENDIX of this revenue procedure at the top of the first page of the statement, directly above the taxpayer's name and employer identification number (or social security number in the case of an individual).

In general, a taxpayer may enter only one designated automatic accounting method change number on an application. However, where this revenue procedure or other guidance published in

the IRB specifically permits two or more particular changes in method of accounting to be made on a single application, a taxpayer must enter the designated automatic accounting method change number for each such particular change being requested on the application.

The designated automatic accounting method change numbers are provided in the APPENDIX of this revenue procedure and in other guidance published in the IRB. See also Instructions for Form 3115.

(5) Signature requirements. The national office copy, or if applicable, the Ogden copy, of the application must be signed by, or on behalf of, the taxpayer requesting the change [*60] in method of accounting by an individual who has personal knowledge of the facts and authority to bind the taxpayer (or if section 6.02 (3) (b) of this revenue procedure applies, the designated shareholder) in such matters. For example, an officer must sign on behalf of a corporation, a general partner on behalf of a state law partnership, a member-manager on behalf of a limited liability company, a trustee on behalf of a trust, or an individual taxpayer on behalf of a sole proprietorship. If the taxpayer (or the designated shareholder) is a member of a consolidated group, an application submitted on behalf of the taxpayer must be signed by a duly authorized officer of the common parent. See the signature requirements set forth in section 6.02 (3) (a) (ii) of this revenue procedure and in the current Instructions for Form 3115 regarding those who are to sign.

(6) Authorized representative. If an agent is authorized to represent the taxpayer before the Service, receive a copy of the correspondence concerning the application, or perform any other act (s) regarding the application filed on behalf of the taxpayer, a power of attorney reflecting such authorization (s) must be attached to [*61] the national office copy, or if applicable, the Ogden copy, of the application and to any additional required copy. It is preferred that Form 2848, Power of Attorney and Declaration of Representative, be used to provide the representative's authority and qualification. A taxpayer's representative without a power of attorney to represent the taxpayer as required in this section 6.02 (6) of this revenue procedure will not be given any information regarding the application.

(7) Where to file copy.

(a) National office copy of application.

(i) For a taxpayer other than an exempt organization, the national office copy of the application must be addressed to the Internal Revenue Service, Attn: CC:ITA - Automatic Rulings Branch, P.O. Box 7604, Benjamin Franklin Station, Washington, D.C. 20044 (or, in the case of a designated private delivery service: Internal Revenue Service, Attn: CC:ITA - Automatic Rulings Branch, 1111 Constitution Avenue, NW, Room 5336, Washington, D.C. 20224).

(ii) For an exempt organization, the national office copy of the application must be addressed to the Internal Revenue Service, Tax Exempt & Government Entities, P.O. Box 2508, Cincinnati, OH 45201 (or, in the case of [*62] a designated private delivery service: Internal Revenue Service, Tax Exempt & Government Entities, 550 Main Street, Room 4024, Cincinnati, OH 45202).

(iii) For a taxpayer other than an exempt organization, the national office copy of the application may also be hand delivered between the hours of 8:00 a.m. and 4:00 p.m. to the courier's desk at the loading dock (located behind the 12th Street security station) of 1111 Constitution Avenue, NW, Washington, D.C. A receipt will be given at the courier's desk. The copy of the application must be

addressed to the Courier's Desk, Internal Revenue Service, Attn: CC:PA:LPD:DRU, Room 5336, 1111 Constitution Avenue, NW, Washington, D.C. 20224.

(b) Ogden copy of application in lieu of the national office copy. The Ogden copy of the application, when applicable, must be addressed to: Internal Revenue Service, 1973 North Rulon White Blvd., Mail Stop 4917, Ogden, UT 84404. This Ogden copy is in lieu of the national office copy. See section 6.02 (3) (a) (ii) (B) of this revenue procedure.

(8) No acknowledgement of receipt. Except as provided in section 6.02 (7) (a) (iii) of this revenue procedure, the Service does not send an acknowledgement of the receipt [*63] of an application (original or copy) filed under this revenue procedure.

(9) No user fee. A user fee is not required for an application filed under this revenue procedure.

(10) Single application for certain taxpayers. Certain taxpayers (or if section 6.02 (3) (b) of this revenue procedure applies, certain designated shareholders) may file a single application for an identical change in method of accounting on behalf of two or more of its separate and distinct trades or businesses, two or more members of a consolidated group, two or more controlled foreign corporations (CFCs), or two or more noncontrolled section 902 corporations (10/50 corporations). See sections 9.02 and 15.07 (4) of Rev. Proc. 2011-1 (or successor).

.03 Taxpayer under examination.

(1) In general. Except as otherwise provided in the APPENDIX of this revenue procedure (see, for example, section 2.01 of the APPENDIX of this revenue procedure), a taxpayer that is under examination (as provided in section 3.08 of this revenue procedure) may file an application to change a method of accounting under this revenue procedure only if the taxpayer is within the provisions of section 6.03 (2) (90-day window), 6.03 (3) (120-day [*64] window), 6.03 (4) (consent of director), 6.03 (5) (changes lacking audit protection), 6.03 (6) (issue pending), 6.04 (issue under consideration by an appeals office), or 6.05 (issue under consideration by a federal court) of this revenue procedure. A taxpayer (or if section 6.02 (3) (b) of this revenue procedure applies, the designated shareholder) that files an application beyond the time periods provided in the 90-day and 120-day windows is not eligible for the automatic extension of time and will not be granted an extension of time to file under § 301.9100-1, except in unusual and compelling circumstances.

(2) 90-day window period. A taxpayer (or if section 6.02 (3) (b) of this revenue procedure applies, the designated shareholder) may file a copy of the application with the national office or, if applicable with the Ogden office, to change a method of accounting under this revenue procedure during the first 90-days of any taxable year (the 90-day window) if the taxpayer has (or in the case of a taxpayer that is a CFC or 10/50 corporation, all of its controlling domestic shareholders that are under examination have) been under examination for at least 12 consecutive months as of the [*65] first day of the taxable year. This 90-day window is not available if the method of accounting the taxpayer is changing is an issue under consideration at the time the taxpayer (or designated shareholder) would otherwise file the copy of the application or an issue the examining agent (s) has placed in suspense at the time the taxpayer (or designated shareholder) would otherwise file the copy of the application. See section 6.02 (3) (c) of this revenue procedure for more information regarding the requirement to file a copy of the application with the examining agent.

(3) 120-day window period. Except as provided in section 3.08 (1) (c) of this revenue procedure, a taxpayer (or if section 6.02 (3) (b) of this revenue procedure applies, the designated shareholder) may file a copy of the application with the national office or, if applicable with the Ogden office, to change a method of accounting under this revenue procedure during the 120-day period following the date an examination of the taxpayer (or in the case of a taxpayer that is a CFC or 10/50 corporation, of each of its controlling domestic shareholders that were under examination) ends (the 120-day window), regardless of whether [*66] a subsequent examination has commenced. This 120-day window is not available if the method of accounting the taxpayer is changing is an issue under consideration at the time the taxpayer (or designated shareholder) would otherwise file a copy of the application or an issue the examining agent (s) has placed in suspense at the time the taxpayer (or designated shareholder) would otherwise file a copy of the application. See section 6.02 (3) (c) of this revenue procedure for more information regarding the requirement to file a copy of the application with the examining agent.

(4) Consent of director.

(a) A taxpayer under examination may change its method of accounting under this revenue procedure if the director consents to the filing of the application. The director will consent to the filing of the application unless, in the opinion of the director, the method of accounting to be changed would ordinarily be included as an item of adjustment in the year (s) for which the taxpayer is under examination. For example, the director will consent to the filing of an application to change from a clearly permissible method of accounting, or from an impermissible method of accounting where the impermissible [*67] method was adopted subsequent to the years under examination. The director's consent is limited to the director's consent to file the application and does not constitute the director's agreement to, or approval of, the requested change in method of accounting. The question of whether the method of accounting from which the taxpayer is changing is permissible or was adopted subsequent to the years under examination may be referred to the national office as a request for technical advice under the provisions of Rev. Proc. 2011-2 (or successor).

(b) A taxpayer changing a method of accounting under this revenue procedure with the consent of the director (or if section 6.02 (3) (b) of this revenue procedure applies, the designated shareholder) must attach to the copy of the application filed with the national office or, if applicable with the Ogden office, a statement from the director consenting to the filing of the application. In addition, the taxpayer (or designated shareholder) must attach to its original application attached to its federal income tax return a statement certifying that it has obtained the written consent of the director to the filing of the application and that the [*68] taxpayer (or designated shareholder) will maintain a copy of such consent available for inspection. See section 6.02 (3) (c) of this revenue procedure for more information regarding the requirement to file a copy of the application with the examining agent.

(5) Changes lacking audit protection. A taxpayer under examination may change its method of accounting under this revenue procedure if the description of the change in the APPENDIX of this revenue procedure provides that the change is not subject to the audit protection provisions of section 7 of this revenue procedure. See section 6.02 (3) (c) of this revenue procedure for more information regarding the requirement to file a copy of the application with the examining agent.

(6) Issue Pending. A taxpayer that is under examination with respect to any income tax issue may request to change a method of accounting if the method of accounting to be changed is an issue

pending for any taxable year under examination. However, the audit protection provisions of section 7 of this revenue procedure do not apply to a taxpayer changing its method of accounting under this section 6.03 (6). For purposes of this section 6.03 (6), an issue is pending [*69] for a taxable year under examination if the Service has given the taxpayer (or if section 6.02 (3) (b) of this revenue procedure applies, any controlling domestic shareholder of a CFC or 10/50 corporation) written notification indicating an adjustment is being made or will be proposed with respect to the taxpayer's method of accounting. This notification by the Service may result from an inquiry by the Joint Committee on Taxation. This notification normally will occur after the Service or the Joint Committee on Taxation has gathered information sufficient to determine that an adjustment is appropriate and justified, although the exact amount of the adjustment may not yet be determined. See section 6.02 (3) (c) of this revenue procedure for more information regarding the requirement to file a copy of the application with the examining agent.

.04 Taxpayer before an appeals office. A taxpayer otherwise within the scope of this revenue procedure that is before an appeals office with respect to any income tax issue (or if section 6.02 (3) (b) of this revenue procedure applies, a CFC or 10/50 corporation with a controlling domestic shareholder that is before an appeals office with respect [*70] to any income tax issue) may request a change in method of accounting. Further, a taxpayer not otherwise within the scope of this revenue procedure by reason of section 4.02 (1), (2), or (3) that is before an appeals office with respect to any income tax issue (or if section 6.02 (3) (b) of this revenue procedure applies, a CFC or 10/50 corporation with a controlling domestic shareholder that is before an appeals office with respect to any income tax issue) may request a change in method of accounting if the method to be changed is an issue under consideration by the appeals office. However, the audit protection provisions of section 7 of this revenue procedure do not apply if the method of accounting to be changed is an issue under consideration by the appeals office. See section 6.02 (3) (c) of this revenue procedure for more information regarding the requirement to file a copy of the application with the appeals officer.

.05 Taxpayer before a federal court. A taxpayer otherwise within the scope of this revenue procedure that is before a federal court with respect to any income tax issue (or if section 6.02 (3) (b) of this revenue procedure applies, a CFC or 10/50 corporation with [*71] a controlling domestic shareholder that is before a federal court with respect to any income tax issue) may request a change in method of accounting. Further, a taxpayer not otherwise within the scope of this revenue procedure by reason of section 4.02 (1), (2), or (3) that is before a federal court with respect to any income tax issue (or if section 6.02 (3) (b) of this revenue procedure applies, a CFC or 10/50 corporation with a controlling domestic shareholder that is before a federal court with respect to any income tax issue) may request a change in method of accounting if the method to be changed is an issue under consideration by the federal court. However, the audit protection provisions of section 7 of this revenue procedure do not apply if the method of accounting to be changed is an issue under consideration by the federal court. See section 6.02 (3) (c) of this revenue procedure for more information regarding the requirement to file a copy of the application with the counsel (s) for the government.

.06 Compliance with provisions. If a taxpayer to which this revenue procedure applies changes to a method of accounting without complying with all the applicable provisions of [*72] this revenue procedure (for example, the taxpayer changes to a method of accounting that varies from the applicable accounting method described in this revenue procedure or the taxpayer is outside the scope of this revenue procedure), the taxpayer has initiated a change in method of accounting

without obtaining the consent of the Commissioner as required by § 446 (e). See sections 9.02 and 10.03 of this revenue procedure.

SECTION 7. AUDIT PROTECTION FOR TAXABLE YEARS PRIOR TO YEAR OF CHANGE

.01 In general. Except as provided in sections 4.02 (7) (b), 6.03 (5), 6.03 (6), 6.04, 6.05, 7.02 or the APPENDIX of this revenue procedure or in any other guidance published in the IRB, when a taxpayer timely files a copy of the application with the national office or, if applicable the Ogden office, under section 6.02 (3) of this revenue procedure in compliance with all the applicable provisions of this revenue procedure, the Service will not require the taxpayer to change its method of accounting for the same item for a taxable year prior to the year of change.

.02 Exceptions.

(1) Change not made or made improperly. The Service may change a taxpayer's method of accounting for prior taxable years [*73] if (a) the taxpayer fails to implement the change, (b) the taxpayer implements the change but does not comply with all the applicable provisions of this revenue procedure, or (c) the method of accounting is changed or modified because there has been a misstatement or omission of material facts (see section 8.02 of this revenue procedure).

(2) Change in sub-method. The Service may change a taxpayer's method of accounting for prior taxable years if the taxpayer is changing a sub-method of accounting within the method. For example, an examining agent may propose to terminate the taxpayer's use of the LIFO inventory method during a prior taxable year even though the taxpayer changes its method of valuing increments in the current year.

(3) Prior year Service-initiated change. The Service may make adjustments to the taxpayer's returns for the same item for taxable years prior to the requested year of change to reflect a prior year Service-initiated change reported as an issue pending or in a Revenue Agent's Report.

(4) Criminal investigation. The Service may change a taxpayer's method of accounting for the same item for taxable years prior to the year of change if there is any pending or future [*74] criminal investigation or proceeding concerning (a) directly or indirectly, any issue relating to the taxpayer's federal tax liability for any taxable year prior to the year of change, or (b) the possibility of false or fraudulent statements made by the taxpayer with respect to any issue relating to its federal tax liability for any taxable year prior to the year of change.

SECTION 8. EFFECT OF CONSENT

.01 In general. A taxpayer that changes to a method of accounting pursuant to this revenue procedure may be required to change or modify that method of accounting for the following reasons:

- (1) the enactment of legislation;
- (2) a decision of the United States Supreme Court;

- (3) the issuance of temporary or final regulations;
- (4) the issuance of a revenue ruling, revenue procedure, notice, or other statement published in the IRB;
- (5) the issuance of written notice to the taxpayer that the change in method of accounting is not in accord with the current views of the Service; or
- (6) a change in the material facts on which the consent was based.

.02 Retroactive change or modification. Except in rare or unusual circumstances, if a taxpayer that changes its method of accounting under this revenue procedure [*75] is subsequently required under section 8.01 of this revenue procedure to change or modify that method of accounting, the required change or modification will not be applied retroactively, provided that:

- (1) the taxpayer complied with all the applicable provisions of this revenue procedure;
- (2) there has been no misstatement or omission of material facts;
- (3) there has been no change in the material facts on which the consent was based;
- (4) there has been no change in the applicable law; and
- (5) the taxpayer to whom consent was granted acted in good faith in relying on the consent, and applying the change or modification retroactively would be to the taxpayer's detriment.

SECTION 9. REVIEW BY DIRECTOR

.01 In general. The director must apply a change in method of accounting made in compliance with all the applicable provisions of this revenue procedure in determining the taxpayer's liability, unless the director recommends that the change in method of accounting should be modified or revoked. (See section 9.02 of this revenue procedure if a change in method of accounting is made without complying with all the applicable provisions of this revenue procedure.) The director will ascertain if the change [*76] in method of accounting was made in compliance with all the applicable provisions of this revenue procedure, including whether:

- (1) the representations on which the change was based reflect an accurate statement of the material facts;
- (2) the amount of the § 481 (a) adjustment was properly determined; and
- (3) the change in method of accounting was implemented in compliance with all the applicable provisions of this revenue procedure.
The director will also ascertain whether:
 - (4) there has been any change in the material facts on which the change was based during the period the method of accounting was used; and
 - (5) there has been any change in the applicable law during the period the method of accounting was used.

.02 Changes not made in compliance with all applicable provisions. If the director determines that the taxpayer has not complied with all of the applicable provisions of this revenue procedure, the director may:

- (1) deny the change in method of accounting and require the taxpayer to continue to use the prior method of accounting;
- (2) deny the change in method of accounting and place the taxpayer on a proper method of accounting (see section 2.10 of this revenue procedure); or
- (3) make any [*77] adjustments (including the amount of any § 481 (a) adjustment) that are necessary to bring the change in method of accounting into compliance with all applicable provisions of this revenue procedure.

The director may impose any otherwise applicable penalty, addition to tax, or additional amount on the understatement of tax attributable to the change in method of accounting.

.03 National office consideration. If the director recommends that a change in method of accounting (other than the § 481 (a) adjustment) made in compliance with all the applicable provisions of this revenue procedure should be modified or revoked, the director will forward the matter to the national office for consideration before any further action is taken. Such a referral to the national office will be treated as a request for technical advice, and the provisions of Rev. Proc. 2011-2 (or successor) will be followed.

SECTION 10. REVIEW BY NATIONAL OFFICE

.01 In general. The national office may review any application filed under this revenue procedure. If the national office reviews an application, the procedures in sections 10.02 and 10.03 of this revenue procedure apply.

.02 Incomplete application.

(1) 30-day rule. [*78] If the national office reviews an application and determines that the application is not properly completed (see section 6.02 (1) (c) of this revenue procedure), or if supplemental information is needed, the national office will notify the taxpayer. The notification will specify the information that the taxpayer needs to provide and permit the taxpayer 30 days from the date of the notification to furnish the information. The national office reserves the right to impose shorter reply periods if subsequent requests for additional information are made. The national office may grant a taxpayer an extension of the 30-day period to furnish information, not to exceed 30 days. A taxpayer must request any extension of the 30-day period in writing and submit it within the initial 30-day period. If the national office denies an extension request, there is no right of appeal.

(2) Failure to provide additional information. Ordinarily, if the taxpayer fails to provide the additional information on a timely basis, the application does not qualify for the automatic consent procedures of this revenue procedure. If the national office determines that the application does not qualify for the automatic [*79] consent procedures of this revenue procedure because the taxpayer has failed to provide the additional information on a timely basis, the national office will notify the taxpayer that consent to make the change in method of accounting is not granted.

.03 National office determination.

(1) Conference in the national office. If the national office tentatively determines that the taxpayer has changed its method of accounting without complying with all the applicable provisions of this revenue procedure (for example, the taxpayer changed to a method of accounting that varies from the applicable accounting method described in this revenue procedure or the taxpayer is outside the scope of this revenue procedure), the national office will notify the taxpayer of its tentative adverse determination and will offer the taxpayer a conference, if the taxpayer requested one. For conference procedures for taxpayers other than exempt organizations, see section 10 of Rev. Proc. 2011-1 (or successor). For conference procedures for exempt organizations, see section 12 of Rev. Proc. 2011-4, 2010-4 I.R.B. 123 (or successor).

(2) Consent not granted. Except as provided in section 10.03 (3) of this revenue [*80] procedure, if the national office determines that a taxpayer has changed its method of accounting without complying with all the applicable provisions of this revenue procedure, the national office will notify the taxpayer that consent to make the change in method of accounting is not granted. In no event will an application filed under this revenue procedure be treated as an application under Rev. Proc. 97-27 (or any successor).

(3) Application changed. If the national office determines that a taxpayer has changed its method of accounting without complying with all the applicable provisions of this revenue procedure, the national office, in its discretion, may allow the taxpayer to (a) make appropriate adjustments to conform its change in method of accounting to the applicable provisions of this

revenue procedure, and (b) make conforming amendments to any federal income tax returns filed for the year of change and subsequent taxable years. Any application changed under this section 10.03 (3) is subject to review by the director as provided in section 9 of this revenue procedure.

SECTION 11. APPLICABILITY OF REV. PROCS. 2011-1 AND 2011-4

Rev. Procs. 2011-1 and 2011-4 (or successors) apply [*81] to applications filed under this revenue procedure, unless specifically excluded or overridden by other guidance published in the IRB (including any specific procedures in this document).

SECTION 12. CHANGES TO REV. PROC. 97-27

.01 Changes to section 3.07, Under examination.

(1) Change to section 3.07 (1) (a). Section 3.07 (1) (a) of Rev. Proc. 97-27 is modified, in part, to read as follows:

(a) Except as provided in sections 3.07 (2) and 3.07 (4) of this revenue procedure, an examination of a taxpayer with respect to a federal income tax return begins on the date the taxpayer is contacted in any manner by a representative of the Service for the purpose of scheduling any type of examination of the return. Except as provided in sections 3.07 (1) (b), 3.07 (1) (c), 3.07 (2) and 3.07 (3) of this revenue procedure, an examination ends:

* * *

(2) Change to section 3.07 (1) (c). Section 3.07 (1) (c) of Rev. Proc. 97-27 is modified to read as follows:

(c) An examination resumes on the date the taxpayer (or its representative) is notified by Appeals (or otherwise) that the case has been referred to Examination for reconsideration. Further, notwithstanding sections 3.07 (1) (a) (iii) and 6.01 (3) [*82] of this revenue procedure, if the taxpayer is within the 120-day window period provided in section 6.01 (3) of this revenue procedure, that 120-day window period ends as of the date the taxpayer is notified by Appeals (or otherwise) that the case has been referred to the examining agent (s) for reconsideration. The 120-day window period in section 6.01 (3) will be available to the taxpayer in its entirety when the resumed examination ends.

(3) Change to section 3.07 (2), Partnerships and S corporations subject to TEFRA. Section 3.07 (2) of Rev. Proc. 97-27 is modified, in part, to read as follows:

(2) Partnerships and S corporations subject to TEFRA. Except as provided in sections 3.07 (3) and 3.07 (4) of this revenue procedure, for an entity (including a limited liability company), treated as a partnership or an S corporation for federal income tax purposes, that is subject to the TEFRA unified audit and litigation provisions for partnerships and S corporations, an examination begins on the date of the notice of the beginning of an administrative proceeding sent to the Tax Matters Partner/Tax Matters Person (TMP) and ends:

* * *

(4) Change to section 3.07 (3), Taxpayer before Joint Committee [*83] on Taxation. Section 3.07 (3) of Rev. Proc. 97-27 is modified to read as follows:

(3) Taxpayer before Joint Committee on Taxation. If a taxpayer is under examination (including an examination that begins on the date a taxpayer is contacted in any manner for additional information as a result of a Joint Committee on Taxation inquiry pursuant to § 6405) then, notwithstanding the performance of an act described in section 3.07 (1) or 3.07 (2), for purposes of this revenue procedure, the taxpayer continues to be under examination while the taxpayer has a refund or credit under review by the Joint Committee on Taxation. The examination ends on the later of (i) the performance of the applicable act described in section 3.07 (1) or 3.07 (2), or (ii) the date of the Service's written notification to the taxpayer that the Joint Committee on Taxation has completed its consideration (for example, Letter 1574 (P)), or that the case has been withdrawn from consideration by the Joint Committee on Taxation. See Rev. Proc. 2005-32, 2005-1 C.B. 1206.

Further, for purposes of section 6.01 (5) (issue pending) of this revenue procedure, an issue is pending for a taxable year under examination if the Service [*84] has given the taxpayer written notification indicating an adjustment is being made or will be proposed with respect to the taxpayer's method of accounting. The notification by the Service may result from an inquiry by the Joint Committee on Taxation. This notification normally will occur after the Service or the Joint Committee on Taxation has gathered information sufficient to determine that an adjustment is appropriate and justified, although the exact amount of the adjustment may not yet be determined.

.02 Changes to section 3.08, Issue under consideration.

(1) Change to section 3.08 (2), Before an appeals office. Section 3.08 (2) of Rev. Proc. 97-27, is modified to read as follows:

(2) Before an appeals office. A taxpayer's method of accounting for an item is an issue under consideration for the taxable years before an appeals office if the treatment of the item is included as an item of adjustment in the examination report referred to Appeals or is specifically identified in writing to the taxpayer by Appeals. If an appeals office submits to the Joint Committee on Taxation pursuant to § 6405 a report of a refund or credit that includes a method of accounting for an item that is an [*85] issue under consideration, that method of accounting continues to be an issue under consideration by the appeals office while the refund or credit is under review by the Joint Committee on Taxation.

(2) Change to section 3.08 (3), Before a federal court. Section 3.08 (3) of Rev. Proc. 97-27, is modified to read as follows:

(3) Before a federal court. A taxpayer's method of accounting for an item is an issue under consideration for the taxable years before a federal court if the treatment of the item is included as an item of adjustment in the statutory notice of deficiency, the notice of claim disallowance, the notice of final administrative adjustment, the pleadings (for example, the petition, complaint, or answer) or amendments thereto or is specifically identified in writing to the taxpayer by the counsel for the government. If a settlement stipulation that includes a method of accounting for an item that is an issue under consideration is submitted to the Joint Committee on Taxation pursuant to § 6405, that method of accounting continues to be an issue under consideration by the federal court while the settlement stipulation is under review by the Joint Committee on Taxation.

.03 Change [*86] to section 4.02, Scope, "Inapplicability". Section 4.02 (2) of Rev. Proc. 97-27, is modified to read as follows:

(2) Under examination. If the taxpayer is under examination, except as provided in sections 6.01 (2) (90-day window), 6.01 (3) (120-day window), 6.01 (4) (director consent), 6.01 (5) (issue pending), 6.02 (issue under consideration by an appeals office) and 6.03 (issue under consideration by a federal court) of this revenue procedure;

.04 Changes to section 6, PROCEDURES FOR TAXPAYERS UNDER EXAMINATION, BEFORE AN APPEALS OFFICE, OR BEFORE A FEDERAL COURT.

(1) Change to section 6.02, Taxpayer before an appeals office. Section 6.02 of Rev. Proc. 97-27, is modified to read as follows:

.02 Taxpayer before an appeals office. A taxpayer otherwise within the scope of this revenue procedure that is before an appeals office with respect to any income tax issue may request a change in method of accounting. Further, a taxpayer not otherwise within the scope of this revenue procedure by reason of section 4.02 (2) (under examination), 4.02 (5) (consolidated group member) or 4.02 (6) (partnerships and S corporations) that is before an appeals office with respect to any income tax issue may [*87] request a change in method of accounting if the method to be changed is an issue under consideration by the appeals office. However, the audit protection provisions of section 9 of this revenue procedure do not apply if the method of accounting to be changed is an issue under consideration by the appeals office. A taxpayer that requests to change a method of accounting under this section 6.02 must provide a copy of the Form 3115 to the appeals officer no later than the date it files the original Form 3115 with the national office.

(2) Change to section 6.03, Taxpayer before a federal court. Section 6.03 of Rev. Proc. 97-27, is modified to read as follows:

.03 Taxpayer before a federal court. A taxpayer otherwise within the scope of this revenue procedure that is before a federal court with respect to any income tax issue may request a change in method of accounting. Further, a taxpayer not otherwise within the scope of this revenue procedure by reason of section 4.02 (2) (under examination), 4.02 (5) (consolidated group member) or 4.02 (6) (partnerships and S corporations) that is before a federal court with respect to any income tax issue may request a change in method of accounting [*88] if the method to be changed is an issue under consideration by the federal court. However, the audit protection provisions of section 9 of this revenue procedure do not apply if the method of accounting to be changed is an issue under consideration by the federal court. A taxpayer that requests to change a method of accounting under this section 6.03 must provide a copy of the Form 3115 to the counsel (s) for the government no later than the date it files the original Form 3115 with the national office.

SECTION 13. EFFECTIVE DATE

.01 In general.

(1) Rev. Proc. 2011-14. Except as provided in section 13.02 of this revenue procedure, this revenue procedure is effective for applications filed on or after January 10, 2011, for a year of change ending on or after April 30, 2010. The Service will return any application that is filed with the national office on or after January 10, 2011, for a year of change ending on or after April 30, 2010, if the application is filed pursuant to the Code, regulations, or other guidance published in the

IRB other than this revenue procedure and the change in method of accounting appears to be within the scope of this revenue procedure.

(2) Rev. Proc. 97-27. [*89] This revenue procedure is effective for Forms 3115 filed under Rev. Proc. 97-27, as amplified and modified by Rev. Proc. 2002-19, as amplified and clarified by Rev. Proc. 2002-54, as modified by Rev. Proc. 2007-67, as clarified and modified by Rev. Proc. 2009-39, and as clarified and modified by this revenue procedure, filed on or after January 10, 2011, for a year of change ending on or after January 10, 2011.

.02 Transition rules. The following transition rules apply:

(1) Forms 3115 filed under Rev. Proc. 97-27. If before January 10, 2011, a taxpayer within the scope of Rev. Proc. 97-27 timely filed a Form 3115 under Rev. Proc. 97-27 requesting consent for a change in method of accounting described in the APPENDIX of this revenue procedure for a year of change ending on or after April 30, 2010, and the Form 3115 is pending with the national office on January 10, 2011, the taxpayer may choose to make the change under this revenue procedure if the taxpayer is otherwise eligible under this revenue procedure. If the taxpayer chooses to convert the Form 3115 under this revenue procedure, the taxpayer must notify the national office before the later of (a) February 11, 2011, or (b) the issuance [*90] of either a letter ruling granting or denying consent for the change or a letter closing the case. If the taxpayer timely notifies the national office that it will convert the Form 3115 under this revenue procedure, the national office ordinarily will return the Form 3115 to the taxpayer to make the necessary modifications to comply with the applicable provisions of this revenue procedure and will refund the user fee submitted with the Form 3115.

A taxpayer may convert a Form 3115 that is returned to the taxpayer under this section 13.02 (1) to an application under Rev. Proc. 2011-14, if the taxpayer resubmits the Form 3115 with the necessary modifications, along with a copy of the national office letter sent with the returned Form 3115, to the national office or, if applicable, to the Ogden office, by the earlier of (a) the 30th calendar day after the date of the Service's letter returning the Form 3115 to the taxpayer, or (b) the date the taxpayer is required to file the copy of the application under section 6.02 (3) of this revenue procedure. For purposes of the timely duplicate filing requirement in section 6.02 (3) of Rev. Proc. 2011-14, the national office copy or, if applicable, [*91] the Ogden copy, of the timely resubmitted Form 3115 will be considered filed as of the date the taxpayer originally filed the Form 3115 under Rev. Proc. 97-27.

A Form 3115 filed under Rev. Proc. 97-27 before January 10, 2011, that is pending with the national office on January 10, 2011, will be disregarded for purposes of the prior 5 year change rules in sections 4.02 (6) and (7) of Rev. Proc. 2011-14, in the following circumstances:

- (a) the taxpayer converts the Form 3115 under this section 13.02 (1); or
- (b) the taxpayer withdraws the Form 3115 and files an application under Rev. Proc. 2011-14, for the same change in method of accounting for a year of change ending on or before April 30, 2011.

(2) Application filed under Rev. Proc. 2008-52.

(a) General rule. If a taxpayer properly filed an application with the national office under Rev. Proc. 2008-52, as amplified, clarified, and modified by Rev. Proc. 2009-39, to make a change in method of accounting described in the APPENDIX of Rev. Proc. 2008-52, as amplified, clarified, and modified by Rev. Proc. 2009-39, and the application was either post-marked or received by the national office before January 10, 2011, the taxpayer makes the change [*92] under Rev. Proc. 2008-52, as amplified, clarified, and modified by Rev. Proc. 2009-39.

(b) Option to file an amended application.

(i) In general. If before January 10, 2011, a taxpayer properly filed an application under Rev. Proc. 2008-52, as amplified, clarified, and modified by Rev. Proc. 2009-39, for a year of change that is the taxpayer's first taxable year ending on or after April 30, 2010, the taxpayer may choose to file an amended application for that year of change under this revenue procedure if:

(A) On or before the earlier of (1) May 2, 2011, or (2) the date the taxpayer files its federal income tax return for the year of change as required in section 13.02 (2) (b) (i) (B) of this revenue procedure, the taxpayer sends the national office copy or, if applicable, the Ogden copy, of the amended application, with "FILED UNDER SECTION 13.02 (2) of REV. PROC. 2011-14" written on the top of page 1, to the applicable address in section 13.02 (2) (b) (ii) of this revenue procedure; and

(B) Within 6 months from the due date of the federal income tax return for the year of change (excluding extension), the taxpayer files an original or amended return implementing the new method of accounting [*93] pursuant to this revenue procedure, and attaches the original amended application filed under this revenue procedure to its original or amended return for the year of change.

For purposes of the timely duplicate filing requirement in section 6.02 (3) of Rev. Proc. 2011-14, the national office copy or, if applicable, the Ogden copy, of the timely resubmitted amended application will be considered filed as of the date the taxpayer originally filed the copy of the application under Rev. Proc. 2008-52 with the national office.

(ii) Address to send the amended application to the national office or Ogden, as applicable. Send the national office copy or Ogden copy, as applicable, of the amended application, pursuant to section 13.02 (2) (b) (i) (A) of this revenue procedure to the applicable address below:

National office copy: Internal Revenue Service, P. O. Box 14095, Benjamin Franklin Station, Washington, DC 20044, Attention: CC:ITA:8.

Ogden copy: Internal Revenue Service, 1973 North Rulon White Blvd., Mail Stop 4917, Ogden, UT 84404.

(3) No application filed before January 10, 2011.

If, before January 10, 2011, a taxpayer has not filed an application requesting consent to change a particular [*94] method of accounting for its first taxable year ending on or before December 31, 2010, the taxpayer may choose to apply the provisions of the APPENDIX of Rev. Proc. 2008-52, as amplified, clarified, and modified by Rev. Proc. 2009-39, (in lieu of the APPENDIX of this revenue procedure) with Rev. Proc. 2011-14, with respect to such method of accounting for such taxable year.

For a taxpayer filing an application under Rev. Proc. 2011-14 using the APPENDIX of Rev. Proc. 2008-52, as amplified, clarified, and modified by Rev. Proc. 2009-39, the timely duplicate filing requirement of section 6.02 (3) of Rev. Proc. 2011-14 is modified to require the copy of the application to be submitted to the National Office or, if applicable, the Ogden office, on or before February 15, 2011. A taxpayer filing such a transition application under this section 13.02 (3) must otherwise be eligible to make the change under the non-APPENDIX sections of Rev. Proc. 2011-14, and should write on the top of page 1 of the national office copy or, if applicable, the Ogden copy, of the application "FILED UNDER SECTION 13.02 (3) OF REV. PROC. 2011-14."

SECTION 14. EFFECT ON OTHER DOCUMENTS

.01 Rev. Proc. 2008-52, is amplified, [*95] clarified, modified, and, in part, is superseded. The last paragraph of section 13 of Rev. Proc. 2008-52 (relating to Rev. Proc. 2008-43, 2008-30 I.R.B. 186) remains in effect. All other sections of Rev. Proc. 2008-52 are superseded.

.02 Rev. Proc. 2009-39, is amplified, clarified, modified, and, in part, is superseded. Sections 3 and 4.03 of Rev. Proc. 2009-39 remain in effect. All other sections of Rev. Proc. 2009-39 are superseded.

.03 Rev. Proc. 97-27, is clarified and modified.

.04 Rev. Proc. 2004-34, 2004-1 C.B. 991, is modified as follows. Section 8.03 of Rev. Proc. 2004-34 is modified by adding new section 8.03 (3) to read as follows:

(3) A taxpayer that makes a change in method of accounting pursuant to the provisions of Rev. Proc. 97-27 that otherwise would be described in section 15.11 of the APPENDIX of Rev. Proc. 2011-14 but for the scope limitations in section 4.02 of Rev. Proc. 2011-14, must make the change on a cut-off basis as described in section 2.06 of Rev. Proc. 2011-14, applied only to advance payments received on or after the beginning of the year of change. Any advance payments received prior to the year of change are accounted for under the taxpayer's former method [*96] of accounting (i.e., according to its former method of recognizing advance payments in revenues in its AFS). Accordingly, a § 481 (a) adjustment is neither permitted nor required.

.05 Rev. Proc. 2001-10, 2001-1 C.B. 272, as modified by Announcement 2004-16, 2004-1 C.B. 668, is further modified to remove section 6.02 (1) (a). Thus, the scope limitations of section 4.02,

as well as the provisions of sections 6.03 (regarding taxpayers under examination), 6.04 (regarding taxpayers before an appeals office), 6.05 (regarding taxpayers before a federal court) and 6.02 (3) (c) (regarding additional copies of application for a taxpayer under examination, before an appeals office or before a federal court) of this revenue procedure apply to a change in method of accounting described in sections 14.03 and 21.03 of the APPENDIX of this revenue procedure.

.06 Rev. Proc. 2002-28, 2002-1 C.B. 815, as modified by Announcement 2004-16, 2004-1 C.B. 668, is further modified to remove section 7.02 (1) (a). Thus, the scope limitations of section 4.02, as well as the provisions of sections 6.03 (regarding taxpayers under examination), 6.04 (regarding taxpayers before an appeals office), 6.05 (regarding taxpayers [*97] before a federal court) and 6.02 (3) (c) (regarding additional copies of application for a taxpayer under examination, before an appeals office or before a federal court) of this revenue procedure apply to a change in method of accounting described in sections 14.03 and 21.03 of the APPENDIX of this revenue procedure.

.07 Rev. Proc. 2006-56, 2006-2 C.B. 1169, is modified to remove section 4.01. See, however, section 14.04 of the APPENDIX of this revenue procedure.

SECTION 15. PAPERWORK REDUCTION ACT

The collection of information contained in this revenue procedure has been reviewed and approved by the Office of Management and Budget in accordance with the Paperwork Reduction Act (44 U.S.C. 3507) under control number 1545-1551. 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 6, 10, and 13 and sections 3, 5, 6, 7, 8, 9, 10, 11, 14, 15, 16, 17, 19, 20, 21, 22, 23, 24, 29, 31, and 32 of the APPENDIX. This information is necessary and will be used to determine whether the taxpayer properly [*98] 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. The likely respondents are the following: individuals, farms, business or other for-profit institutions, nonprofit institutions, and small businesses or organizations.

The estimated total annual reporting and/or recordkeeping burden is 15,359.34 hours.

The estimated annual burden per respondent/recordkeeper varies from 1/6 hour to 8 1/2 hours, depending on individual circumstances, with an estimated average of 1 1/4 hours. The estimated number of respondents is 14,130. The estimated annual frequency of responses is on occasion.

SECTION 16. SIGNIFICANT CHANGES

.01 Significant changes to Rev. Proc. 2008-52, include:

- (1) Section 3.08 (1) (c) of this revenue procedure modifies the 120-day window period to provide if a taxpayer is within the 120-day window period, that 120-day window period ends when Appeals refers a case to the examining agent (s) for reconsideration;

- (2) Section 3.08 (4) of this revenue procedure is clarified to explain that a taxpayer under examination, for purposes of this revenue procedure, continues to be under examination [*99] while the taxpayer has a refund or credit under review by the Joint Committee on Taxation. This section further explains when such an examination ends for purposes of this revenue procedure;
- (3) Section 3.09 (2) of this revenue procedure modifies the rules for a taxpayer with a method of accounting for an item that is an issue under consideration before an appeals office when the appeals office submits a refund or credit to the Joint Committee on Taxation;
- (4) Section 3.09 (3) of this revenue procedure modifies the rules for a taxpayer with a method of accounting for an item that is an issue under consideration before a federal court when a settlement stipulation is submitted to the Joint Committee on Taxation;
- (5) Sections 5.07 and 5.08 of this revenue procedure provide additional terms and conditions applicable to a foreign division of a domestic corporation taxpayer and foreign partnership, respectively;
- (6) Section 6.01 of this revenue procedure is clarified to provide that a taxpayer receives the consent of the Commissioner to make a change in method of accounting under the APPENDIX of this revenue procedure if the taxpayer complies with the provisions of this revenue procedure and implements [*100] the change on its federal income tax return for the requested year of change to which the original application is attached pursuant to section 6.02 (3);
- (7) Changes to section 6.02 (3) of this revenue procedure:
 - (a) Section 6.02 (3) of this revenue procedure clarifies the filing requirements of this revenue procedure by consolidating the filing requirements into a single section; and
 - (b) Section 6.02 (3) of this revenue procedure is modified to require, in certain cases, a copy of the application be provided to the IRS in Ogden, UT (Ogden copy), in lieu of providing the copy of the application to the national office (national office copy). An Ogden copy, in lieu of the national office copy, is required in APPENDIX sections 6.01, 6.02, 6.04, 6.05, 6.06, 6.07, 6.08, 6.09, 6.10, 6.11, 6.12, 6.17, 6.18, 6.19, 6.20, 6.21, 6.22, 6.23, 6.24, 6.25, and 9.01;

- (8) Sections 6.04 and 6.05 of this revenue procedure are modified to provide that a taxpayer not otherwise within the scope of this revenue procedure by reason of section 4.02 (1) (under examination), 4.02 (2) (consolidated group member) or 4.02 (3) (Partnerships and S corporations) that is before an appeals office or federal court with respect [*101] to any income tax issue may request a change in method of accounting without audit protection if the method to be changed is an issue under consideration by the appeals office or federal court;
- (9) Section 3.06 (3) of the APPENDIX of this revenue procedure, relating to changes for repair and maintenance costs, modifies the date that the additional Ogden, UT, copy of the application must be filed;
- (10) Section 6.01 of the APPENDIX of this revenue procedure, relating to changes from impermissible to permissible methods of accounting for depreciation and amortization, clarifies that the amount of depreciation allowable takes into account all additional first year depreciation deduction provisions;
- (11) Section 6.03 (2) (b) of the APPENDIX of this revenue procedure, relating to sale, lease or financing transactions, is modified to explain when the Service will consider requests for a change in method of accounting for existing transactions under Rev. Proc. 97-27;
- (12) The following changes are made to sections 6.24 (relating to changes for dispositions of structural components of a building (section 168)), and 6.25 (relating to changes for dispositions of tangible depreciable assets (other than [*102] a building or its structural components) (section 168)) of the APPENDIX of this revenue procedure:
 - (a) Sections 6.24 (2) (e) and 6.25 (2) (e) are modified to require an additional statement to be provided when making the change in method of accounting; and
 - (b) Sections 6.24 (5) and 6.25 (5) are modified to require a copy of the Form 3115 be filed with the IRS in Ogden, UT, in lieu of providing a copy to both the national office and the Ogden office;
- (13) Consistent with the Service's administrative practice, the following sections of the APPENDIX of this revenue procedure are modified to permit concurrent changes on a

single Form 3115 when a taxpayer makes a change under the section for more than one asset for the same year of change, and to provide rules for aggregation of the net § 481

(a) adjustments:

- (a) Section 6.01, relating to changes from impermissible to permissible methods of accounting for depreciation or amortization;
- (b) Section 6.04, relating to changes for modern golf course greens;
- (c) Section 6.05, relating to changes for original and replacement tire costs;
- (d) Section 6.06, relating to changes in depreciation of gas pump canopies;
- (e) Section 6.07, relating to a change in depreciation [*103] of utility assets;
- (f) Section 6.08, relating to a change in depreciation of cable TV fiber optics;
- (g) Section 6.10, relating to a change in method of accounting for depreciation due to a change in the use of MACRS property;
- (h) Section 6.11, relating to a change in depreciation of qualified non-personal use vans and light trucks;
- (i) Section 6.12, relating to a change in depreciation of qualified revitalization building in the expanded area of a renewal community;
- (j) Section 6.18, relating to a change in depreciation of MACRS property acquired in a like-kind exchange or as a result of an involuntary conversion; and
- (k) Section 6.22, relating to changes in Kansas additional first-year depreciation;

- (14) Consistent with the Service's administrative practice, the following sections of the APPENDIX of this revenue procedure are modified to permit a taxpayer to make concurrent changes in method of accounting on a single Form 3115 for these changes:
- (a) Section 6.01, relating to changes from impermissible to permissible methods of accounting for depreciation or amortization;
 - (b) Section 6.04, relating to changes for modern golf course greens;
 - (c) Section 6.05, relating to changes for original and replacement [*104] tire costs;
 - (d) Section 6.06, relating to changes in depreciation of gas pump canopies; and
 - (e) Section 6.07, relating to a change in depreciation of utility assets;
- (15) Consistent with the Service's administrative practice, the following sections of the APPENDIX of this revenue procedure are modified to permit a taxpayer to make a change, with the same designated automatic accounting method change number, for more than one asset for the same year of change on a single application:
- (a) Section 6.02, relating to changes from a permissible to another permissible method of accounting for depreciation;
 - (b) Section 6.09, relating to changes in general asset account treatment due to a change in the use of MACRS property;
 - (c) Section 6.17, relating to changes from an impermissible to permissible method of accounting for depreciation or amortization for disposed depreciable or amortizable property;
 - (d) Section 6.20, relating to changes for accounting for, or identifying disposed, depreciable repairable and reusable spare parts;

- (e) Section 6.21, relating to changes from depreciating land (or nondepreciable land improvement) to not depreciating land (or nondepreciable land improvement); and
 - (f) Section 6.23, [*105] relating to changes for tenant construction allowances;
- (16) Section 14.01 (1) (b) (viii) of the APPENDIX of this revenue procedure, relating to a change in overall method from the cash method to an accrual method, is modified to provide that this inapplicability subsection does not apply to a taxpayer accounting for inventories under § 1.446-1 (c) (2) (i) and accounting for all other items of income and expense on the cash method of accounting, and otherwise permitted to make a change to an overall accrual method of accounting under section 14.01 of the APPENDIX;
- (17) Section 19.01 (2) of the APPENDIX of this revenue procedure, relating to changes involving timing of incurring liabilities for bonuses, is amplified and modified to include method changes involving bonuses that are received by the employee more than 2 1/2 months after the taxable year in which the related services are provided, and that are not deferred compensation;
- (18) The following sections of the APPENDIX of this revenue procedure have a subsection that is removed because it is obsolete:
- (a) Section 10.06 (2), relating to "Scope limitations inapplicable" for changes for rotatable spare parts;
 - (b) Section 14.04 (2), relating [*106] to "Scope limitations inapplicable" for changes for the nonaccrual-experience method;
 - (c) Section 14.08 (3), relating to "Scope limitations inapplicable" for changes by a bank for uncollected interest;
 - (d) Section 15.07 (2), relating to "Manner of making change" for changes for advance payments;
 - (e) Section 19.04 (3), relating to "Scope limitations inapplicable" for changes for the timing of incurring certain liabilities for payroll taxes;

- (f) Section 21.08 (2), relating to "Scope limitations inapplicable" for changes for the replacement cost for heavy equipment dealers' parts inventory; and
 - (g) Section 21.10 (3), relating to "Scope limitations inapplicable" for changes to the advance trade discount method;
- (19) The following sections are the APPENDIX of this revenue procedure are obsolete and are removed from this APPENDIX in their entirety:
- (a) Section 6.14, relating to changes in income forecast method of depreciation;
 - (b) Section 6.15, relating to changes for GO Zone additional first year depreciation deduction;
 - (c) Section 6.16, relating to changes for additional first year depreciation deduction;
 - (d) Section 8.01, relating to changes for the treatment of qualified film and television productions;
 - (e) Section 8.02, [*107] relating to changes for expensing of certain reforestation expenditures;
 - (f) Section 8.03, relating to changes for the deduction for capital costs incurred in complying with Environmental Protection Agency sulfur regulations;
 - (g) Section 9.02, relating to changes for Year 2000 costs; and
 - (h) Section 15.09, relating to changes for sales or dispositions to implement Federal Energy Regulatory Commission or state electric restructuring policy;

(20) The following sections are added to the APPENDIX of this revenue procedure to provide additional changes in method of accounting:

(a) Section 8.04, relating to changes to deduct, under § 179D, amounts paid or incurred for the installation of energy efficient commercial building property;

(b) Section 15.11, relating to changes for advance payments - subsequent change in applicable financial statement (these types of changes were removed from section 15.07 of the APPENDIX); and

(c) Section 19.09, relating to changes for California franchise taxes;

(21) Section 21.03 (2) of the APPENDIX of this revenue procedure, relating to changes for small taxpayers excepted from the requirement to account for inventories under § 471, is modified to provide that the scope limitations [*108] of section 4.02 of this revenue procedure apply to a change in method of accounting made under section 21.03 of the APPENDIX;

(22) Section 22.01 (7) of the APPENDIX of this revenue procedure, relating to changes from the LIFO inventory method, clarifies that a taxpayer must compute a § 481 (a) adjustment when changing from a LIFO method to a non-LIFO method. In addition, this section provides a special rule for calculating that § 481 (a) adjustment when the taxpayer is changing to an inventory method that a taxpayer not using a LIFO method implements on a cut-off basis; and

(23) Section 29.01 of the APPENDIX of this revenue procedure, relating to changes in functional currency, is modified to require taxpayers making a change under this section to attach a statement to the Form 3115.

.02 Significant changes to Rev. Proc. 97-27 include:

(1) Section 3.07 (1) (c) of Rev. Proc. 97-27 is modified to provide that, if a taxpayer is within the 120-day window period, that 120-day window period ends when a case before Appeals is referred to the examining agent (s) for reconsideration;

(2) Section 3.07 (3) of Rev. Proc. 97-27 is clarified to explain that a taxpayer under examination, for purposes of Rev. Proc. 97-27, [*109] continues to be under

examination while the taxpayer has a refund or credit under review by the Joint Committee on Taxation. This section further explains when such an examination ends for purposes of Rev. Proc. 97-27;

- (3) Section 3.08 (2) of Rev. Proc. 97-27 is modified to provide the rules for a taxpayer with an issue under consideration before an appeals office when the appeals office submits a refund or credit to the Joint Committee on Taxation;
- (4) Section 3.08 (3) of Rev. Proc. 97-27 is modified to provide the rules for a taxpayer with an issue under consideration before a federal court when a settlement stipulation is submitted to the Joint Committee on Taxation; and
- (5) Sections 6.02 and 6.03 of Rev. Proc. 97-27 are modified to provide that a taxpayer not otherwise within the scope of Rev. Proc. 97-27 by reason of section 4.02 (2) [*110] (under examination), 4.02 (5) (consolidated group member) or 4.02 (6) (Partnerships and S corporations) that is before an appeals office or federal court with respect to any income tax issue may request a change in method of accounting without audit protection if the method to be changed is an issue under consideration by the appeals office or federal court.

DRAFTING INFORMATION

The principal author of this revenue procedure is Karla M. Meola of the Office of Associate Chief Counsel (Income Tax and Accounting). For further information regarding this revenue procedure, contact Ms. Meola, at (202) 622-4930 (not a toll-free call).

For further information regarding a specific change in method of accounting in the APPENDIX of this revenue procedure, contact the appropriate individual listed in the "Contact Person (s)" section located at the end of each section of the APPENDIX (calls are not toll-free) or see the APPENDIX CONTACT LIST immediately following the APPENDIX. 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 [*111] Industries (P&SI), or Tax Exempt and Government Entities (TEGE).

ATTACHMENTS:

APPENDIX

CHANGES IN METHODS OF ACCOUNTING TO WHICH THIS REVENUE PROCEDURE APPLIES

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. [*112] 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 section 1.01 of this APPENDIX is "91." See section 6.02 (4) of this revenue procedure.

(3) Contact information. For further information regarding a change under this section, contact David B. Silber at 202-622-3930 (not a toll-free call).

.02 Reserved.

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 the loan is received to treating the loan amount as a loan.

(2) Scope limitations inapplicable. The scope limitations in section 4.02 of this revenue procedure do 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 [*113] Commodity Credit Corporation on or after the beginning of the year of change. See section 2.06 of this revenue procedure for more information regarding a cut-off basis. 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 section 2.01 of this APPENDIX is "1." See section 6.02 (4) of this revenue procedure.

(5) Contact information. For further information regarding a change under this section, contact William Ruane at 202-622-4920 (not a toll-free call).

.02 Reserved.

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 handling cases on a contingent fee basis that advances money to pay for costs of litigation or for other expenses on behalf of clients and that wants to change the method of accounting for such advances from treating them as deductible business expenses to treating them as loans. See *Boccardo v. United States*, 12 Cl. Ct. 184 (1987); *Canelo v. Commissioner*, 53 T.C. 217 (1969), *aff'd per curiam*, 447 F.2d 484 (9th Cir. 1971).

(2) [*114] Designated automatic accounting method change number. The designated automatic accounting method change number for a change under section 3.01 of this APPENDIX is "2." See section 6.02 (4) of this revenue procedure.

(3) Contact information. For further information regarding a change under this section, contact Martin Osborne at 202-622-7900 (not a toll-free call).

.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.

(2) Scope limitations inapplicable. The scope limitations in section 4.02 of this revenue procedure do not apply to this change.

(3) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under section 3.02 of this APPENDIX is "3." See section 6.02 (4) of this revenue procedure.

(4) Contact information. For further information regarding a change under this section, contact Martin Osborne at 202-622-7900 (not a toll-free call).

.03 Restaurant or tavern smallwares packages.

(1) Description of change. This change applies [*115] 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.

(2) Scope limitations inapplicable. The scope limitations in section 4.02 of this revenue procedure do not apply to this change.

(3) § 481 (a) adjustment period. A taxpayer changing its method of accounting for restaurant smallwares under this section 3.03 of the APPENDIX must take the entire § 481 (a) adjustment into account in computing taxable income in the year of change.

(4) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under section 3.03 of this APPENDIX is "4." See section 6.02 (4) of this revenue procedure.

(5) Contact information. For further information regarding a change under this section, contact Martin Osborne at 202-622-7900 (not a toll-free call).

.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 [*116] 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.

(2) Scope limitations inapplicable. The scope limitations in section 4.02 of this revenue procedure do not apply to this change.

(3) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under section 3.04 of this APPENDIX is "86." See section 6.02 (4) of this revenue procedure.

(4) Contact information. For further information regarding a change under this section, contact Martin Osborne at 202-622-7900 (not a toll-free call).

.05 Materials and supplies.

(1) Description of change.

(a) Applicability. This change applies to a taxpayer that wants to change its method of accounting for materials and supplies on hand to the method of treating the cost of materials and supplies as a deferred expense to be taken into account in the taxable year in which they are actually consumed and used in operation, consistent with § 1.162-3.

(b) Inapplicability. This change does not apply to a taxpayer that is required under § 263A and the regulations thereunder to [*117] capitalize the costs with respect to which the taxpayer wants to change its method of accounting under section 3.05 of this APPENDIX 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 11.01 or 11.02 of this APPENDIX (as applicable).

(2) Amounts taken into account. Applicable provisions of the Code, regulations, and other guidance published in the IRB prescribe the manner in which a liability that has been incurred is taken into account. For example, for a taxpayer with inventories, certain indirect material costs must be included in inventory costs and may be recovered through the cost of goods sold. See § 1.263A-1 (e) (3) (ii) (E). A taxpayer may not rely on the provisions of section 3.05 of this APPENDIX to take a current deduction.

(3) Concurrent automatic change. A taxpayer that wants to make both this change and a change to a UNICAP method under section 11.01 or 11.02 of this APPENDIX (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 [*118] method change numbers for both changes on the appropriate line on that Form 3115.

(4) Proposed regulations. The Department of the Treasury has published proposed regulations that address the definition and treatment of materials and supplies under § 162. See Guidance Regarding Deduction and Capitalization of Expenditures Related to Tangible Property, REG-

168745-03, 73 FR 12838-01 (March 10, 2008), 2008-18 I.R.B. 871. The proposed regulations are not effective until publication of a Treasury decision adopting them as final regulations in the Federal Register. Thus, taxpayers may not change a method of accounting in reliance upon the rules contained in the proposed regulations until the rules are published as final regulations in the Federal Register. If final regulations are adopted with positions that are inconsistent with the method of accounting implemented by the taxpayer under section 3.05 of this APPENDIX, that method will no longer be regarded as proper. In such event, the taxpayer will be required to follow any instructions in the final regulations or other guidance published in the IRB concerning methods of accounting for materials and supplies for future taxable years.

(5) Designated [*119] automatic accounting method change number. The designated automatic accounting method change number for a change in method of accounting under section 3.05 of this APPENDIX is "143." See section 6.02 (4) of this revenue procedure.

(6) Contact information. For further information regarding a change under this section, contact Justin G. Meeks at 202-622-5020 (not a toll-free call).

.06 Repair and maintenance costs.

(1) Description of change.

- (a) **Applicability.** This change applies to a taxpayer that wants to change its method of accounting from capitalizing under § 263 (a) costs paid or incurred to repair and maintain tangible property (including network assets) to treating the repair and maintenance costs as ordinary and necessary business expenses under § 162 and § 1.162-4. This change also applies to a taxpayer that wants to change the unit of property it uses to determine the deductibility of repair and maintenance costs to a unit of property that is permissible under applicable legal authority.
- (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 [*120] its method of accounting under section 3.06 of this APPENDIX 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 11.01 or 11.02 of this APPENDIX (as applicable);
 - (ii) A taxpayer that wants to change its method of accounting for dispositions of depreciable property, including a change in the unit of property used for such dispositions (but see sections 6.24 and 6.25 of this APPENDIX); or

- (iii) Any property subject to the repair allowance under § 1.167 (a)-11 (d) (2) (including expenditures incurred after December 31, 1980, for the repair, maintenance, rehabilitation, or improvement of property placed in service before January 1, 1981).

(2) Manner of making change. A taxpayer making this change must attach to its Form 3115 a statement with the following:

- (a) A detailed description of the types of tangible property to which this change applies;
- (b) A detailed description of the types of repair and maintenance costs to which this change applies;
- (c) If the taxpayer is changing any unit of property determination, a detailed description of the unit (s) of property [*121] under its present method of accounting for determining the deductibility of repair and maintenance costs and a detailed description of the unit (s) of property it will use under its proposed method of determining the deductibility of repair and maintenance costs, together with a description of the legal authority supporting the taxpayer's proposed unit (s) of property for determining the deductibility of repair and maintenance costs;
- (d) The following statements regarding the costs to which this change applies:
 - (i) "The taxpayer represents that the repair and maintenance costs are incurred to keep the taxpayer's property in ordinarily efficient operating condition."
 - (ii) "The taxpayer represents that the repair and maintenance costs do not materially increase the value or substantially prolong the useful life of any unit of property compared to the value or useful life of the property before the general wear or tear or particular event that led to the repairs or maintenance."
 - (iii) "The taxpayer represents that the repair and maintenance costs do not adapt any unit of property to a new or different use."
 - (iv) "The taxpayer represents that the repair and maintenance costs do not include costs [*122] to replace any unit of property or any major components or substantial structural parts of any unit of property."

- (v) "The taxpayer represents that the repair and maintenance costs are not incurred as part of a plan of rehabilitation, modernization, or improvement to any unit of property."
- (vi) "The taxpayer represents that the repair and maintenance costs do not result from any prior owner's use of any unit of property."

(3) Additional copy of Form 3115 required. A taxpayer changing its method of accounting under section 3.06 of this APPENDIX must, in addition to the timely duplicate filing requirements in section 6.02 (3) of this revenue procedure, send a copy of its completed Form 3115 (including attachments) to the following address no earlier than the first day of the year of change and no later than the date the taxpayer files the original Form 3115 with its federal income tax return for the year of change, in accordance with section 6.02 (3) of this revenue procedure: Internal Revenue Service, 1973 North Rulon White Blvd., Mail Stop 4917, Ogden, UT 84404.

(4) Amounts taken into account. Applicable provisions of the Code, regulations, and other guidance published in the IRB prescribe [*123] the manner in which a liability that has been incurred is taken into account. For example, for a taxpayer with inventories, certain repair and maintenance costs must be included in inventory costs and may be recovered through the cost of goods sold. See § 1.263A-1 (e) (3) (ii) (E). A taxpayer may not rely on the provisions of section 3.06 of this APPENDIX to take a current deduction.

(5) No ruling on unit of property. The consent granted under this revenue procedure for this change is not a determination by the Commissioner that the taxpayer is using the appropriate unit of property in determining the deductibility of repair and maintenance costs and does not create any presumption that the proposed unit of property is permissible. The director will ascertain whether the taxpayer's determination of its unit of property is correct.

(6) Concurrent automatic change. A taxpayer that wants to make both this change and a change to a UNICAP method under section 11.01 or 11.02 of this APPENDIX (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 [*124] on the appropriate line on that Form 3115.

(7) Proposed regulations. The Department of the Treasury has published proposed regulations that address the application of §§ 162 and 263 to expenditures paid or incurred to repair, maintain, or improve tangible property. See Guidance Regarding Deduction and Capitalization of Expenditures Related to Tangible Property, 73 FR 12838-01 (March 10, 2008), 2008-18 I.R.B. 871. The proposed regulations are not effective until publication of a Treasury decision adopting them as final regulations in the Federal Register. Thus, taxpayers may not change a method of accounting in reliance upon the rules contained in the proposed regulations until the rules are published as final regulations in the Federal Register. If final regulations are adopted with positions that are inconsistent with the method of accounting implemented by the taxpayer under section 3.06 of this APPENDIX, that method will no longer be regarded as proper. In such event, the taxpayer will be required to follow any instructions in the final regulations or other guidance published in the IRB

concerning methods of accounting for the repair, maintenance, or improvement of tangible property [*125] for future taxable years.

(8) Designated automatic accounting method change number. The designated automatic accounting method change number for a change in method of accounting under section 3.06 of this APPENDIX is "144." See section 6.02 (4) of this revenue procedure.

(9) Contact information. For further information regarding a change under this section, contact Alan Williams at 202-622-4950 (not a toll-free call).

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 24 of this APPENDIX.

(2) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under section 4.01 of this APPENDIX is "5." See section 6.02 (4) of this revenue procedure.

(3) Contact information. For further information regarding a change under this section, [*126] contact Justin G. Meeks at 202-622-5020 (not a toll-free call).

.02 Reserved.

SECTION 5. 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. See section 2.06 of this revenue procedure [*127] for more information regarding a cut-off basis. 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 section 5.01 of this APPENDIX is "16." See section 6.02 (4) of this revenue procedure.

(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. A taxpayer receives audit protection under section 7 of this revenue procedure in connection with this change. However, the audit protection applicable to this change does not preclude the Commissioner from examining [*128] 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 William E. Blanchard at 202-622-3950 (not a toll-free call).

.02 Reserved.

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

.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:

(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 APPENDIX 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 [*129] depreciation is determined under § 56 (a) (1), § 56 (g) (4) (A), § 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 6.17 of this APPENDIX 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 APPENDIX 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 [*130] 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 tax return for the property's placed-in-service year prior to the date the taxpayer files its federal 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 of the APPENDIX 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 11.01 or 11.02 of this APPENDIX (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) [*131] 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. 2011-1, 2011-1 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 [*132] determined under § 56 (g) (4) (A) 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) of the APPENDIX 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 IRB and, therefore, this change is a change in method of accounting (unless section 6.01 (1) (c) (xv) of this APPENDIX 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);

- (ix) any property for which depreciation is determined in accordance with § 1.167 (a)-11 (regarding the Class Life Asset Depreciation [*133] 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;
- (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 APPENDIX 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 [*134] 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 the APPENDIX 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, [*135] or vice versa) (but see section 10.02 of this APPENDIX 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 10.06 of this APPENDIX 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 APPENDIX 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); or

(xvi) any property for which the rehabilitation credit under § 47 was claimed and that a taxpayer is reclassifying to 3-year property, 5-year property, 7-year property, 10-year property, 15-year property, 20-year property, or water utility property [*136] (other than real property with a class life of more than 12.5 years).

(2) Certain scope limitations inapplicable. The scope limitations in sections 4.02 (4) and 4.02 (5) of this revenue procedure are not applicable to this change.

(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 (6) of this APPENDIX).

- (b) Statements required. A taxpayer must provide the following statements, if applicable, and attach them to the completed application:
- (i) a detailed description of the former and new 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 application, a statement describing the taxpayer's business or [*137] 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 application, a statement of the facts and law supporting the new 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 application, 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 [*138] 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 application;
 - (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 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;

(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 [*139] 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 application filed under section 6.01 of the APPENDIX of Rev. Proc. 2011-14 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 [*140] property, qualified restaurant property, qualified retail improvement property, 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) Section 481 (a) adjustment. Because the adjusted basis of the property is changed as a result of a method change made under section 6.01 of the APPENDIX (see section 6.01 (5) of this APPENDIX), 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 former method of accounting (including the amount attributable to any property [*141] described in section 6.01 (1) (b) of this APPENDIX that is included in the taxpayer's Form 3115), and the total amount of depreciation allowable for the property under the taxpayer's new method of accounting (as determined under section 6.01 (6) of this APPENDIX, and including the amount attributable to any property described in section 6.01 (1) (b) of this APPENDIX 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.

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

(6) Meaning of depreciation allowable.

- (a) In general. Section 6.01 (6) of this APPENDIX provides the amount of the depreciation allowable determined under § 56 (a) (1), § 56 (g) (4) (A), [*142] § 167, § 168, § 197, § 1400I, or § 1400L (c), or former § 168. 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 Section 56 (a) (1) is determined by using the depreciation method, recovery period, and convention provided for under Section 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) is determined by using the depreciation method, recovery period or useful life, as applicable, and convention provided for under § 56 (g) (4) (A) 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 [*143] 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) and § 1.168 (k)-1), 50-percent bonus depreciation property (as defined in § 168 (k) (4) and § 1.168 (k)-1), qualified disaster assistance property (as defined in § 168 (n) (2)), qualified New York Liberty Zone (Liberty Zone) property (as defined in § 1400L (b) (2) and § 1.1400L (b)-1), qualified Gulf Opportunity Zone (GO Zone) property (as defined in § 1400N (d) (2) and sections 2.02 and 2.03 of Notice 2006-77, 2006-40 I.R.B. 590, as clarified, modified, and amplified by Notice 2007-36, 2007-17 I.R.B. 1000), specified Gulf Opportunity Zone extension property (GO Zone extension property) (as defined in § 1400N (d) (6) and section 4 of Notice 2007-36), or qualified Recovery [*144] 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), § 1400L (b), or § 1400N (d), 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 [*145] 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), § 1400L (b), or § 1400N (d), 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 Rev. Proc. 2002-33, 2002-1 C.B. 963, Rev. Proc. 2003-50, 2003-2 C.B. 119, or Notice 2006-77) for the class of property (as defined in § 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 cellulosic biofuel plant property (as defined in § 168 (l) (2)), by also taking into account the additional [*146] 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 depreciation 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, [*147] 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)) 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)) 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 [*148] 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)) is determined by using the depreciation method and recovery period prescribed in § 1400L (c) unless the taxpayer made a timely valid election under § 1400L (c) (5) not to use that recovery period.

(7) Concurrent automatic change.

- (a) A taxpayer that [*149] 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. 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, [*150] 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 that wants to make both this change and a change to a UNICAP method under section 11.01 or 11.02 of this APPENDIX (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.
- (c) A taxpayer that wants to make this change and a change in depreciation under section 6.04 (modern golf course greens), 6.05 (original and replacement tire costs), 6.06 (gas pump canopies), and/or 6.07 (utility assets) for the same year of change should file a single Form 3115 for these changes, in which case the taxpayer must enter the designated automatic accounting method change numbers for these changes on the [*151] appropriate line on that Form 3115.

(8) Ogden copy of Form 3115 required in lieu of national office copy. A taxpayer changing its method of accounting under this section 6.01 of the APPENDIX must file a signed copy of its completed Form 3115 with the Internal Revenue Service in Ogden, UT, (Ogden copy) in lieu of filing the national office copy no earlier than the first day of the year of change and no later than the date the taxpayer files the original Form 3115 with its federal income tax return for the year of change. See sections 6.02 (3) (a) (ii) (B) (providing the general rules) and section 6.02 (7) (b) (providing the mailing address) of this revenue procedure.

(9) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under section 6.01 of this APPENDIX is "7." See section 6.02 (4) of this revenue procedure.

(10) Contact information. For further information regarding a change under this section, contact Douglas Kim at 202-622-4930 (not a toll-free call).

.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 [*152] method of accounting for depreciation under § 56 (g) (4) (A) (iv) or § 167 to another permissible method of accounting for depreciation under § 56 (g) (4) (A) (iv) 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) Scope.

(a) Applicability. 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 APPENDIX 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 APPENDIX are permissible methods for the property under § 56 (g) (4) (A) (iv) 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 of the APPENDIX if the [*153] 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 11.01 or 11.02 of this APPENDIX (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), § 168, § 1400I, § 1400L (c), § 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), or § 1400N (d));
- (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 [*154] 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, § 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)); 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 scope limitations inapplicable. The scope limitations in sections 4.02 (4) and 4.02 (5) of this revenue procedure are not applicable to this change.

(4) Changes covered. Section 6.02 of this [*155] APPENDIX 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-year-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 [*156] 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 change, however, may be made under this revenue procedure 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);
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- (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 [*157] 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 [*158] 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-year-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-year-digits or declining-balance method, the property must meet the requirements of § 1.167 (b)-0 or 1.167 (c)-1, [*159] 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 must attach to the application 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 application; 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 application to any regulatory body having jurisdiction over the public utility property subject to the application.

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

(7) 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.
- (b) A taxpayer that wants to make both this [*160] change and a change to a UNICAP method under section 11.01 or 11.02 of this APPENDIX (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.

(8) Ogden copy of Form 3115 required in lieu of national office copy. A taxpayer changing its method of accounting under this section 6.02 of the APPENDIX must file a signed copy of its completed Form 3115 with the IRS in Ogden, UT, (Ogden copy) in lieu of filing the national office copy no earlier than the first day of the year of change and no later than the date the taxpayer files the original Form 3115 with its federal income tax return for the year of change. See sections 6.02 (3) (a) (ii) (B) (providing the general rules) and section 6.02 (7) (b) (providing the mailing address) of this revenue procedure.

(9) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under section 6.02 of this APPENDIX is "8." See section 6.02 (4) of this revenue procedure.

(10) Contact information. For further [*161] information regarding a change under this section, contact Douglas Kim at 202-622-4930 (not a toll-free call).

.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 [*162] of a sale or lease transaction as of the beginning of the year of change.

(2) Manner of making change.

- (a) The change in method of accounting under section 6.03 of this APPENDIX is made using a cut-off method and applies to transactions entered into on or after the beginning of the year of change. See section 2.06 of this revenue procedure.
- (b) If a taxpayer wants to change its method of accounting for existing sale, lease or financing transactions, the taxpayer must file an application with the Commissioner in accordance with the requirements of § 1.446-1 (e) (3) (i) and Rev. Proc. 97-27. A change involving existing sale, lease, or financing transactions will require a § 481 (a) adjustment. The Service will generally not consider a taxpayer's request to change a method of accounting for an existing sale, lease, or financing transaction unless the taxpayer's proposed method of accounting is consistent with the method used by the counterparty to the agreement. The following information should be submitted with Form 3115 to substantiate that the taxpayer's proposed method is consistent with the counterparty's method: (A) the name of the counterparty to the transaction; and (B) a representation, [*163] signed under penalties of perjury, from the counterparty that provides the method of accounting for the agreement used by the counterparty for federal income tax purposes. If a taxpayer does not submit the counterparty information, the taxpayer's request to change a method of accounting for an existing sale, lease, or financing transaction will be considered only in unusual and compelling circumstances. The requirement to obtain counterparty information from multiple counterparties will not be considered unusual or compelling.

(3) No audit protection. A taxpayer does not receive audit protection under section 7 of this revenue procedure in connection with this change.

(4) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under section 6.03 of this APPENDIX is "10." See section 6.02 (4) of this revenue procedure.

(5) Contact information. For further information regarding a change under this section, contact Edward Schwartz at 202-622-4960 (not a toll-free call).

.04 Modern golf course greens.

(1) Description of change. This change applies to a taxpayer that wants to change its method of accounting for the cost of modern [*164] golf course greens owned by the taxpayer at the beginning of the year of change to conform with the holding in Rev. Rul. 2001-60, 2001-2 C.B. 587. Rev. Rul. 2001-60 holds that the costs of land preparation undertaken by a taxpayer in the original construction or reconstruction of modern greens (as described in Rev. Rul. 2001-60) that is so closely associated with depreciable assets, such as a network of underground drainage tiles or pipes, that the land preparation will be retired, abandoned, or replaced contemporaneously with those depreciable assets are to be capitalized and depreciated over the recovery period of the depreciable assets with which the land preparation is associated. However, the general earthmoving, grading, and initial shaping of the area surrounding and underneath the modern green that occur before the construction are inextricably associated with the land and, therefore, the costs attributable to this land preparation are added to the taxpayer's cost basis in the land and are not depreciable.

(2) Additional requirements. A taxpayer that changes its method of accounting for the cost of modern golf course greens under section 6.04 of this APPENDIX must change to [*165] a permissible method of accounting for depreciation of modern greens. For purposes of § 168, the modern green is includible in asset class 00.3, Land Improvements, of Rev. Proc. 87-56, 1987-2 C.B. 674, as clarified and modified by Rev. Proc. 88-22, 1988-1 C.B. 785.

(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 this change and a change in depreciation under section 6.01 (impermissible to permissible method of accounting for depreciation or amortization), 6.05 (original and replacement [*166] tire costs), 6.06 (gas pump

canopies), and/or 6.07 (utility assets) for the same year of change should file a single Form 3115 for these changes, in which case the taxpayer must enter the designated automatic accounting method change numbers for these changes on the appropriate line of that Form 3115.

(4) Ogden copy of Form 3115 required in lieu of national office copy. A taxpayer changing its method of accounting under this section 6.04 of the APPENDIX must file a signed copy of its completed Form 3115 with the IRS in Ogden, UT, (Ogden copy) in lieu of filing the national office copy no earlier than the first day of the year of change and no later than the date the taxpayer files the original Form 3115 with its federal income tax return for the year of change. See sections 6.02 (3) (a) (ii) (B) (providing the general rules) and section 6.02 (7) (b) (providing the mailing address) of this revenue procedure.

(5) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under section 6.04 of this APPENDIX is "11." See section 6.02 (4) of this revenue procedure.

(6) Contact information. For further information regarding a [*167] change under this section, contact Douglas Kim at 202-622-4930 (not a toll-free call).

.05 Original and replacement tire costs.

(1) Description of change. This change applies to a taxpayer that wants to change the method of accounting for the cost of original and replacement tires for all of the taxpayer's qualifying vehicles in which the taxpayer has a depreciable interest at the beginning of the year of change to the original tire capitalization method provided by section 5 of Rev. Proc. 2002-27, 2002-1 C.B. 802. The terms "qualifying vehicle," "original tires," and "replacement tires" are defined in section 3 of Rev. Proc. 2002-27. For further details, see Rev. Proc. 2002-27.

(2) 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 [*168] 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 this change and a change in depreciation under section 6.01 (impermissible to permissible method of accounting for depreciation or amortization), 6.04 (modern golf course greens), 6.06 (gas pump canopies), and/or 6.07 (utility assets) for the same year of change should file a single Form 3115 for these

changes, in which case the taxpayer must enter the designated automatic accounting method change numbers for these changes on the appropriate line on that Form 3115.

(3) Ogden copy of Form 3115 required in lieu of national office copy. A taxpayer changing its method of accounting under this section 6.05 of the APPENDIX must file a signed copy of its completed Form 3115 with the IRS in Ogden, UT, (Ogden copy) in lieu of filing the national office copy no earlier than the first day of the year of change and no later than the date the taxpayer files the original Form 3115 with its federal income tax return for the year of change. See sections 6.02 (3) (a) (ii) (B) [*169] (providing the general rules) and section 6.02 (7) (b) (providing the mailing address) of this revenue procedure.

(4) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under section 6.05 of this APPENDIX is "12." See section 6.02 (4) of this revenue procedure.

(5) Contact information. For further information regarding a change under this section, contact Douglas Kim at 202-622-4930 (not a toll-free call).

.06 Depreciation of gas pump canopies.

(1) Description of change. This change applies to a taxpayer that wants to change the method of accounting for the cost of stand-alone gasoline pump canopies or their supporting concrete footings owned by the taxpayer at the beginning of the year of change to conform with the holding in Rev. Rul. 2003-54, 2003-1 C.B. 982. Rev. Rul. 2003-54 holds that the stand-alone gasoline pump canopies (as described in Rev. Rul. 2003-54) are not inherently permanent structures and are classified as tangible personal property for depreciation purposes, while the supporting concrete footings (as described in Rev. Rul. 2003-54) are inherently permanent structures classified as land improvements [*170] for depreciation purposes.

(2) Additional requirements. A taxpayer that changes its method of accounting for the cost of stand-alone gasoline pump canopies or their supporting concrete footings under section 6.06 of this APPENDIX must change to a permissible method of accounting for depreciation of the cost of the gasoline pump canopies or the supporting concrete footings. For purposes of § 168, the stand-alone gasoline pump canopies are includible in asset class 57.0, Distributive Trades and Services, of Rev. Proc. 87-56, 1987-2 C.B. 674, as clarified and modified by Rev. Proc. 88-22, 1988-1 C.B. 785, and their supporting concrete footings are includible in asset class 57.1, Distributive Trades and Services-Billboard, Service Station Buildings and Petroleum Marketing Land Improvements, of Rev. Proc. 87-56.

(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 [*171] 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 this change and a change in depreciation under section 6.01 (impermissible to permissible method of accounting for depreciation or amortization), 6.04 (modern golf course greens), 6.05 (original and replacement tire costs), and/or 6.07 (utility assets) for the same year of change should file a single Form 3115 for these changes, in which case the taxpayer must enter the designated automatic accounting method change numbers for these changes on the appropriate line on that Form 3115.

(4) Ogden copy of Form 3115 required in lieu of national office copy. A taxpayer changing its method of accounting under this section 6.06 of the APPENDIX must file a signed copy of its completed Form 3115 with the IRS in Ogden, UT, (Ogden copy) in lieu of filing the national office copy no earlier than the first day of the year of change and [*172] no later than the date the taxpayer files the original Form 3115 with its federal income tax return for the year of change. See sections 6.02 (3) (a) (ii) (B) (providing the general rules) and section 6.02 (7) (b) (providing the mailing address) of this revenue procedure.

(5) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under section 6.06 of this APPENDIX is "13." See section 6.02 (4) of this revenue procedure.

(6) Contact information. For further information regarding a change under this section, contact Douglas Kim at 202-622-4930 (not a toll-free call).

.07 Depreciation of utility assets.

(1) Description of change. This change applies to a taxpayer that wants to change the method of accounting for depreciable assets that are owned by a utility at the beginning of the year of change and used in the general business operations of the utility to conform with Rev. Rul. 2003-81, 2003-2 C.B. 126.

(2) 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 [*173] 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 this change and a change in depreciation under section 6.01 (impermissible to permissible method of accounting for depreciation or amortization), 6.04 (modern golf course greens), 6.05 (original and replacement tire costs), and/or 6.06 (gas pump canopies) for the same year of change should file a single Form 3115 for these changes, in which case the taxpayer must enter the designated automatic accounting method change numbers for these changes on the appropriate line on that Form 3115.

(3) Ogden copy of Form 3115 required in lieu of national office copy. A taxpayer changing its method of accounting under this section 6.07 of the APPENDIX must file a signed copy [*174] of its completed Form 3115 with the IRS in Ogden, UT, (Ogden copy) in lieu of filing the national office copy no earlier than the first day of the year of change and no later than the date the taxpayer files the original Form 3115 with its federal income tax return for the year of change. See sections 6.02 (3) (a) (ii) (B) (providing the general rules) and section 6.02 (7) (b) (providing the mailing address) of this revenue procedure.

(4) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under section 6.07 of this APPENDIX is "14." See section 6.02 (4) of this revenue procedure.

(5) Contact information. For further information regarding a change under this section, contact Douglas Kim at 202-622-4930 (not a toll-free call).

.08 Depreciation of cable TV fiber optics.

(1) Description of change. This change applies to a taxpayer that wants to change the method of accounting for depreciation of fiber optic node and trunk line consisting of fiber optic cable used in a cable television distribution system owned by the taxpayer at the beginning of the year of change to the safe harbor method of accounting provided by section 4 [*175] of Rev. Proc. 2003-63, 2003-2 C.B. 304. The taxpayer must operate a cable television distribution system designed to provide one-way and two-way communication services to subscribers (as described in section 3.02 of Rev. Proc. 2003-63). The safe harbor method of accounting provided by section 4 of Rev. Proc. 2003-63 determines the unit of property for calculating depreciation under §§ 167 and 168, and the primary use and placed-in-service date of that unit of property.

(2) Concurrent automatic change. 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.

(3) [*176] Ogden copy of Form 3115 required in lieu of national office copy. A taxpayer changing its method of accounting under this section 6.08 of the APPENDIX must file a signed copy of its completed Form 3115 with the IRS in Ogden, UT, (Ogden copy) in lieu of filing the national office copy no earlier than the first day of the year of change and no later than the date the taxpayer files the original Form 3115 with its federal income tax return for the year of change. See

sections 6.02 (3) (a) (ii) (B) (providing the general rules) and section 6.02 (7) (b) (providing the mailing address) of this revenue procedure.

(4) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under section 6.08 of this APPENDIX is "15." See section 6.02 (4) of this revenue procedure.

(5) Contact information. For further information regarding a change under this section, contact Douglas Kim at 202-622-4930 (not a toll-free call).

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

(1) Description of change. This change applies to a taxpayer that wants to change the method of accounting for general asset account [*177] 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) (E) and 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). See § 1.168 (i)-1 (1) (2) (ii).

(2) Manner of making change. 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 new 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).

(3) Concurrent automatic change. 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.

(4) Ogden copy of Form 3115 required in lieu of national office copy. A taxpayer changing its method of accounting under this section 6.09 of the [*178] APPENDIX must file a signed copy of its completed Form 3115 with the IRS in Ogden, UT, (Ogden copy) in lieu of filing the national office copy no earlier than the first day of the year of change and no later than the date the taxpayer files the original Form 3115 with its federal income tax return for the year of change. See sections 6.02 (3) (a) (ii) (B) (providing the general rules) and section 6.02 (7) (b) (providing the mailing address) of this revenue procedure.

(5) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under section 6.09 of this APPENDIX is "87." See section 6.02 (4) of this revenue procedure.

(6) Contact information. For further information regarding a change under this section, contact Douglas Kim at 202-622-4930 (not a toll-free call).

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

(1) Description of change. This change applies to a taxpayer that wants to (a) 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 [*179] when there is a change in the use of MACRS property, or (b) 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).

(2) Concurrent automatic change. 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.

(3) Ogden copy of Form 3115 required in lieu of national office copy. A taxpayer changing its method of accounting under this section 6.10 of the APPENDIX must file a signed copy of its completed Form 3115 with the IRS in Ogden, UT, (Ogden copy) in lieu of filing the national office [*180] copy no earlier than the first day of the year of change and no later than the date the taxpayer files the original Form 3115 with its federal income tax return for the year of change. See sections 6.02 (3) (a) (ii) (B) (providing the general rules) and section 6.02 (7) (b) (providing the mailing address) of this revenue procedure.

(4) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under section 6.10 of this APPENDIX is "88." See section 6.02 (4) of this revenue procedure.

(5) Contact information. For further information regarding a change under this section, contact Douglas Kim at 202-622-4930 (not a toll-free call).

.11 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 [*181] 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) Concurrent automatic change. 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.

(3) Ogden copy of Form 3115 required in lieu of national office copy. A taxpayer changing its method of accounting under this section 6.11 of the APPENDIX must file a signed copy of its completed Form 3115 [*182] with the IRS in Ogden, UT, (Ogden copy) in lieu of filing the national office copy no earlier than the first day of the year of change and no later than the date the taxpayer files the original Form 3115 with its federal income tax return for the year of change. See

sections 6.02 (3) (a) (ii) (B) (providing the general rules) and section 6.02 (7) (b) (providing the mailing address) of this revenue procedure.

(4) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under section 6.11 of this APPENDIX is "89." See section 6.02 (4) of this revenue procedure.

(5) Contact information. For further information regarding a change under this section, contact Bernard Harvey at 202-622-4930 (not a toll-free call).

.12 Depreciation of qualified revitalization building in the expanded area of a renewal community.

(1) Description of change. This change applies to a taxpayer that wants to elect the commercial revitalization deduction under § 1400I (a) for a qualified revitalization building (as defined in § 1400I (b) (1)) that is placed in service by the taxpayer after December 31, 2001, in the area of a renewal community that was [*183] expanded by the U.S. Department of Housing and Urban Development and for which the taxpayer receives a retroactive commercial revitalization expenditure allocation made in accordance with section 3 of Rev. Proc. 2006-16, 2006-1 C.B. 539. This change applies only if the taxpayer filed the federal tax return for the placed-in-service year of that building on or before the date the taxpayer received the retroactive commercial revitalization expenditure allocation. For further details, see Rev. Proc. 2006-16.

(2) Scope limitations inapplicable. The scope limitations in section 4.02 of this revenue procedure do not apply to this change.

(3) Time for making change. The change in method of accounting under section 6.12 of this APPENDIX must be timely filed with the taxpayer's federal tax return for the taxable year that includes the date on which the commercial revitalization agency makes the retroactive commercial revitalization expenditure allocation, or with the taxpayer's federal tax return for the first taxable year succeeding the taxable year that included the date on which the commercial revitalization agency made the retroactive commercial revitalization expenditure allocation.

(4) Concurrent [*184] automatic change. A taxpayer that wants to make this change for more than one qualified revitalization building for the same year of change should file a single Form 3115 for all such buildings and provide a single net § 481 (a) adjustment for all the changes included in that Form 3115.

(5) Ogden copy of Form 3115 required in lieu of national office copy. A taxpayer changing its method of accounting under this section 6.12 of the APPENDIX must file a signed copy of its completed Form 3115 with the IRS in Ogden, UT, (Ogden copy) in lieu of filing the national office copy no earlier than the first day of the year of change and no later than the date the taxpayer files the original Form 3115 with its federal income tax return for the year of change. See sections 6.02 (3) (a) (ii) (B) (providing the general rules) and section 6.02 (7) (b) (providing the mailing address) of this revenue procedure.

(6) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under section 6.12 of this APPENDIX is "97." See section 6.02 (4) of this revenue procedure.

(7) Contact information. For further information regarding a change under this [*185] section, contact Douglas Kim at 202-622-4930 (not a toll-free call).

.13 Loss disallowance rule upon a disposition of an insurance contract acquired in an assumption re-insurance transaction.

(1) Description of change.

(a) **Applicability.** This change applies to a taxpayer that chooses, on a transaction-by-transaction basis, to change their treatment of certain insurance contracts acquired in an assumption reinsurance transaction under § 1.197-2 (g) (5) for the first taxable year ending after April 10, 2006.

(b) **Inapplicability.** This change does not apply when the taxpayer's treatment of its property is an issue under consideration for a taxable year under examination, before an Appeals office, or before a federal court. See section 3.09 of this revenue procedure for the definition of these terms.

(2) **Scope limitations inapplicable.** The scope limitations in section 4.02 of this revenue procedure do not apply to this change.

(3) **Additional requirements.** The change in accounting method results in items being omitted or duplicated and thus, an adjustment under § 481 (a) must be computed.

(4) **Designated automatic accounting method change number.** The designated automatic accounting method change number [*186] for a change under section 6.13 of this APPENDIX is "98." See section 6.02 (4) of this revenue procedure.

(5) **Contact information.** For further information regarding a change under this section, contact Mark Weiss at 202-622-7750 (not a toll-free call).

.14 Reserved.

.15 Reserved.

.16 Reserved.

.17 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 6.17 (4) of this [*187] APPENDIX) or any prior taxable year.

(2) **Scope.**

- (a) Applicability. Except as provided in section 6.17 (2) (b) of this APPENDIX, section 6.17 of this APPENDIX 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 6.17 (4) of this APPENDIX); 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 6.17 (4) of this APPENDIX) or any prior taxable year.

- (b) Inapplicability. Section 6.17 of this APPENDIX does not apply to:
 - (i) any property to which § 1016 (a) (3) (regarding property held by a tax-exempt organization) [*188] 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 IRB (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 6.17 (2) (b) (iv) of the APPENDIX 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 [*189] 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 extensions) original federal tax return for the year of change (as defined in section 6.17 (4) of this APPENDIX), provided the taxpayer files the original Form 3115 in accordance with section 6.02 (3) of this revenue procedure.
- (b) Change made on an amended return for the year of change. This change may also be made on an amended federal tax return for the year of change (as defined in section 6.17 (4) of this APPENDIX), provided:
 - (i) the taxpayer files the original Form 3115 with the taxpayer's amended federal tax return for the year of change (as defined in section 6.17 (4) of this APPENDIX) 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; and
 - (ii) the taxpayer's amended federal tax return for the year of change (as defined in section 6.17 (4) of this APPENDIX) includes the [*190] 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 section 6.17 of this APPENDIX.

(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) Scope limitations inapplicable. The scope limitations in section 4.02 of this revenue procedure do not apply to this change.

(6) Filing requirements. Notwithstanding section 6.02 (3) (a) of this revenue procedure, a taxpayer making this change in accordance with section 6.17 (3) (b) of this APPENDIX must attach the original Form 3115 to the taxpayer's timely filed amended federal tax return for the year of

change and must file the required copy (with signature) of the Form 3115 with the national office no later than when the original Form 3115 is filed with the amended federal tax return for the year of change. If a taxpayer is making this change in accordance with section 6.17 (3) (a) [*191] of this APPENDIX, the filing requirements in section 6.02 (3) (a) of this revenue procedure apply.

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

(8) Concurrent automatic change. 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.

(9) Ogden copy of Form 3115 required in lieu of national office copy. A taxpayer changing its method of accounting under this section 6.17 of the APPENDIX must file a signed copy of its completed Form 3115 with the IRS in Ogden, UT, (Ogden copy) in lieu of filing the national office copy no earlier than the first day of the year of change and no later than the date the taxpayer files the original Form 3115 with its federal income tax return for the year of change. See sections 6.02 (3) (a) (ii) (B) (providing the general rules) and section 6.02 (7) (b) (providing the mailing address) of this revenue procedure.

(10) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under section 6.17 of this APPENDIX is "107." See section 6.02 (4) [*192] of this revenue procedure.

(11) Contact information. For further information regarding a change under this section, contact Douglas Kim at 202-622-4930 (not a toll-free call).

.18 Depreciation of MACRS property acquired in a like-kind exchange or as a result of an involuntary conversion.

(1) Description of change. This change applies to a taxpayer that wants to make a change in method of accounting for depreciation under § 168 to either:

- (a) Apply the provisions of § 1.168 (i)-6, or rely on prior guidance by the Service for determining the depreciation deductions of replacement MACRS property and relinquished MACRS property, for a like-kind exchange or an involuntary conversion of MACRS property for which the time of disposition, the time of replacement, or both occur on or before February 27, 2004; or
- (b) Apply § 1.168 (i)-6 (i) (2) to the relinquished property and the replacement property for which the time of disposition, the time of replacement, or both occur on or before February 26, 2007, if the replacement property replaces relinquished property for which the taxpayer made a valid election under § 168 (f) (1) to exclude it from the application of § 168.

(2) Applicability. The change [*193] in section 6.18 (1) (a) of this APPENDIX applies only if the taxpayer's applicable federal tax return has been filed on or before February 27, 2004. The change in section 6.18 (1) (b) of this APPENDIX applies only if the taxpayer wants to apply §

1.168 (i)-6 (i) (2) and the taxpayer's applicable federal tax return has been filed on or before February 26, 2007. For further details, see § 1.168 (i)-6 (k) (2) and (3).

(3) Concurrent automatic change. 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.

(4) Ogden copy of Form 3115 required in lieu of national office [*194] copy. A taxpayer changing its method of accounting under this section 6.18 of the APPENDIX must file a signed copy of its completed Form 3115 with the IRS in Ogden, UT, (Ogden copy) in lieu of filing the national office copy no earlier than the first day of the year of change and no later than the date the taxpayer files the original Form 3115 with its federal income tax return for the year of change. See sections 6.02 (3) (a) (ii) (B) (providing the general rules) and section 6.02 (7) (b) (providing the mailing address) of this revenue procedure.

(5) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under section 6.18 of this APPENDIX is "116." See section 6.02 (4) of this revenue procedure.

(6) Contact information. For further information regarding a change under this section, contact Douglas Kim at 202-622-4930 (not a toll-free call).

.19 Lessor improvements abandoned at termination of lease.

(1) Description of change.

(a) Applicability. This change applies to a lessor that continued to depreciate under § 168 an improvement described in § 168 (i) (8) (B) (i) and (ii) after the improvement was irrevocably disposed [*195] of or abandoned by the lessor at the termination of the applicable lease by the lessee and now wants to comply with § 168 (i) (8) (B) by recognizing gain or loss upon the disposition or abandonment of the improvement. To qualify for recognizing gain or loss under § 168 (i) (8) (B), the intent of the lessor must be irrevocably to discard the improvement so that it will neither be used again by the lessor nor retrieved by the lessor for resale, exchange, or other disposition. See § 1.167 (a)-8 (a) (4).

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

(i) improvements disposed of or abandoned before June 13, 1996;

- (ii) the extent § 280B applies to the demolition of a structure, a portion of which may include leasehold improvements; or
- (iii) improvements disposed of or abandoned before the termination of the applicable lease.

(2) Ogden copy of Form 3115 required in lieu of national office copy. A taxpayer changing its method of accounting under this section 6.19 of the APPENDIX must file a signed copy of its completed Form 3115 with the IRS in Ogden, UT, (Ogden copy) in lieu of filing the national office copy no earlier than the first day of the year of change and no later than the date the [*196] taxpayer files the original Form 3115 with its federal income tax return for the year of change. See sections 6.02 (3) (a) (ii) (B) (providing the general rules) and section 6.02 (7) (b) (providing the mailing address) of this revenue procedure.

(3) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under section 6.19 of this APPENDIX is "117." See section 6.02 (4) of this revenue procedure.

(4) Contact information. For further information regarding a change under this section, contact Douglas Kim at 202-622-4930 (not a toll-free call).

.20 Repairable and reusable spare parts.

(1) Description of change.

(a) **Applicability.** This change applies to a taxpayer that wants to change from item accounting to multiple asset accounting (pooling) for its repairable and reusable spare parts in accordance with section 6.20 (2) of this APPENDIX or that wants to change its method of identifying disposed repairable and reusable spare parts to a method described in section 6.20 (3) of this APPENDIX. These changes apply to repairable and reusable spare parts that: are owned by the taxpayer at the beginning of the year of change; are used [*197] 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.

(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 and that elected to establish general asset accounts for the repairable and reusable spare parts;

- (ii) a taxpayer that is not currently capitalizing and depreciating the cost of its repairable and reusable spare parts under § 168 in accordance with the holdings in Rev. Rul. 69-200, 1969-1 C.B. 60, and Rev. Rul. 69-201, 1969-1 C.B. 60, unless the taxpayer concurrently changes its method to properly capitalize and depreciate these costs in conjunction with a change under section 10.07 of this APPENDIX. Rev. Rul. 69-200 and Rev. Rul. 69-201 hold that repairable and reusable spare parts are tangible property for which depreciation is allowable at the time that the related equipment is placed in service by the taxpayer and the method of computing depreciation [*198] for the repairable and reusable spare parts is the same method of computing depreciation for the related equipment;
- (iii) 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 6.20 of the APPENDIX 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 11.01 or 11.02 of this APPENDIX (as applicable); or
- (iv) a taxpayer that is using an impermissible 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, unless the taxpayer concurrently changes its method to use a permissible method of accounting for depreciation under section 6.01 of this APPENDIX.

(2) Establishment of pools. A taxpayer may change from item accounting to pooling for repairable and reusable spare parts by establishing one or more pools for repairable and reusable spare parts beginning in the year of change. Each pool must include only the repairable [*199] and reusable spare parts that are placed in service by the taxpayer in the same taxable year and have the same: (a) 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, (b) applicable depreciation method, (c) applicable recovery period, and (d) applicable convention. Additionally, repairable and reusable spare parts subject to the mid-quarter convention may only be grouped into a pool with repairable and reusable spare parts that are placed in service in the same quarter of the taxable year.

Further, each pool for repairable and reusable spare parts placed in service by the taxpayer after 1986 and before the year of change 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 pool is equal to the sum of the unadjusted depreciable bases as of the beginning of the year of change for all repairable and reusable spare parts included in that pool. The beginning balance of the depreciation reserve of each pool is equal to the sum of the greater of the depreciation allowed or allowable as of the beginning of the [*200] year of change for all repairable and reusable spare parts included in that pool.

(3) Permissible methods of identifying disposed repairable and reusable spare parts. Beginning in the year of change, a taxpayer may change to one of the following methods of accounting to identify its disposed repairable and reusable spare parts:

- (a) Specific identification of each disposed repairable and reusable spare part; or
- (b) A first-in, first-out method of accounting if: (i) the taxpayer establishes pools for repairable and reusable spare parts in accordance with section 6.20 (2) of this APPENDIX, (ii) the repairable and reusable spare parts are mass assets, and (iii) the total repairable and reusable spare parts dispositions during a particular taxable year are readily determined from the taxpayer's records but it is impracticable for the taxpayer to maintain records from which the taxpayer can determine the particular taxable year in which the disposed repairable and reusable spare parts were placed in service by the taxpayer. A taxpayer using the first-in, first-out method of accounting under this section 6.20 (3) must identify the repairable and reusable spare parts disposed of in a taxable year [*201] from the pool with the earliest placed in-service year existing at the beginning of the taxable year of the disposition. For purposes of this section 6.20 (3), mass assets are a mass or group of individual items of depreciable property:
 - (i) that are not necessarily homogeneous;
 - (ii) each of which is minor in value relative to the total value of the mass or group;
 - (iii) numerous in quantity;
 - (iv) usually accounted for only on a total dollar or quantity basis;
 - (v) with respect to which separate identification is impracticable; and
 - (vi) are placed in service by the taxpayer in the same taxable year.

(4) Manner of making change.

- (a) Establishment of pools. Because the adjusted basis of the property is not changed as a result of changing from item accounting to pooling under section 6.20 (2) of this

APPENDIX, no items are being duplicated or omitted. Accordingly, a § 481 (a) adjustment is neither required nor necessary.

- (b) Identifying disposed repairable and reusable spare parts. The change to a method described in section 6.20 (3) of this APPENDIX for identifying disposed repairable and reusable spare parts is made on a cut-off basis and applies only to repairable and reusable spare parts disposed of [*202] by the taxpayer beginning in the year of change. See section 2.06 of this revenue procedure for more information regarding a cut-off basis. Accordingly, a § 481 (a) adjustment is neither permitted nor required.

(5) 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.
- (b) A taxpayer that wants to make both this change and a change to a capitalization and depreciation method under section 10.07 of this APPENDIX 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.
- (c) A taxpayer that wants to make both this change and a change to a UNICAP method under section 11.01 or 11.02 of this APPENDIX (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.
- (d) A taxpayer that wants to make both this change and a change [*203] 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 6.01 of this APPENDIX 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.

(6) Ogden copy of Form 3115 required in lieu of national office copy. A taxpayer changing its method of accounting under this section 6.20 of the APPENDIX must file a signed copy of its completed Form 3115 with the IRS in Ogden, UT, (Ogden copy) in lieu of filing the national office copy no earlier than the first day of the year of change and no later than the date the taxpayer files the original Form 3115 with its federal income tax return for the year of change. See sections 6.02

(3) (a) (ii) (B) (providing the general rules) and section 6.02 (7) (b) (providing the mailing address) of this revenue procedure.

(7) Designated automatic accounting method change number. The designated automatic accounting method change number for a change [*204] under section 6.20 of this APPENDIX is "118." See section 6.02 (4) of this revenue procedure.

(8) Contact information. For further information regarding a change under this section, contact Douglas Kim at 202-622-4930 (not a toll-free call).

.21 Land.

(1) Description of change.

(a) **Applicability.** This change applies to a taxpayer that wants to change from depreciating land to not depreciating land or wants to change from depreciating a nondepreciable land improvement to not depreciating a nondepreciable land improvement. This change applies to any land or nondepreciable land improvement that is owned by the taxpayer at the beginning of the year of change.

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

(i) any depreciable land improvement; 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 6.21 of the APPENDIX 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 11.01 or 11.02 of this APPENDIX (as applicable).

(2) [*205] 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.

(b) A taxpayer that wants to make both this change and a change to a UNICAP method under section 11.01 or 11.02 of this APPENDIX (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.

(3) Ogden copy of Form 3115 required in lieu of national office copy. A taxpayer changing its method of accounting under this section 6.21 of the APPENDIX must file a signed copy of its completed Form 3115 with the IRS in Ogden, UT, (Ogden copy) in lieu of filing the national office copy no earlier than the first day of the year of change and no later than the date the taxpayer files the original Form 3115 with its federal income tax return for the year of change. See sections 6.02 (3) (a) (ii) (B) (providing the general rules) and section 6.02 (7) (b) (providing the mailing address) of this revenue procedure.

(4) Designated automatic accounting [*206] method change number. The designated automatic accounting method change number for a change in method of accounting under section 6.21 of this APPENDIX is "119." See section 6.02 (4) of this revenue procedure.

(5) Contact information. For further information regarding a change under this section, contact Douglas Kim at 202-622-4930 (not a toll-free call).

.22 Kansas additional first year depreciation.

(1) Description of change.

- (a) In general. This change applies to a taxpayer that wants to make a change in method of accounting for depreciation for qualified Recovery Assistance (RA) property placed in service by the taxpayer on or after May 5, 2007, during the taxable year that includes May 5, 2007, to claim the Kansas additional first year depreciation deduction for a class of property for which the taxpayer did not claim the Kansas additional first year depreciation deduction on the taxpayer's timely filed federal tax return for the taxable year that includes May 5, 2007, provided the taxpayer did not make an election not to deduct the Kansas additional first year depreciation for the class of property pursuant to section 4.03 of Notice 2008-67, 2008-32 I.R.B 307. For further details, [*207] see section 3.03 of Notice 2008-67
- (b) Return for the first taxable year succeeding the taxable year that includes May 5, 2007, not filed on or before August 11, 2008. If, on or before August 11, 2008, the taxpayer did not file its federal tax return for the first taxable year succeeding the taxable year that includes May 5, 2007, and the taxpayer owns the property as of the first day of this taxable year, the taxpayer may file Form 3115 to make the change in method of accounting under section 6.22 of this APPENDIX with the taxpayer's timely filed federal tax return for the first taxable year succeeding the taxable year that includes May 5, 2007.
- (c) Return for the first taxable year succeeding the taxable year that includes May 5, 2007, filed on or before August 11, 2008. If on or before August 11, 2008, the taxpayer filed its federal tax return for the first taxable year succeeding the taxable year that includes

May 5, 2007, the taxpayer may make the change in method of accounting under section 6.22 of this APPENDIX either by:

- (i) Filing an amended federal tax return (or a qualified amended return) on or before December 31, 2009, for the first taxable year succeeding the taxable year that [*208] includes May 5, 2007, attaching a Form 3115 to the amended federal tax return, and including the statement "Filed Pursuant to Notice 2008-67" at the top of any amended return (or qualified amended return); or
- (ii) Filing a Form 3115 with the taxpayer's timely filed federal tax return for the second taxable year succeeding the taxable year that includes May 5, 2007, if the taxpayer owns the property as of the first day of this taxable year.

(2) Scope limitations inapplicable. The scope limitations in section 4.02 of this revenue procedure do not apply to this change.

(3) Concurrent automatic change. 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 [*209] for all the changes that are included in that Form 3115 generating such adjustment.

(4) Ogden copy of Form 3115 required in lieu of national office copy. A taxpayer changing its method of accounting under this section 6.22 of the APPENDIX must file a signed copy of its completed Form 3115 with the IRS in Ogden, UT, (Ogden copy) in lieu of filing the national office copy no earlier than the first day of the year of change and no later than the date the taxpayer files the original Form 3115 with its federal income tax return for the year of change. See sections 6.02 (3) (a) (ii) (B) (providing the general rules) and section 6.02 (7) (b) (providing the mailing address) of this revenue procedure.

(5) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under section 6.22 of this APPENDIX is "115." See section 6.02 (4) of this revenue procedure.

(6) Contact Information. For further information regarding a change under this section, contact Douglas Kim at 202-622-4930 (not a toll-free call).

.23 Tenant construction allowances.

(1) Description of change and scope.

- (a) Applicability. This change applies to a taxpayer that wants [*210] 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 section 6.23 of this APPENDIX, the term "tenant construction allowance (s)" [*211] 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) The change in method of accounting under section 6.23 of this APPENDIX is made using a cut-off method and only applies to leases entered into on or after the beginning of the year of change. See section 2.06 of this revenue procedure.
- (b) If a taxpayer wants to change its method of accounting for tenant construction allowances under existing leases, the taxpayer must file a Form 3115 with the Commissioner in accordance with the requirements of § 1.446-1 (e) (3) (i) and Rev.

Proc. 97-27. A change involving tenant construction allowances under existing leases will require a § 481 (a) adjustment. Consent to change a method of accounting for tenant construction allowances under existing leases is granted only if the taxpayer's treatment of the property subject to the tenant construction allowances is consistent with the treatment of such property by the counterparty for federal income tax purposes. The following information must be submitted with a Form 3115 submitted under Rev. Proc. 97-27:

- (i) If a lessee is filing the [*212] Form 3115, the lessee must submit with the Form 3115: (A) a statement 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; and (B) a representation, signed under penalties of perjury, from such lessor that provides the amount of the tenant construction allowance provided to the lessee and an explanation as to how the lessor is treating the property subject to such tenant construction allowance for federal income tax purposes. If the lessor capitalized the tenant construction allowance (or any portion thereof) provided to the lessee and depreciated the property subject to such tenant construction allowance, the representation must also include the amount that was capitalized by the lessor, the Internal Revenue Code section under which the property is depreciated by the lessor, and the life over which the property is depreciated by the lessor.

- (ii) If a lessor is filing the Form 3115, the lessor must submit with the Form 3115: (A) a statement that provides the amount of the tenant construction allowance [*213] provided to a lessee and the name of the lessee that received such tenant construction allowance; and (B) a representation, signed under penalties of perjury, from such lessee that provides the amount of the tenant construction allowance received from the lessor, the amount of such tenant construction allowance recognized as gross income by the lessee, the amount of the tenant construction allowance expended by the lessee on property, and an explanation as to how the lessee is treating the property subject to the tenant construction allowance for federal income tax purposes. If the lessee capitalized the tenant construction allowance (or any portion thereof) received from the lessor and depreciated the property subject to such tenant construction allowance, the representation must also include the amount that was capitalized by the lessee, the Internal Revenue Code section under which the property is depreciated by the lessee, and the life over which the property is depreciated by the lessee.

(4) No audit protection. A taxpayer does not receive audit protection under section 7 of this revenue procedure in connection with this change.

(5) Concurrent automatic change. A taxpayer that wants [*214] 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.

(6) Ogden copy of Form 3115 required in lieu of national office copy. A taxpayer changing its method of accounting under this section 6.23 of the APPENDIX must file a signed copy of its completed Form 3115 with the IRS in Ogden, UT, (Ogden copy) in lieu of filing the national office copy no earlier than the first day of the year of change and no later than the date the taxpayer files the original Form 3115 with its federal income tax return for the year of change. See sections 6.02 (3) (a) (ii) (B) (providing the general rules) and section 6.02 (7) (b) (providing the mailing address) of this revenue procedure.

(7) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under section 6.23 of this APPENDIX is "145." See section 6.02 (4) of this revenue procedure.

(8) Contact information. For further information regarding a change under this section, contact Ruba Nasrallah at 202-622-4930 (not a toll-free call).

.24 Dispositions of structural components of a building (section 168).

(1) Description of [*215] change.

- (a) Applicability. This change applies to a taxpayer that wants to change to a unit of property that is permissible under applicable legal authority for determining when the taxpayer has disposed of a building (as defined in § 1.48-1 (e) (1), except as otherwise provided under any other applicable provision of the Code or regulations relating to depreciation or amortization (for example, § 1400I (f) (3))), and its structural components (as defined in § 1.48-1 (e) (2)) for depreciation purposes. This change also will affect the determination of gain or loss from the disposition of the building (including its structural components).
- (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 section 6.24 of this APPENDIX 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 11.01 or 11.02 of this APPENDIX (as applicable);
 - (ii) any property that is not depreciated under § 168 under [*216] the taxpayer's present and proposed methods of accounting;
 - (iii) any section 1245 property or depreciable land improvement (but see section 6.25 of this APPENDIX for making this change);

- (iv) any leasehold improvement, whether made by the lessor or the lessee (unless the taxpayer leased land and constructed a building on such leased land, and such building (including its structural components) is the leasehold improvement and is the unit of property under the taxpayer's proposed method of accounting under section 6.24 of this APPENDIX);
- (v) 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));
- (vi) any property subject to a general asset account election under § 168 (i) (4) and the regulations thereunder;
- (vii) any building with multiple condominium or cooperative units (unless each condominium or cooperative unit is the unit of property under the taxpayer's proposed method of accounting under section 6.24 of this APPENDIX); or
- (viii) any multiple buildings (including their structural components) that are treated as a single building (single unit of property) under the taxpayer's [*217] present method of accounting or will be treated as a single building (single unit of property) under the taxpayer's proposed method of accounting.

(2) Manner of making change. A taxpayer making this change must attach to its Form 3115 a statement with the following:

- (a) A detailed description of the types of property to which this change applies;
- (b) A detailed description of the unit of property under the taxpayer's present and proposed methods of accounting for determining when the building (including its structural components) is disposed of by the taxpayer for depreciation purposes (when depreciation ends);
- (c) A detailed description of how the taxpayer determined the unit of property under its present method of accounting for determining when the building (including its structural components) is disposed of by the taxpayer for depreciation purposes and will determine the unit of property under its proposed method of accounting for

determining when the building (including its structural components) is disposed of by the taxpayer for depreciation purposes. If this proposed unit of property is not each building (including its structural components) (except as provided in section 6.24 (1) (b) (vii) [*218] of this APPENDIX regarding condominium or cooperative units), also provide the legal authority supporting the taxpayer's proposed unit of property for determining when the building (including its structural components) is disposed of by the taxpayer for depreciation purposes;

- (d) A statement as to whether the taxpayer's proposed unit of property for determining when the building (including its structural components) is disposed of by the taxpayer for depreciation purposes is the same as the taxpayer's present unit of property for determining when the building (including its structural components) is placed in service by the taxpayer (when depreciation begins). If not, also provide the unit of property for determining when the building (including its structural components) is placed in service by the taxpayer and explain why the taxpayer is using a different unit of property for determining when the building (including its structural components) is placed in service; and
- (e) 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 [*219] conditions:
 - (i) 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 application;
 - (ii) 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 application; 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 application to any regulatory body having jurisdiction over the public utility property subject to the application.

(3) No ruling on unit of property. The consent granted under this revenue procedure for this change is not a determination by the Commissioner that the taxpayer is using the appropriate unit of property for determining when the building (including its structural components) is placed in service or disposed of by the taxpayer for depreciation purposes and [*220] does not create any

presumption that the proposed unit of property is permissible for depreciation purposes. The director will ascertain whether the taxpayer's determination of its unit of property for depreciation purposes is correct.

(4) Concurrent automatic change.

- (a) A taxpayer that wants to make both this change and a change to a UNICAP method under section 11.01 or 11.02 of this APPENDIX (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.
- (b) A taxpayer that wants to make both this change and a change under section 6.25 of this APPENDIX 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.

(5) Ogden copy of Form 3115 required in lieu of national office copy. A taxpayer changing its method of accounting under this section 6.24 of the APPENDIX must file a signed copy of its completed Form 3115 with the IRS in Ogden, [*221] UT, (Ogden copy) in lieu of filing the national office copy no earlier than the first day of the year of change and no later than the date the taxpayer files the original Form 3115 with its federal income tax return for the year of change. See sections 6.02 (3) (a) (ii) (B) (providing the general rules) and section 6.02 (7) (b) (providing the mailing address) of this revenue procedure.

(6) Designated automatic accounting method change number. The designated automatic accounting method change number for a change in method of accounting under section 6.24 of this APPENDIX is "146." See section 6.02 (4) of this revenue procedure.

(7) Contact information. For further information regarding a change under this section, contact Charles Magee at 202-622-4930 (not a toll-free call).

.25 Dispositions of tangible depreciable assets (other than a building or its structural components) (section 168).

(1) Description of change.

- (a) **Applicability.** This change applies to a taxpayer that wants to change to a unit of property that is permissible under applicable legal authority for determining when the taxpayer has disposed of a section 1245 property or a depreciable land improvement for depreciation purposes. [*222] This change also will affect the determination of gain or loss from the disposition of the section 1245 property or the depreciable land improvement.

(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 section 6.25 of this APPENDIX 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 11.01 or 11.02 of this APPENDIX (as applicable);
- (ii) any property that is not depreciated under § 168 under the taxpayer's present and proposed methods of accounting;
- (iii) any building (including its structural components) (but see section 6.24 of this APPENDIX for making this change);
- (iv) any leasehold improvement, whether made by the lessor or the lessee (unless each leasehold improvement is the unit of property under the taxpayer's proposed method of accounting under section 6.25 of this APPENDIX);
- (v) any property disposed of by the taxpayer in a transaction to which a nonrecognition section of [*223] the Code applies (for example, § 1031, transactions subject to § 168 (i) (7));
- (vi) any property subject to a general asset account election under § 168 (i) (4) and the regulations thereunder;
- (vii) any property subject to a mass asset account election under former § 168 (d) (2) (A); or
- (viii) any property subject to the repair allowance under § 1.167 (a)-11 (d) (2) (including expenditures incurred after December 31, 1980, for the repair, maintenance, rehabilitation, or improvement of property placed in service before January 1, 1981).

(2) Manner of making change. A taxpayer making this change must attach to its Form 3115 a statement with the following:

- (a) A detailed description of the types of property to which this change applies;
- (b) A detailed description of the unit of property under the taxpayer's present and proposed methods of accounting for determining when the property is disposed of by the taxpayer for depreciation purposes (when depreciation ends);
- (c) A detailed description of how the taxpayer determined the unit of property under its present method of accounting for determining when the property is disposed of by the taxpayer for depreciation purposes and will determine the unit [*224] of property under its proposed method of accounting for determining when the property is disposed of by the taxpayer for depreciation purposes. If this proposed unit of property is not determined using only the functional interdependence standard (see, e.g., *Armstrong World Industries, Inc. v. Commissioner*, T.C. Memo. 1991-326, aff'd, 974 F.2d 422 (3rd Cir. 1992); *Hawaiian Independent Refinery, Inc. v. United States*, 697 F.2d 1063, 1069 (Fed. Cir. 1983)), also provide the legal authority supporting the taxpayer's proposed unit of property for determining when the property is disposed of by the taxpayer for depreciation purposes;
- (d) A statement as to whether the taxpayer's proposed unit of property for determining when the property is disposed of by the taxpayer for depreciation purposes is the same as the taxpayer's present unit of property for determining when the property is placed in service by the taxpayer (when depreciation begins). If not, also provide the unit of property for determining when the property is placed in service by the taxpayer and explain why the taxpayer is using a different unit of property for determining when the property is placed in service; and
- (e) if any [*225] 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:
 - (i) 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 application;
 - (ii) 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 application; 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 application to any regulatory body having jurisdiction over the public utility property subject to the application.

(3) No ruling on unit of property. The consent granted under this revenue procedure for this change is not a determination by the Commissioner that [*226] the taxpayer is using the appropriate unit of property for determining when the property is placed in service or disposed of by the taxpayer for depreciation purposes and does not create any presumption that the proposed unit of property is permissible for depreciation purposes. The director will ascertain whether the taxpayer's determination of its unit of property for depreciation purposes is correct.

(4) Concurrent automatic change.

- (a) A taxpayer that wants to make both this change and a change to a UNICAP method under section 11.01 or 11.02 of this APPENDIX (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.

- (b) A taxpayer that wants to make both this change and a change under section 6.24 of this APPENDIX 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.

(5) Ogden copy of Form 3115 required in lieu of national [*227] office copy. A taxpayer changing its method of accounting under this section 6.25 of the APPENDIX must file a signed copy of its completed Form 3115 with the IRS in Ogden, UT, (Ogden copy) in lieu of filing the national office copy no earlier than the first day of the year of change and no later than the date the taxpayer files the original Form 3115 with its federal income tax return for the year of change. See sections 6.02 (3) (a) (ii) (B) (providing the general rules) and section 6.02 (7) (b) (providing the mailing address) of this revenue procedure.

(6) Designated automatic accounting method change number. The designated automatic accounting method change number for a change in method of accounting under section 6.25 of this APPENDIX is "147." See section 6.02 (4) of this revenue procedure.

(7) Contact information. For further information regarding a change under this section, contact Charles Magee at 202-622-4930 (not a toll-free call).

SECTION 7. RESEARCH AND EXPERIMENTAL EXPENDITURES (§ 174)

.01 Changes to a different method or different amortization period.

(1) Description of change.

- (a) This change applies to a taxpayer that wants to change the treatment of expenditures that qualify [*228] as research and experimental expenditures under § 174.
- (b) Section 174 and the regulations thereunder provide the specific rules for changing a method of accounting under § 174 for research and experimental expenditures. Under § 174, a taxpayer may treat research and experimental expenditures that are paid or incurred by the taxpayer during the taxable year in connection with the taxpayer's trade or business as expenses under § 174 (a) or as deferred expenses amortizable ratably over a period of not less than 60 months under § 174 (b). Pursuant to § 1.174-1, research and experimental expenditures that are not treated as expenses or deferred expenses under § 174 must be treated as capital expenditures. Further, § 1.174-1 provides that the expenditures to which § 174 applies may relate either to a general research program or to a particular project.
- (c) If a taxpayer has not treated research and experimental expenditures as expenses under § 174 (a), § 174 (a) (2) (B) and § 1.174-3 (b) (2) provide that the taxpayer may, with consent, adopt the expense method at any time.
- (d) If a taxpayer has treated research and experimental expenditures as expenses under § 174 (a), § 174 (a) (3) and § 1.174-3 (b) (3) [*229] provide that the taxpayer may, with consent, change to a different method of treating research and experimental expenditures.
- (e) If a taxpayer has treated research and experimental expenditures as deferred expenses under § 174 (b), § 174 (b) (2) and § 1.174-4 (b) (2) provide that the taxpayer may, with consent, change to a different method of treating research or experimental expenditures or to a different period of amortization for deferred expenses.

(2) Scope.

- (a) Applicability. This change applies to any taxpayer that is changing:

- (i) from treating research and experimental expenditures for a particular project or projects as expenses under § 174 (a) to treating such expenditures as deferred expenses under § 174 (b), or vice versa;
 - (ii) to a different period of amortization for research and experimental expenditures for a particular project or projects that are being treated as deferred expenses under § 174 (b); or
 - (iii) from treating research and experimental expenditures for a particular project or projects as expenses under § 174 (a) or deferred expenses under § 174 (b) to treating such expenditures as a capital expenditure under § 263 (a), or vice versa.
- (b) Inapplicability. This change [*230] does not apply to:
- (i) a portion of the research and experimental expenditures paid or incurred for a particular project during the year of change or in subsequent taxable years (that is, the change must apply to all of such expenditures; see §§1.174-3 (a) and 1.174-4 (a) (5));
 - (ii) a change in the treatment of computer software costs under Rev. Proc. 2000-50, 2000-2 C.B. 601, as modified by Rev. Proc. 2007-16, 2007-4 I.R.B. 358 (but see section 9 of this APPENDIX for making that change); or
 - (iii) a change in the treatment of Year 2000 costs under Rev. Proc. 97-50, 1997-2 C.B. 525.

(3) Scope limitations clarified. The scope limitation under section 4.02 (7) of this revenue procedure is applied on a project by project basis.

(4) Manner of making change.

- (a) This change is made on a cut-off basis and applies to all research and experimental expenditures paid or incurred for a particular project or projects on or after the beginning of the year of change. See section 2.06 of this revenue procedure and § 174 (b) (2), and §§ 1.174-3 (a), 1.174-3 (b) (2), and 1.174-4 (a) (5) for more information regarding a cut-off basis. Accordingly, a § 481 (a) adjustment is neither permitted nor required.

- (b) The [*231] requirement under §§ 1.174-3 (b) (2), 1.174-3 (b) (3), and 1.174-4 (b) (2) to file an application no later than the end of the first taxable year in which the different method or different amortization period is to be used is waived for this change. However, see section 6 of this revenue procedure for filing requirements applicable under this revenue procedure.
- (c) The consent granted under this revenue procedure satisfies the consent required under §§ 174 (a) (2) (B), 174 (a) (3), and 174 (b) (2), and §§ 1.174-3 (b) (2), 1.174-3 (b) (3), and 1.174-4 (b) (2).

(5) Additional requirement. A taxpayer must attach to its Form 3115 a written statement providing:

- (a) the information required in § 1.174-3 (b) (2) if the taxpayer is changing to treating research and experimental expenditures as expenses under § 174 (a);
- (b) the information required in § 1.174-3 (b) (3) if the taxpayer is changing from treating research and experimental expenditures as expenses under § 174 (a); or
- (c) the information required in § 1.174-4 (b) (2) if the taxpayer is changing from treating research and experimental expenditures as deferred expenses under § 174 (b) or is changing to a different period of amortization for [*232] research and experimental expenditures being treated as deferred expenses under § 174 (b).

(6) No audit protection. A taxpayer does not receive audit protection under section 7 of this revenue procedure in connection with this change.

(7) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under section 7.01 of this APPENDIX is "17." See section 6.02 (4) of this revenue procedure.

(8) Contact information. For further information regarding a change under this section, contact Grant D. Anderson at 202-622-4930 (not a toll-free call).

.02 Reserved.

SECTION 8. ELECTIVE EXPENSING PROVISIONS (§ 179D)

.01 Reserved.

.02 Reserved.

.03 Reserved.

.04 Deduction for Energy Efficient Commercial Buildings (§ 179D).

(1) Description of Change. This change 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 must be claimed in the taxable year in which the property is placed in service and is subject to the limits [*233] of § 179D (b). 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) energy efficient commercial building property that is installed on or in any building that is located in the United States and is within the scope of ANSI/ASHRAE/IESNA Standard 90.1-2001, Energy Standard for Buildings Except Low-Rise Residential Buildings, developed for the American National Standards Institute by the American Society of Heating, Refrigerating, and Air Conditioning Engineers and the Illuminating Engineering Society of North America (as in effect on April 2, 2003, including addenda 90.1a-2003, 90.1b-2002, 90.1c-2002, 90.1d-2002, and 90.1k-2002 as in effect on that date) (Standard 90.1-2001);
- (b) energy efficient commercial building property that is installed as part of the interior lighting systems; the heating, cooling, ventilation, and hot water systems; or the building envelope of a commercial building; and
- (c) it is certified that the interior lighting systems, heating, cooling, [*234] ventilation, and hot water systems, or the building envelope that have been incorporated into the building, or that the taxpayer plans to incorporate into the building subsequent to the installation of such property, will reduce the total annual energy and power costs with respect to combined usage of the building's heating, cooling, ventilation, hot water, and interior lighting systems by 50 percent or more as compared to a Reference Building that meets the minimum requirements of Standard 90.1-2001.

(3) Manner of making change. A taxpayer making this change must attach a statement with a detailed description of the tax treatment of the property under the taxpayer's present and proposed methods of accounting.

(4) Additional filing requirement. In addition to the statement required by section 8.04 (3) of the APPENDIX of this revenue procedure, a taxpayer making this change must attach a certification as required by section 4 of Notice 2006-52, 2006-1 C.B. 1175, and section 5 of Notice 2008-40, 2008-14 I.R.B. 725, to demonstrate the energy efficient commercial building property has achieved the reduction energy and power costs to qualify for the § 179D deduction. In the case of a publicly [*235] owned building for which a designer has been allocated a deduction under § 179D, the

designer becomes the taxpayer for purposes of the deduction and must attach a certification as required by Notice 2006-52 and Notice 2008-40, and an allocation from the owner of the building to the designer as required by section 3.04 of Notice 2008-40.

(5) No audit protection. A taxpayer does not receive audit protection under section 7 of this revenue procedure in connection with this change.

(6) Designated automatic accounting method change number. The designated automatic accounting method change number for a change in method of accounting under this section 8.04 of the APPENDIX is "152." See section 6.02 (4) of this revenue procedure.

(7) Contact information. For further information regarding a change under this section, contact Jennifer Bernardini at 202-622-3110 (not a toll-free call).

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 [*236] 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. If a taxpayer treats the costs of computer software in accordance with the applicable method described in Rev. Proc. 2000-50, the Service will not disturb the taxpayer's treatment of its costs of computer software.

(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) 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) [*237] of Rev. Proc. 2000-50.

(4) Ogden copy of Form 3115 required in lieu of national office copy. A taxpayer changing its method of accounting under this section 9.01 of the APPENDIX must file a signed copy of its completed Form 3115 with the IRS in Ogden, UT, (Ogden copy) in lieu of filing the national office copy no earlier than the first day of the year of change and no later than the date the taxpayer files the original Form 3115 with its federal income tax return for the year of change. See sections 6.02 (3) (a) (ii) (B) (providing the general rules) and section 6.02 (7) (b) (providing the mailing address) of this revenue procedure.

(5) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under section 9.01 of this APPENDIX is "18." See section 6.02 (4) of this revenue procedure.

(6) Contact information. For further information regarding a change under this section, contact Douglas Kim at 202-622-4930 (not a toll-free call).

.02 Reserved.

SECTION 10. 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 [*238] 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. The three alternative methods of accounting for package design costs described 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 [*239] Rev. Proc. 97-35).

(3) **Designated automatic accounting method change number.** The designated automatic accounting method change number for a change under section 10.01 of this APPENDIX is "19." See section 6.02 (4) of this revenue procedure.

(4) **Contact information.** For further information regarding a change under this section, contact Gwen Turner at 202-622-5020 (not a toll-free call).

.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 section 10.02 [*240] of this

APPENDIX must change to a permissible method of accounting for depreciation for the cost of that gas.

(3) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under section 10.02 of this APPENDIX is "20." See section 6.02 (4) of this revenue procedure.

(4) Contact information. For further information regarding a change under this section, contact Gwen Turner at 202-622-5020 (not a toll-free call).

.03 Removal costs.

(1) Description of change. This change applies to a taxpayer that wants to change its method of accounting for certain costs incurred in the retirement and removal of depreciable assets to conform with Rev. Rul. 2000-7, 2000-1 C.B. 712.

(2) Additional requirements.

(a) Except for assets for which depreciation is determined in accordance with § 1.167 (a)-11 (ADR), the taxpayer's new 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 the APPENDIX of this revenue procedure for changing a taxpayer's present method of treating salvage proceeds.)

(b) If [*241] this change involves assets that are public utility property within the meaning of § 168 (i) (10) or former § 167 (1) (3) (A), the taxpayer must comply with the terms and conditions in section 6.01 (3) (b) (v) of this APPENDIX.

(3) Scope limitations inapplicable. The scope limitations in section 4.02 of this revenue procedure do not apply to this change.

(4) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under section 10.03 of this APPENDIX is "21." See section 6.02 (4) of this revenue procedure.

(5) Contact information. For further information regarding a change under this section, contact Gwen Turner at 202-622-5020 (not a toll-free call).

.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, 2000-2 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. [*242] 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. See section 2.06 of this revenue procedure for more information regarding a cut-off basis. 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 section 10.04 of this APPENDIX is "47." See section 6.02 (4) of this revenue procedure.

(4) Contact information. For further information regarding a change under this section, contact Gwen Turner at 202-622-5020 (not a toll-free call).

.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, [*243] for the specific requirements, information, and documentation required for this change.

(2) Prior unauthorized change in method of accounting. In certain circumstances, a taxpayer that made an unauthorized change in method of accounting for an item the treatment of which is provided for in §§ 1.263 (a)-4, 1.263 (a)-5, and 1.167 (a)-3 (b) is eligible for this change only if the taxpayer amends prior federal income tax returns to correct the unauthorized change in method of accounting. See section 4.03 of Rev. Proc. 2006-12 for details.

(3) Scope limitations. The 5-year prior change scope limitation in section 4.02 (7) of this revenue procedure is modified for this change in that the taxpayer does not take into account a change in method of accounting provided in §§ 1.263 (a)-4, 1.263 (a)-5, and 1.167 (a)-3 (b) requested or made for a tax year ending on or before December 31, 2005.

(4) 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 [*244] it on Form 3115.

(5) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under section 10.05 of this APPENDIX is "78." See section 6.02 (4) of this revenue procedure.

(6) Contact information. For further information regarding a change under this section, contact Gwen Turner at 202-622-5020 (not a toll-free call).

.06 Rotable spare parts.

(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 APPENDIX.

(3) Designated automatic accounting method [*245] change number. The designated automatic accounting method change number for a change under section 10.06 of this APPENDIX is "109." See section 6.02 (4) of this revenue procedure.

(4) Contact information. For further information regarding a change under this section, contact Gwen Turner at 202-622-5020 (not a toll-free call).

.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. 90, 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 10.07 of the APPENDIX may treat its repairable and [*246] 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 APPENDIX for making a change from an impermissible to a permissible method of accounting for depreciation);

- (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 10.07 of the APPENDIX 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 11.01 or 11.02 of this APPENDIX (as applicable); [*247] or
- (iii) 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 APPENDIX.

(2) Additional requirements. In addition to the other filing requirements of this revenue procedure, to change a method of accounting under this section 10.07 of the APPENDIX, a taxpayer must complete Schedule E of Form 3115 for the repairable and reusable spare parts and also provide and attach the following to the completed application:

- (a) A description of the repairable and reusable spare parts;
 - (b) A list of related equipment for which the repairable and reusable spare parts are acquired; and
 - (c) A complete description of the method of computing depreciation (e.g., 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.
- (3) Concurrent [*248] automatic change.

- (a) A taxpayer that wants to make both this change and a change to a UNICAP method under section 11.01 or 11.02 of this APPENDIX (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.

(b) A taxpayer that wants to make 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 APPENDIX (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.

(c) A taxpayer that makes 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 6.20 of this APPENDIX. A taxpayer that wants to make both this change and the change [*249] under section 6.20 of this APPENDIX 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.

(4) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under section 10.07 of this APPENDIX is "121". See section 6.02 (4) of this revenue procedure.

(5) Contact information. For further information regarding a change under this section, contact Gwen Turner at 202-622-5020 (not a toll-free call).

SECTION 11. 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 small reseller of personal property that wants to change from a permissible UNICAP method to a permissible non-UNICAP inventory capitalization method in any taxable year that it qualifies as a small reseller;
- (ii) a formerly small reseller that wants to change from a permissible non-UNICAP inventory capitalization method to a permissible [*250] UNICAP method in the first taxable year that it does not qualify as a small reseller;
- (iii) 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);

- (iv) 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 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));
- (v) a reseller that wants to change its permissible UNICAP method to include a special reseller cost allocation rule;
- (vi) a reseller or reseller-producer that wants to change to a UNICAP method (or methods) specifically described in the regulations and includes any necessary changes in the identification of costs subject to [*251] § 263A that will be accounted for using the new method in any taxable year, other than the first taxable year, that it does not qualify as a small reseller. However, this does not include a change for purposes of recharacterizing "section 471 costs" as "additional § 263A costs" (or vice versa) under the simplified resale method; or
- (vii) a reseller or reseller-producer that wants to change from not capitalizing a cost subject to § 263A to capitalizing that cost, if the reseller or reseller-producer is otherwise already using a UNICAP method (or methods) specifically described in the regulations.

(b) Inapplicability.

- (i) Self-constructed assets. This change does not apply to a taxpayer that wants to use either the simplified service cost method or the simplified production method for self-constructed assets under §§ 1.263A-1 (h) (2) (i) (D) and 1.263A-2 (b) (2) (i) (D).
- (ii) Historic absorption ratio. This change does not apply to a taxpayer that wants to make an historic absorption ratio election under §§ 1.263A-2 (b) (4) or 1.263A-3 (d) (4), or to a taxpayer that wants to revoke an election to use the historic absorption ratio with the simplified resale method (see § 1.263A-3 (d) (4) (iii) (B)), [*252] including a taxpayer using the simplified resale method with an historic absorption ratio that wants to change to a UNICAP method specifically

described in the regulations that does not include the historic absorption ratio. However, this change applies to a small reseller that wants to change from the historic absorption ratio with the simplified resale method to a permissible non-UNICAP inventory capitalization method under section 11.01 (1) (a) (i) of this APPENDIX.

- (c) Scope limitations inapplicable. The scope limitation of § 4.02 (7) of this revenue procedure does not apply to the changes described in §§ 11.01 (1) (a) (i) and (ii) of the APPENDIX of this revenue procedure.

(2) Definitions.

- (a) "Reseller" means a taxpayer that acquires real or personal property described in § 1221 (a) (1) for resale.
- (b) "Small reseller" means a reseller whose average annual gross receipts for the three immediately preceding taxable years (or fewer, if the taxpayer has not been in existence for the three preceding taxable years) do not exceed \$10,000,000. See § 263A (b) (2) (B).
- (c) "Formerly small reseller" means a reseller that no longer qualifies as a small reseller.
- (d) "Producer" means a taxpayer that [*253] produces real or tangible personal property.
- (e) "Reseller-producer" means a taxpayer that is both a producer and a reseller.
- (f) "Permissible UNICAP method" means a method of capitalizing costs that is permissible under § 263A.
- (g) "A UNICAP method specifically described in the regulations" includes the 90-10 de minimis rule to allocate a mixed service department's costs to resale activities (§ 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)), 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)), the specific identification method (§ 1.263A-1 (f) (2)), the burden rate method (§ 1.263A-1 (f) (3)), the standard cost method (§ 1.263A-1 (f) (3)), the direct reallocation method (§ 1.263A-1 (g) (4) (iii) (A)), the step-allocation method (§ 1.263A-1 (g) (4)

(iii) (B)), the simplified service cost method (§ 1.263A-1 (h)) (with a labor-based allocation ratio), and the simplified resale method without the historic absorption ratio election (§ 1.263A-3 (d)), but does not include any other reasonable allocation method within the [*254] meaning of § 1.263A-1 (f) (4).

(h) "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)).

(i) "Permissible non-UNICAP inventory capitalization method" means a method of capitalizing inventory costs that is permissible under § 471.

(3) Section 481 (a) adjustment period. Beginning with the year of change, a taxpayer changing its method of accounting for costs pursuant to sections 11.01 (1) (a) (i), 11.01 (1) (a) (iii), or 11.01 (1) (a) (iv) of this APPENDIX 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 pursuant to sections 11.01 (1) (a) (ii), 11.01 (1) (a) (v) or 11.01 (1) (a) (vi) of this [*255] APPENDIX generally must take any applicable net positive § 481 (a) adjustment for such change into account ratably over four taxable years. See section 5.04 (3) of this revenue procedure for exceptions to this general rule.

(4) Multiple changes. A taxpayer that wants to make 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).

(5) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under section 11.01 of this APPENDIX is "22." See section 6.02 (4) of this revenue procedure.

(6) Example. The following example illustrates the principles of section 11.01 of this APPENDIX for small resellers and formerly small resellers.

Assume X, a corporate reseller of personal property, incorporated January 2, 2001, adopted a taxable year ending December 31. X determines that its average annual gross receipts for the three taxable years (or fewer, if applicable) immediately preceding taxable years 2001 through 2010 are as shown in the table below:

Current Taxable Year	AVERAGE Annual Gross Receipts for the Three Taxable Years Immediately Preceding the Current Taxable Year
2001	\$ 0
2002	5,000,000
2003	6,000,000
2004	7,000,000

Current Taxable Year	AVERAGE Annual Gross Receipts for the Three Taxable Years Immediately Preceding the Current Taxable Year
2005	11,000,000
2006	11,000,000
2007	9,000,000
2008	8,000,000
2009	11,000,000
2010	12,000,000

Furthermore, [*256] X which adopted the dollar-value LIFO inventory method, has the following LIFO inventory balances determined without considering the effects of the UNICAP method:

	Beginning	Ending
2005	\$1,000,000	\$1,100,000
2006	1,100,000	1,200,000
2007	1,200,000	1,300,000
2008	1,300,000	1,400,000
2009	1,400,000	1,500,000
2010	1,500,000	1,600,000

X was required by § 263A to change to the UNICAP method for 2005 because its average annual gross receipts for the three taxable years immediately preceding 2005 were \$11,000,000, which exceeded the \$10,000,000 ceiling permitted by the small reseller exception. Assume that X was required to capitalize \$80,000 of "additional § 263A costs" to the cost of its 2005 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 2005. Thus, X was required to include a \$20,000 positive § 481 (a) adjustment in its 2005 taxable income.

X elected to use the simplified resale method without an historic absorption ratio election under § 1.263A-3 (d) (3) for determining the amount of additional § 263A costs to be capitalized to each LIFO [*257] layer. Assume that X was required to add \$10,000 of additional § 263A costs to the cost of its 2005 ending inventory because of the \$100,000 increment for 2005.

X's 2005 Ending Inventory:

Beginning Inventory (Without UNICAP costs)	\$1,000,000
2005 Increment	100,000
Additional § 263A Costs in Beginning Inventory	80,000
Additional § 263A Costs in 2005 Increment	10,000
Total 2005 Ending Inventory	\$1,190,000
X's Unamortized 2005 § 481 (a) Adjustment:	
2005 § 481 (a) Adjustment	\$80,000
Amount included in 2005 Taxable Income	<20,000>
Unamortized 2005 § 481 (a) Adjustment-12/31/05	\$60,000

Because X failed to satisfy the small reseller exception for 2006, X was required to continue using the UNICAP method for its inventory costs. Furthermore, X was required to include \$20,000 of the unamortized 2005 positive § 481 (a) adjustment in 2006 taxable income. Assume that X was required to add \$10,000 of additional § 263A costs to the cost of its 2006 ending inventory because of the \$100,000 increment for 2006.

X's 2006 Ending Inventory:	
Beginning Inventory (With UNICAP costs)	\$1,190,000
2006 Increment	100,000
Additional § 263A Costs in 2006 Increment	10,000
Total 2006 Ending Inventory	\$1,300,000
X's Unamortized 2005 § 481 (a) Adjustment:	
Unamortized 2005 § 481 (a) Adjustment-12/31/05	\$60,000
Amount Included in 2006 Taxable Income	<20,000>
Unamortized 2005 § 481 (a) Adjustment-12/31/06	\$40,000

Because [*258] X satisfies the small reseller exception for 2007, X may change voluntarily from the UNICAP method to a permissible non-UNICAP inventory capitalization method under section 11.01 of this APPENDIX. To reflect the removal of the additional § 263A costs from the cost of its 2007 beginning inventory, X must compute a corresponding § 481 (a) adjustment, which is a negative \$100,000 (\$1,200,000 - \$1,300,000). The entire amount of this negative § 481 (a) adjustment is included in the computation of X's taxable income for 2007. In addition, X must include \$20,000 of the unamortized 2005 § 481 (a) adjustment in 2007 taxable income.

X's 2007 Ending Inventory:	
Beginning Inventory (With UNICAP costs)	\$1,300,000
2007 Increment	100,000
2007 § 481 (a) Adjustment <Negative>	<100,000>
Total 2007 Ending Inventory i	\$1,300,000
X's Unamortized 2005 § 481 (a) Adjustment:	
Unamortized 2005 § 481 (a) Adjustment-2/31/06	\$40,000
Amount included in 2007 Taxable Income	<20,000>
Unamortized 2005 § 481 (a) Adjustment-12/21/07	\$20,000
X's Unamortized 2007 § 481 (a) Adjustment:	
2007 § 481 (a) Adjustment <Negative>	\$<100,000>
Amount included in 2007 Taxable Income	100,000
Unamortized 2007 § 481 (a) Adjustment-12/31/07	\$ 0

X also satisfies [*259] the small reseller exception for 2008 and, therefore, is not required to return to the UNICAP method for 2008. X, however, must include \$20,000 of the unamortized 2005 positive § 481 (a) adjustment in its 2008 taxable income.

X's 2008 Ending Inventory:	
Beginning Inventory (Without UNICAP costs)	\$1,300,000
2008 Increment	100,000
Total 2008 Ending Inventory	\$1,400,000
X's Unamortized 2005 Adjustment:	

Unamortized 2005 § 481 (a) Adjustment-12/31/07	\$20,000
Amount in 2008 Taxable Income	<20,000>
Unamortized 2005 § 481 (a) Adjustment-12/31/08	\$ 0
X's Unamortized 2009 § 481 (a) Adjustment:	

In 2009, X fails to satisfy the small reseller exception and, therefore, must return to the UNICAP method as provided under section 11.01 of this APPENDIX. X changes to the simplified resale method without a historic absorption ratio election under § 1.263A-3 (d) (3). Assume that X must capitalize \$120,000 of additional § 263A costs to the cost of its 2009 beginning inventory because of this change in inventory method. Because X used a non-UNICAP method for two taxable years prior to 2009, the § 481 spread period for the positive §481 (a) adjustment is two years. Therefore, X must include one-half of the § 481 (a) [*260] adjustment (\$60,000) when computing taxable income for 2009 and 2010. Assume that X must add \$10,000 of additional § 263A costs to the cost of its 2009 ending inventory because of the \$100,000 increment for 2009.

X's 2009 Ending Inventory:	
Beginning Inventory (Without UNICAP costs)	\$1,400,000
2009 Increment	100,000
Additional § 263A costs in Beginning Inventory	120,000
Additional § 263A costs in 2009 Increment	10,000
Total 2009 Ending Inventory	\$1,630,000
X's Unamortized 2009 § 481 (a) Adjustment:	
2009 § 481 Adjustment	\$ 120,000
Amount included in 2009 Taxable Income	<60,000>
Unamortized 2009 § 481 (a) Adjustment-12/31/09	\$ 60,000

Because X fails to satisfy the small reseller exception for 2010, X must continue using the UNICAP method for its inventory costs. Furthermore, X is required to include \$60,000 of the unamortized 2009 positive § 481 (a) adjustment in 2010 taxable income. Assume that X is required to add \$10,000 of additional § 263A costs to the cost of its 2010 ending inventory because of the \$100,000 increment for 2010.

X's 2010 Ending Inventory:	
Beginning Inventory (With UNICAP costs)	\$1,630,000
2010 Increment	100,000
Additional § 263A Costs in 2010 Increment	10,000
Total 2010 Ending Inventory	\$1,740,000
X's Unamortized 2009 § 481 (a) Adjustment:	
Unamortized 2009 § 481 (a) Adjustment-12/31/09	\$ 60,000
Amount included in 2010 Taxable Income	<60,000>
Unamortized 2009 § 481 (a) Adjustment-12/31/10	\$ 0

(7) [*261] Contact information. For further information regarding a change under this section, contact Alexander R. Roche or Kari Fisher, at 202-622-4970 (not a toll-free call).

.02 Certain uniform capitalization (UNICAP) methods used by producers and reseller-producers.

(1) Description of change.

- (a) **Applicability.** This change applies to a producer (as defined in section 11.01 (2) (d) of this APPENDIX) or a reseller-producer (as defined in section 11.01 (2) (e) of this APPENDIX) 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 new method. This change also includes a change from not capitalizing a cost subject to § 263A to capitalizing that cost for a producer or a reseller-producer that is otherwise already using a UNICAP method (or methods) specifically described in the regulations. However, this change does not include a change for purposes of recharacterizing "section 471 costs" as "additional § 263A costs" (or vice versa) under the simplified production method.
- (b) **Inapplicability.** This change does not apply to a producer or reseller-producer [*262] that wants to revoke an election to use the historic absorption ratio with the simplified production method (see § 1.263A-2 (b) (4) (iii) (B)), including a taxpayer using the simplified production method with an historic absorption ratio changing to a UNICAP method specifically described in the regulations that does not include the historic absorption ratio. This change also does not apply to a taxpayer that wants to use either the simplified service cost method or the simplified production method for self-constructed assets under §§ 1.263A-1 (h) (2) (i) (D) and 1.263A-2 (b) (2) (i) (D). Also, this change does not apply to a producer or reseller-producer that wants to change its method of accounting for interest capitalization.

(2) **Definition.** A "UNICAP method specifically described in the regulations" includes 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)), the 1/3 - 2/3 rule to allocate labor costs of personnel to purchasing activities (§ 1.263A-3 (c) (3) (ii) (A)), 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)), [*263] the specific identification method (§ 1.263A-1 (f) (2)), the burden rate method (§ 1.263A-1 (f) (3)), the standard cost method (§ 1.263A-1 (f) (3)), the direct reallocation method (§ 1.263A-1 (g) (4) (iii) (A)), the step-allocation method (§ 1.263A-1 (g) (4) (iii) (B)), the simplified service cost method (§ 1.263A-1 (h)) (with either a labor-based allocation ratio or a production cost allocation ratio), and the simplified production method without the historic absorption ratio election (§ 1.263A-2 (b)), but does not include any other reasonable allocation method within the meaning of § 1.263A-1 (f) (4).

(3) **Multiple changes.** A taxpayer that wants to make 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) **Designated automatic accounting method change number.** The designated automatic accounting method change number for a change under section 11.02 of this APPENDIX is "23." See section 6.02 (4) of this revenue procedure.

(5) Contact information. For further information regarding a change under this section, contact Alexander R. Roche or Kari Fisher, at 202-622-4970 (not a toll-free call).

.03 [*264] Change to no longer capitalize research and experimental expenditures under § 263A.

(1) Description of change. The change applies to a taxpayer who no longer wants to capitalize research and experimental expenditures to inventory under § 263A and the regulations thereunder. A taxpayer making this change must be in compliance with all other aspects of § 263A and the regulations thereunder and must have an effective election under either § 174 (a) or (b).

(2) Manner of making change. A taxpayer must attach to its Form 3115 the following representations:

(a) "The § 174 costs that are the subject of this Form 3115 filed under section 11.03 of the APPENDIX of Rev. Proc. 2011-14 and will not be capitalized to inventory under § 263A and the regulations thereunder are costs that are subject to the taxpayer's effective election under [Insert, as appropriate: § 174 (a) or § 174 (b)] and the regulations thereunder" and

(b) "All § 174 costs that will be removed from inventory costs, have been identified as § 174 costs at the time that the costs were capitalized to inventory under § 263A and the regulations thereunder."

(3) No audit protection. A taxpayer does not receive audit protection under section 7 [*265] of this revenue procedure in connection with this change.

(4) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under section 11.03 of this APPENDIX is "24." See section 6.02 (4) of this revenue procedure.

(5) Contact information. For further information regarding a change under this section, contact Alexander R. Roche or Kari Fisher, at 202-622-4970 (not a toll-free call).

.04 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 section 11.04 of this APPENDIX is "25." See section 6.02 (4) of this revenue procedure.

(3) Contact information. For further information regarding a change under this section, contact Cheryl Oseekey at 202-622-4970 (not a toll-free call).

.05 Change to capitalizing environmental [*266] 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 that wants to make both this change and another automatic change in method of accounting 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).

(3) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under section 11.05 of this APPENDIX is "77." See section 6.02 (4) of this revenue procedure.

(4) Contact information. For further information regarding a change under this section, contact John Faron at 202-622-4930 (not a toll-free call).

.06 Change in allocating environmental remediation costs under § 263A.

(1) Description of change. This change applies [*267] 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 that wants to make both this change and another automatic change in method of accounting 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).

(3) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under section 11.06 of this APPENDIX is "92." See section 6.02 (4) of this revenue procedure.

(4) Contact information. For further information regarding a change under this section, contact John Faron at 202-622-4930 (not a toll-free [*268] call).

.07 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 new 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" [*269] as "additional § 263A costs" (or vice versa) under the simplified resale method or the simplified production method.

(2) Certain scope limitations temporarily inapplicable. The scope limitations in sections 4.02 (1) through (4) and (7) of this revenue procedure do not apply to a motor vehicle dealership that changes to one or both of the safe harbor methods in section 5 of Rev. Proc. 2010-44 for its first or second taxable year ending after November 9, 2010.

(3) Concurrent automatic changes. A motor vehicle dealership making an automatic change in method of accounting to one or both safe harbor methods described in section 5 of Rev. Proc. 2010-44 and another automatic change in method of accounting 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).

(4) 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 [*270] 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.

(5) 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."

(6) Contact information. For further information regarding a change under this section, contact Kari Fisher at (202) 622-4970 (not a toll-free call).

SECTION 12. LOSSES, EXPENSES AND INTEREST WITH RESPECT TO TRANSACTIONS BETWEEN RELATED TAXPAYERS (§ 267)

.01 [*271] 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, which disallows or defers certain deductions attributable to transactions between related taxpayers. However, this change applies to a change for stated interest only to the extent the stated interest is qualified stated interest (as defined in § 1.1273-1 (c)).

(2) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under section 12.01 of this APPENDIX is "26." See section 6.02 (4) of this revenue procedure.

(3) Contact information. For further information regarding a change under this section, contact Steven Gee at 202-622-4970 (not a toll-free call).

.02 Reserved.

SECTION 13. DEFERRED COMPENSATION (§ 404)

.01 Change to comply with § 404 (a) (11).

(1) Description of change. This change applies to a taxpayer that wants to change its method of accounting to comply with § 404 (a) (11). Section 404 (a) (11) provides that, for purposes of determining under § 404 whether compensation of an employee is deferred compensation and when deferred [*272] compensation is paid, no amount is treated as received by the employee, or paid, until it is actually received by the employee. Section 404 (a) (11) overturns the decision in *Schmidt Baking Co., Inc. v. Commissioner*, 107 T.C. 271 (1996), in which the court held that a § 83 (a) income inclusion event upon securitization of vacation and severance pay benefits with a letter of credit constitutes receipt of those benefits by employees for purposes of determining whether an employer's deduction for the benefits is subject to § 404. See Notice 99-16, 1999-1 C.B. 842.

(2) Scope limitations inapplicable. The scope limitations in section 4.02 of this revenue procedure do not apply to this change.

(3) Section 481 (a) adjustment period. A taxpayer must take the § 481 (a) adjustment into account ratably over three taxable years beginning with the year of change.

(4) No audit protection. A taxpayer does not receive audit protection under section 7 of this revenue procedure in connection with this change.

(5) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under section 13.01 of this APPENDIX is "27." See section 6.02 (4) of [*273] this revenue procedure.

(6) Contact information. For further information regarding a change under this section, contact Maryellen Furr at 202-622-6030 (not a toll-free call).

.02 Deferred compensation.

(1) Description of change. This change applies to an accrual method taxpayer 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

15th day of the 3rd 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 [*274] 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 15th day of the 3rd 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 15th day of the 3rd 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; [*275] 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 15th day of the 3rd 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 the extent that it is also described in section 13.01 of this APPENDIX.

This change also 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 13.02 of the APPENDIX 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 [*276] UNICAP method under section 11.01 or 11.02 of this APPENDIX (as applicable).

(2) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under section 13.02 of this APPENDIX is "28." See section 6.02 (4) of this revenue procedure.

(3) Contact information. For further information regarding a change under this section, contact Maryellen Furr at 202-622-6030 (not a toll-free call).

.03 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. 118, 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 section 13.03 of this APPENDIX is "29." See section 6.02 (4) [*277] of this revenue procedure.

(3) Contact information. For further information regarding a change under this section, contact James Holland at 202-283-9699 or Carlton Watkins at 202-283-9625 (not toll-free calls).

.03 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. 118, 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 section 13.03 of this APPENDIX is "29." See section 6.02 (4) of this revenue procedure.

(3) Contact information. For further information regarding a change under this section, contact James Holland at 202-283-9699 or Carlton Watkins at 202-283-9625 (not toll-free calls).

SECTION 14. METHODS OF ACCOUNTING (§ 446)

.01 [*278] Change in overall method from the cash method 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 (cash) method to an accrual method, with or without a "special method" as defined respectively in sections 14.01 (3) (a), (b), and (e) of this APPENDIX, if subsequent to this change, the taxpayer will be using an overall accrual method of accounting (that is, all items of income and expense are accounted for using an accrual method). A taxpayer changing its overall method of accounting to an accrual method under this section 14.01 of the APPENDIX may also adopt the recurring item exception for one or more types of recurring items. A taxpayer that wants to change its method of accounting for one or more items of income or expense, but not its overall method of accounting, may be eligible to make such change (s) using section 14.09 of this APPENDIX.

If the year of change is the first taxable year the taxpayer is required by § 448 to change from the cash method (the first § 448 year) and the taxpayer qualifies to make this change under the automatic [*279] consent procedures of § 1.448-1 (g) and (h) (2) as well as this revenue procedure, the taxpayer may make the change under this revenue procedure provided the taxpayer complies with the provisions of § 1.448-1 (h) (2) and the requirements of this revenue procedure. For a hospital, defined in § 1.448-1 (g) (2) (ii) (B), that makes the change for the first § 448 year under the provisions of this revenue procedure, see § 1.448-1 (g) (2) (ii) for the applicable § 481 (a) adjustment period. If a taxpayer does not change from the cash method for the first § 448 year under the provisions of this revenue procedure, the taxpayer must make the change under the provisions of § 1.448-1 (g) and (h) (2).

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

- (i) a taxpayer that will not use an "overall accrual method of accounting" subsequent to this change under section 14.01 of this APPENDIX;
- (ii) a taxpayer that is required by § 447 to change to an accrual method when the year of change is the first taxable year the taxpayer is required to change to that method;
- (iii) a cooperative organization described in § 501 (c) (12), 521, or 1381;
- (iv) an individual taxpayer, except for activities conducted as a sole [*280] proprietorship;
- (v) a taxpayer that is required by §§ 446 and 471 and §§ 1.446-1 (a) (4) (i) and 1.471-1 to use an inventory method in the year of change. However, the taxpayer qualifies to make the change to an overall accrual method under this section 14.01 of this APPENDIX when in the year of change either:

- (A) the taxpayer adopts or changes to a proper inventory method or continues to use a proper inventory method that it had used in the taxable year immediately prior to the year of change but only when:
 - (1) the taxpayer is a small reseller within the meaning of § 1.263A-3 (a) and, if the taxpayer also has production activities, those activities qualify under the de minimis presumption of § 1.263A-3 (a) (2) (iii);
 - (2) the taxpayer is a reseller within the meaning of § 263A and the regulations thereunder that qualifies to use the simplified resale method under § 1.263A-3 (d) and the taxpayer either adopts or changes to that method in the year of change or continues its use of that method from the taxable year immediately prior to the year of change; or
 - (3) the taxpayer is a producer of real or tangible personal property described in § 1.263A-2 that adopts in the year of change a "UNICAP method [*281] specifically described in the regulations" within the meaning of section 14.01 (3) (d) of this APPENDIX. (For purposes of this section 14.01 (1) (b) (v) (A) (3) of the APPENDIX, a method not listed in section 14.01 (3) (d) may not be adopted or changed in the year of change); or

- (B) the taxpayer continues to use the proper inventory method and proper UNICAP method that it had used in the taxable year immediately prior to the year of change and the taxpayer is a producer of real or tangible personal property described in § 1.263A-2;

- (vi) a taxpayer that is either required to or voluntarily wants to use a "special method of accounting" in the year of change regardless of whether a change to that special method is requested in that year. However, the taxpayer can request its change to an overall accrual method under this section 14.01 of the APPENDIX when (a) the change to the special method of accounting is permitted to be changed automatically either under this revenue procedure or any other Code, regulation, or administrative provision, and (b) the change to the special method of accounting is requested for the identical taxable year of the change requested under this section 14.01 of [*282] the APPENDIX if the taxpayer is required to use the special method of accounting;

(vii) a taxpayer engaged in two or more trades or businesses, unless the taxpayer makes such changes so that the same overall accrual method is used for each such trade or business beginning with the year of change; and

(viii) a taxpayer making a change from a hybrid method of accounting to an overall accrual method of accounting. For purposes of section 14.01 of this APPENDIX, a hybrid method of accounting is a combination of the cash and accrual methods under which one or more items of income or expense are reported on the cash method and one or more items of income or expense are reported on an accrual method. This section 14.01 (1) (b) (viii) does not apply to a taxpayer accounting for inventories under section 1.446-1 (c) (2) (i) and accounting for all other items of income and expense on the cash method of accounting, and otherwise permitted to make a change to an overall accrual method of accounting under this section 14.01 of the APPENDIX.

(2) Scope limitation inapplicable. If the year of change is the first taxable year the taxpayer is required by § 448 to change from the cash method (first § 448 [*283] year), the scope limitation in section 4.02 (6) of this revenue procedure does not apply to a change in method of accounting request made under section 14.01 of this APPENDIX. For all other changes in method of accounting requests made under section 14.01 of this APPENDIX, any prior change to the overall cash method under the provisions of Rev. Proc. 2001-10, 2001-1 C.B. 272, as modified by Rev. Proc. 2011-14 (see section 14.05), or Rev. Proc. 2002-28, 2002-1 C.B. 815, as modified by Rev. Proc. 2011-14 (see section 14.06), is disregarded for purposes of section 4.02 (6) of this revenue procedure.

(3) 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), and 1.461-1 (a) (2).

(c) Recurring item exception is the method described in § 461 (h) (3) and § 1.461-5.

(d) UNICAP method specifically described in the regulations is one of the following:

(i) the specific identification method within the meaning of § 1.263A-1 (f) (2);

(ii) the burden rate method within the meaning of § 1.263A-1 (f) (3);

(iii) the [*284] standard cost method within the meaning of § 1.263A-1 (f) (3);

(iv) the direct reallocation method within the meaning of § 1.263A-1 (g) (4) (iii) (A);

- (v) the step-allocation method within the meaning of § 1.263A-1 (g) (4) (iii) (B);
- (vi) the simplified service cost method within the meaning of § 1.263A-1 (h); and
- (vii) the simplified production method without the historic absorption ratio election within the meaning of § 1.263A-2 (b).

(e) Special method of accounting within the meaning of this section 14.01 of the APPENDIX is a method of accounting, other than the cash method, expressly permitted by the Code, regulations, or guidance published in the IRB that deviates from the tax accrual accounting rules of §§ 451 and 461 and the regulations thereunder. For example, the installment method of accounting under § 453, the mark-to-market method under § 475, a long-term contract method such as the percentage of completion method, and the deferral method of Rev. Proc. 2004-34, 2004-1 C.B. 991, used to account for advance payments are special methods of accounting. In contrast, application of the all-events test under a specific set of facts is not a special method of accounting. See, for example, [*285] Rev. Rul. 69-314, 1969-1 C.B. 139 (concerning the treatment of retainages).

(f) Overall accrual method of accounting within the meaning of this section 14.01 of the APPENDIX is a method of accounting where, but for the use of a "special method of accounting," all items of income and expense are accounted for using an accrual method.

(4) Manner of making change.

(a) Section 481 (a) adjustment. A taxpayer changing its method of accounting under this section 14.01 of the APPENDIX 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) Concurrent change to a special method of accounting not permitted to be made under this revenue procedure. A taxpayer, that can not change to an overall accrual method of accounting using this section 14.01 of the APPENDIX because the taxpayer is seeking to make [*286] a concurrent change to a special method of accounting not permitted automatically under this revenue procedure, may request both changes by filing one Form 3115 under Rev. Proc. 97-27 (or any successor). Only one user fee per taxpayer will be required when a Form 3115 is filed for both changes.

(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.

(5) Coordination with section 33.01 of this APPENDIX 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 change to an overall accrual method, the taxpayer must request the change for the interest income under section 33.01 of this APPENDIX. Section 14.01 will govern the

request for change in method of accounting to an overall accrual method. The taxpayer must timely file individual Forms 3115 for each change requested.

(6) Concurrent automatic change to the deferral method for advance payments. A taxpayer that wants to make both a change to an overall accrual method under this section 14.01 of the APPENDIX [*287] and an automatic change to the deferral method for advance payments under Rev. Proc. 2004-34 (see section 15.07 of this APPENDIX) for the same year of change must 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.

(7) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under section 14.01 of this APPENDIX for (a) a taxpayer not subject to § 448, or (b) a taxpayer subject to § 448 that is not making the change for its first § 448 year is "122."

The designated automatic accounting method change number for a change under section 14.01 of this APPENDIX for the taxpayer's first § 448 year is "123." Entering designated automatic accounting method change number "123" on the appropriate line on the Form 3115 fulfills the requirement of § 1.448-1 (h) (2) to type or print "Automatic Change to Accrual Method - Section 448" at the top of page 1 of the Form 3115. See section 6.02 (4) of this revenue procedure.

(8) Contact information. For further information regarding a change under this section, contact Karen Myrick or Kari Fisher, at 202-622-4970 [*288] (not a toll-free call).

.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 14.02 (2) of this APPENDIX. 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 (to the ultimate customer or to an intermediary) underlying the contracts. 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 [*289] 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 section 14.02 of this APPENDIX is "31." See section 6.02 (4) of this revenue procedure.

(4) Contact information. For further information regarding a change under this section, contact Erika Reigle, at 202-622-4950 (not a toll-free call).

.03 Taxpayers changing to overall cash method.

(1) Description of change. This change applies to either:

(a) a taxpayer (other than a taxpayer described in § 448 (a) (3) or a bank described in section 14.12 (2) (a) of this APPENDIX) with "average annual gross receipts" (as defined in section 5.01 of Rev. Proc. 2001-10, 2001-1 C.B. 272) of \$1,000,000 or less that wants to change to the overall [*290] cash receipts and disbursements (cash) method of accounting as provided in Rev. Proc. 2001-10, as modified by Announcement 2004-16 and Rev. Proc. 2011-14; or

(b) a taxpayer (other than a taxpayer prohibited from using the cash method under § 448 or a bank described in section 14.12 (2) (a) of this APPENDIX) with "average annual gross receipts" (as defined in section 5.02 of Rev. Proc. 2002-28, 2002-1 C.B. 815) of \$10,000,000 or less that wants to change to the overall cash receipts and disbursements (cash) method of accounting as provided in Rev. Proc. 2002-28, as modified by Rev. Proc. 2011-14.

(2) Scope limitations applicable. The scope limitations in section 4.02 of this revenue procedure (including the limitation regarding a prior change within five taxable years of section 4.02 (6)) and the requirements in sections 6.03 (regarding taxpayers under examination), 6.04 (regarding taxpayers before an appeals office) and 6.05 (regarding taxpayers before a federal court) of this revenue procedure apply to a change in method of accounting made under this section 14.03 of the APPENDIX.

(3) Manner of making change. See either Rev. Proc. 2001-10 or Rev. Proc. 2002-28 for additional guidance [*291] on the computation of the § 481 (a) adjustment and the completion of the Form 3115.

(4) Concurrent automatic change to treat inventoriable items as nonincidental materials and supplies under Rev. Proc. 2001-10 or Rev. Proc. 2002-28. A taxpayer that wants to make both a change to the overall cash method under this section 14.03 of the APPENDIX and a change to treat inventoriable items as materials and supplies that are not incidental under § 1.162-3 (see section 21.03 of this APPENDIX) 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.

(5) Banks changing to overall cash/hybrid method. This change does not apply to a bank described in section 14.12 (2) (a) of this APPENDIX. However, such a bank may be eligible to change to the overall cash/hybrid method under section 14.12 of this APPENDIX if it meets the requirements of that section.

(6) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under section 14.03 (1) (a) of this APPENDIX is "32." The designated [*292] automatic accounting method change number for a change under section 14.03 (1) (b) of this APPENDIX is "33." See section 6.02 (4) of this revenue procedure.

(7) Contact information. For further information regarding a change under this section, contact Karen Myrick or Kari Fisher, at 202-622-4970 (not a toll-free call).

.04 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.

(b) **Inapplicability.** This change does not apply to a taxpayer within the scope of section 3.01 (6) through 3.01 (8) of Rev. Proc. 2006-56.

(2) **Manner of making the change.** A change in method of accounting described in section 3.01 (1), (2), (3), or (5) of Rev. Proc. 2006-56 is made with a § 481 (a) adjustment. 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 nonaccrual-experience calculation of its uncollectible amount for the year of [*293] change and for subsequent years. Accordingly, a § 481 (a) adjustment is neither permitted nor required for changes described in section 3.01 (4) of Rev. Proc. 2006-56.

(3) **Concurrent change to overall accrual method and a NAE method of accounting.** A taxpayer that wants to make both a change to, from, or within a NAE method of accounting under section 14.04 of the APPENDIX of this revenue procedure and a change to an overall accrual method under section 14.01 of the APPENDIX of this revenue procedure (whether or not it is the taxpayer's first § 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.

A taxpayer that wants to make both a change to, from, or within a NAE method of accounting under section 14.04 of the APPENDIX of this revenue procedure and a required change to an overall accrual method under § 448 (the taxpayer's first § 448 year), and is either not eligible to make the change to an overall accrual method under [*294] section 14.01 of the APPENDIX or chooses to make the change to an overall accrual method using the procedures of § 1.448-1 (h) (2), must make both changes (change to, from, or within a NAE method and change to an overall

accrual method) on a single Form 3115. The taxpayer must follow the procedures of this revenue procedure for the NAE change, and the procedures of § 1.448-1 (h) (2) for the change to an overall accrual method (except that entering the designated automatic accounting method change number "34" on the Form 3115 fulfills the requirement of § 1.448-1 (h) (2) to type or print "Automatic Change to Accrual - Section 448" at the top of page 1 of the Form 3115). 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 the NAE method and must enter the designated automatic accounting method change numbers for both changes on Form 3115.

(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 section 14.04 of this APPENDIX is "35."

(5) Contact information. [*295] For further information regarding a change under this section, contact Karla M. Meola, at 202-622-4930 (not a toll-free call).

.05 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' [*296] 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 section 14.05 of this APPENDIX is "71." See section 6.02 (4) of this revenue procedure.

(4) Contact information. For further information regarding a change under this section, contact William E. Blanchard at 202-622-3950 (not a toll-free [*297] call).

.06 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 of 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 section 14.06 of this APPENDIX is "85." See section 6.02 (4) of this revenue procedure.

(3) Contact information. For further information regarding a change under this section, contact Bernard Harvey at 202-622-4930 (not a toll-free call).

.07 Deduction of incentive payments to health care providers.

(1) Description of change. Rev. Proc. 2004-41, 2004-2 C.B. 90, permits an insurance company that [*298] makes incentive payments to health care providers to include those payments in discounted unpaid losses without regard to § 404. 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 [*299] 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) Scope. This procedure 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.

(3) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under section 14.07 of this APPENDIX is "90." See section 6.02 (4) of this revenue procedure.

(4) Contact information. For further information regarding a change under this section, contact Kay Hossofsky, at 202-622-3970 (not a toll-free call).

.08 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: (1) uses an accrual method of accounting to determine its taxable income for federal income [*300] tax purposes; (2) is subject to supervision by Federal authorities, or by state authorities maintaining substantially equivalent standards; (3) has uncollected interest other than interest described in § 1.446-2 (a) (2); and (4) 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: (1) the total accrued (determined under § 1.446-2) but uncollected interest for the year by, (2) 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 [*301] 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 [*302] 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 section 14.08 of this APPENDIX is "108." See section 6.02 (4) of this revenue procedure.

(4) Contact information. For further information regarding a change under this section, contact Timothy Sebastian at 202-622-3920 (not a toll-free call).

.09 Change from the cash method to an accrual method for specific items.

(1) Description of change.

(a) Applicability. This change applies to a taxpayer whose overall method of accounting is an accrual method of accounting but has identified a specific item or items of income and expense [*303] 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 from cash to accrual. Such a taxpayer may be eligible to change to an overall accrual method using section 14.01 of this APPENDIX.

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

- (i) a taxpayer that will not have all items of income and expense on an accrual method subsequent to this change under this section 14.09 of the APPENDIX;
- (ii) a cooperative organization described in § 501 (c) (12), 521, or 1381;
- (iii) an individual taxpayer, except for activities conducted as a sole proprietorship;
- (iv) 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;
- (v) a change in method of accounting for any payment liability described in § 1.461-4 (g); and
- (vi) any change that is specifically provided in another section of the APPENDIX 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 [*304] method of accounting is the method identified by § 446 (c) (2) and §§ 1.446-1 (c) (1) (ii), 1.451-1 (a), and 1.461-1 (a) (2).

(3) Additional requirements. In addition to the other filing requirements of this revenue procedure, to change a method of accounting under this section 14.09 of the APPENDIX, a taxpayer must fully and completely describe each specific item for which the change in method of accounting is being made and how the accrual method applies to each item and list the § 481 (a) adjustment for each item, if any, associated with the change. The change is fully and completely described if the revenue or expense item is described with specificity and how the all-events test (and the economic performance requirement, if applicable) applies to the 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 [*305] 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 to an accrual method, 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 6.02 of this revenue procedure for additional filing requirements.

(4) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under section 14.09 of this APPENDIX is "124." See section 6.02 (4) of this revenue procedure.

(5) Contact information. For further information regarding a change under this section, contact Gwen Turner at 202-622-5020 (not a toll-free call).

.10 Multi-year service warranty contracts.

(1) Description of change.

(a) Applicability. This change applies to an eligible accrual method manufacturer, wholesaler, or retailer of motor vehicles or other durable consumer goods that wants to change to the service warranty income method described in section 5 of Rev. Proc. 97-38, 1997-2 C.B. 479. Under [*306] 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 outside 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. See section 2.06 of this revenue procedure for more information regarding a cut-off basis. 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 an application on Form 3115 is waived and a statement in lieu of the Form 3115 is authorized for this change. The statement must set forth:
 - (i) the designated automatic accounting method change number for this change, which is "125";

 - (ii) the taxpayer's name and employer identification number (or [*307] social security number in the case of an individual);

 - (iii) the year of change (both the beginning and ending dates); 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. 2011-14.

(3) Additional requirement. A taxpayer changing to the service warranty income method of accounting under section 14.10 of this APPENDIX must satisfy the annual reporting requirement set forth in section 6.04 of Rev. Proc. 97-38.

(4) Contact information. For further information regarding a change under this section, contact Erika Reigle at 202-622-4950 (not a toll-free call).

.11 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 \$10,000,000 and not in excess of \$50,000,000 that wants to change to the overall cash receipts and disbursement (cash) method.

(2) Definitions. For purposes of this section 14.11 of this APPENDIX, the following definitions apply:

- (a) Specified [*308] 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 14.11 (2) (b) below) 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 [*309] stores. However, each activity within a taxpayer's business must individually satisfy the description of a NAICS subsector code in section 14.11 (2) (a) (i) (A) or (B) of this APPENDIX. For example, a sightseeing bus operator that sells box lunches in connection with its tours is not a "specified transportation industry taxpayer" because each of its two activities (that is, sightseeing transportation and food sales) do not each satisfy the description of a NAICS subsector code in section 14.11 (2) (a) (i) (A) or (B) of this APPENDIX. Similarly, a train operator who operates a dining car where meals are served is not a "specified transportation industry taxpayer" because all of the activities of its "business" fail to satisfy the descriptions of one or more of the NAICS subsector codes in section 14.11 (2) (a) (i) (A) or (B) of this APPENDIX. That is, while the rail service satisfies the description of a NAICS subsector code in section 14.11 (2) (a) (i) (A) of this APPENDIX, the food service does not satisfy the description of any NAICS subsector code in section 14.11 (2) (a) (i) (A) or (B) of this APPENDIX, and thus, the taxpayer's business fails to meet the criteria of section 14.11 (2) (a) (i).
- (c) **Average [*310] annual gross receipts.** A taxpayer has average annual gross receipts of more than \$10,000,000 and not in excess of \$50,000,000 if, for each prior taxable year ending on or after December 31, 2006, the taxpayer's average annual gross receipts

for the three prior taxable-year period ending with the applicable prior taxable year are more than \$10,000,000 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 § 1.448-1T (f) (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 14.11 (2) (d) of this APPENDIX, 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 [*311] 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 § 1.448-1T (f) (2) (ii).
 - (f) 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 § 1.448-1T (f) (2) (iii).
 - (g) Treatment of predecessors. Any reference to a taxpayer in this section 14.11 of the APPENDIX includes a reference to any predecessor of that taxpayer. See § 448 (c) (3) (D).
 - (h) 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 section 14.11 of this APPENDIX is "126." [*312] See section 6.02 (4) of this revenue procedure.

(4) Example.

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 average annual gross receipts for each of the three prior taxable years have been more than \$10,000,000 and not in excess of \$50,000,000. Taxpayer X qualifies to change to the overall cash method using this section 14.11 of the APPENDIX.

(5) Contact information. For further information regarding a change under this section, contact Kari Fisher at 202-622-4970 (not a toll-free call).

.12 Change to overall cash/hybrid method for certain banks.

(1) Description of change.

(a) Applicability. This change applies to a bank described in section 14.12 (2) (a) of this APPENDIX that wants to change to an overall cash/hybrid method described in section 14.12 (2) (b) of this APPENDIX.

(b) Inapplicability. A bank's change to an overall cash/hybrid [*313] method under this section 14.12 of the APPENDIX does not include any change in the accounting treatment of an item for which the bank uses a special method (as described in section 14.12 (2) (b) of this APPENDIX) before the change, or is required to use a special method, or will use a special method after the change. No change in the accounting treatment of such an item may be made under this section 14.12 of the APPENDIX. Any change in the accounting treatment of such an item must be made under an applicable section of this APPENDIX, under Rev. Proc. 97-27 (or any successor), or under another guidance published in the IRB, as appropriate.

(2) Definitions. The following definitions apply for purposes of section 14.12 of this APPENDIX.

(a) Bank. A bank is described in this section 14.12 (2) (a) of the APPENDIX 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 14.12 (5) of this APPENDIX) not in excess of \$50,000,000.

(b) Overall cash/hybrid method. An overall cash/hybrid method is the use of [*314] 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 [*315] 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 14.12 of the APPENDIX, a bank must comply with the following additional condition. In addition to complying with the terms and conditions set forth in section 5 of this revenue procedure, 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 14.12 of the APPENDIX. 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 14.12 of the APPENDIX 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 [*316] method under this section 14.12 of this APPENDIX, a bank must include the following additional information on its Form 3115 filed in accordance with section 6.02 of this revenue procedure. In addition to complying with all other applicable requirements, the Form 3115 must describe each specific item of the bank's income or expense that is affected by the change under this section 14.12 of the APPENDIX and, for each such item, identify the following: the accounting method 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 14.12 of the APPENDIX.

(5) Computation of average annual gross receipts. For purposes of section 14.12 (2) (a) (iii) of this APPENDIX, a bank's average annual gross receipts are computed as described in this section 14.12 (5) of the APPENDIX.

- (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 [*317] 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 § 1.448-1T (f) (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 14.12 (5) (b) of this APPENDIX, 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 (i.e., 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 [*318] annual gross receipts limitation. See § 448 (c) (2) and § 1.448-1T (f) (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 § 1.448-1T (f) (2) (iii).
- (e) Treatment of predecessors. Any reference to a bank or taxpayer in section 14.12 (5) of this APPENDIX 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 section 14.12 of this APPENDIX is "127." See section 6.02 (4) of this revenue procedure.

(7) Contact information. For further information regarding a change under this section, contact David B. Silber at 202-622-3930 (not a toll-free call).

.13 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 disbursement (cash) [*319] method. If a

taxpayer is engaged in more than one trade or business, this change applies only to the taxpayer's trade or business of farming.

(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 and 1.162-12 for specific rules relating to farmers.

(b) The trade or business of farming is a farming business as defined by § 263A (e) (4) and the regulations thereunder.

(3) Manner of making change. Generally, a taxpayer changing its method of accounting under this section 14.13 of the APPENDIX, must compute a § 481 (a) adjustment. However, if the taxpayer is changing from the crop method, that portion of the change shall be 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 [*320] change under section 14.13 of this APPENDIX is "128." See section 6.02 (4) of this revenue procedure.

(5) Contact information. For further information regarding a change under this section, contact Robert Basso at 202-622-4950 or Renay France at 202-622-5020 (not a toll-free call).

.14 Nonshareholder contributions to capital under § 118.

(1) Description of change.

(a) Water and sewerage disposal utilities.

(i) This change applies to a regulated public utility described in § 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 § 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 § 118 (c) that wants to change its method of accounting for payments or property received that are contributions in aid of construction under § 118 (c) and § 1.118-2 and that meet the requirements of §§ 118 (c) (1) (B) and 118 (c) (1) (C) from [*321] 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 § 118 (c) that are addressed in section 14.14 (1) (a) (i) of this APPENDIX) 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) Additional requirement. In addition to the other filing requirements of this revenue procedure, a taxpayer that is making a change described in section 14.14 (1) (a) (i) or (1) (b) must complete Schedule E of Form 3115 for the depreciable property to which the change relates.

(3) Designated automatic accounting method [*322] change number. The designated automatic accounting method change number for a change under section 14.14 of this APPENDIX is "129." See section 6.02 (4) of this revenue procedure.

(4) Contact information. For further information regarding a change under this section, contact David H. McDonnell at 202-622-3040 (not a toll-free call).

.15 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.

(2) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under section 14.15 of this APPENDIX is "148." See section 6.02 (4) of this revenue procedure.

(3) Contact information. For further information regarding a change under this section, contact Sonja Kotlica at 202-622-3950 (not a toll-free number).

SECTION 15. TAXABLE YEAR OF INCLUSION (§ 451)

.01 Accrual of interest on nonperforming loans.

(1) Description of change.

(a) This change applies to an accrual method taxpayer that is a bank as defined in § 581 (or whose primary business [*323] 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 [*324] 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 section 15.01 of this APPENDIX must do so for all of its loans.

(2) Section 481 (a) adjustment. In general, the § 481 (a) adjustment for a method change under section 15.01 of this APPENDIX 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 section 15.01 of this APPENDIX is "36." See section 6.02 (4) of this revenue procedure.

(4) Contact information. For further information regarding a change under this section, contact Timothy Sebastian at 202-622-3920 (not a toll-free call).

.02 Advance rentals.

(1) Description of change. This [*325] 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 section 15.02 of this APPENDIX is "37." See section 6.02 (4) of this revenue procedure.

(3) Contact information. For further information regarding a change under this section, contact R. Matthew Kelley at 202-622-7900 (not a toll-free call).

.03 State or local income or franchise tax refunds.

(1) Description of change. This change applies to an accrual method taxpayer described in Rev. Rul. 2003-3, 2003-1 C.B. 252, that receives a state or local income or franchise tax refund and wants to accrue the refund in the year payment or notice of the approval of the refund claim is received (whichever is earlier).

(2) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under section 15.03 of this APPENDIX is "38." See section 6.02 (4) [*326] of this revenue procedure.

(3) Contact information. For further information regarding a change under this section, contact R. Matthew Kelley at 202-622-7900 (not a toll-free call).

.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 accounting method for capital cost reduction (CCR) payments specified in Rev. Proc. 2002-36, 2002-1 C.B. 993.

(2) Audit protection. If a taxpayer complies with the requirements of Rev. Proc. 2002-36 and changes its method of accounting for CCR payments to the CCR method provided in section 5 of Rev. Proc. 2002-36, the treatment of CCR payments will not be raised as an issue in any taxable year before the year of change.

(3) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under section 15.04 of this APPENDIX is "39." See section 6.02 (4) of this revenue procedure.

(4) Contact information. For further information regarding a change under this section, contact R. Matthew Kelley at 202-622-7900 (not a toll-free [*327] call).

.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 [*328] line of credit to make purchases of goods and services and, if so authorized, to obtain cash advances.

(2) Manner of making change. A taxpayer making this change must identify the specific method to which the taxpayer is changing. See also section 15.05 (3) of this APPENDIX.

(3) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under section 15.05 of this APPENDIX 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 section 15.05 of this APPENDIX to the Ratable Inclusion Method for Credit Card Annual Fees is "81." See section 6.02 (4) of this revenue procedure.

(4) Contact information. For further information regarding a change under this section, contact Jon Silver at 202-622-3930 (not a toll-free call).

.06 Credit card late fees.

(1) Description of change. This change applies to a taxpayer that wants to change its method of accounting for credit card late fees to a method that treats these fees as interest income that creates or increases the amount of original issue discount (OID) on the pool of credit [*329] card loans to which the fees relate. This change is available only to a taxpayer that issues credit cards allowing cardholders to access a revolving line of credit established by the taxpayer and that, for federal income tax purposes, does not treat the credit card purchase transactions of its cardholders as creating either debt that is given in consideration for the sale or exchange of property (within the meaning of § 1274) or debt that is deferred payment for property (within the meaning of § 483). See Rev. Proc. 2004-33, 2004-1 C.B. 989, for additional guidance relating to this change.

(2) Additional requirements. A taxpayer making this change must be able to demonstrate both of the following:

- (a) the amount of any credit card late fee charged to each cardholder by the taxpayer is separately stated on the cardholder's account when that fee is imposed; and
- (b) under the applicable credit card agreement governing each cardholder's use of the credit card, no amount identified as a credit card late fee is charged for property or for specific services performed by the taxpayer for the benefit of the cardholder.

(3) Audit protection. The audit protection provided in connection with this change [*330] is not a determination by the Commissioner that the taxpayer is properly accounting for any OID income on that pool of credit card loans. Thus, for example, the Service is not precluded from pursuing the issue of whether a taxpayer is properly accounting for its OID income (including any OID income attributable to credit card late fees) on its pool of credit card loans in accordance with § 1272 (a) (6).

(4) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under section 15.06 of this APPENDIX is "82." See section 6.02 (4) of this revenue procedure.

(5) Contact information. For further information regarding a change under this section, contact Jon Silver at 202-622-3930 (not a toll-free call).

.07 Advance payments.

(1) Description of change.

(a) Applicability. This change applies to a taxpayer using or changing to an overall accrual method of accounting that receives advance payments, as defined in Rev. Proc. 2004-34, 2004-1 C.B. 991, as modified and clarified by Rev. Proc. 2011-18, 2011-5 I.R.B., and wants to change to either the full inclusion or deferral method, as described in Rev. Proc. 2004-34, other than a

taxpayer [*331] changing to a method described in section 15.11 of this APPENDIX. See also Announcement 2004-48, 2004-1 C.B. 998.

(b) Inapplicability. This change does not apply to a taxpayer that wants to use the Deferral Method for payments described in section 5.02 (4) (a) of Rev. Proc. 2004-34 (other than allocable payments described in section 5.02 (4) (c) of Rev. Proc. 2004-34) or for payments for which a method under section 5.02 (3) (b) (i) or (iii) of Rev. Proc. 2004-34 applies. The taxpayer must request any such change in method of accounting using the non-automatic procedures in Rev. Proc. 97-27 (or any successor). See section 8.03 of Rev. Proc. 2004-34.

(2) Scope limitations temporarily inapplicable for certain changes. The scope limitations in section 4.02 of this revenue procedure do not apply to a change in method of accounting for advance payments received from the sale of gift cards, as described in section 6.01 (1) of Rev. Proc. 2011-18, for the taxpayer's first or second taxable year ending on or after December 31, 2010.

(3) Concurrent automatic change to an overall accrual method. A taxpayer that wants to make both a change to its method of accounting for advance payments under section 15.07 [*332] of this APPENDIX and a change to an overall accrual method under section 14.01 of this APPENDIX for the same year of change must 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 8.04 (1) of Rev. Proc. 2004-34.

(4) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under section 15.07 of this APPENDIX to use the full-inclusion method is "83." The designated automatic accounting method change number for a change under 15.07 of this APPENDIX to use the deferral method is "84." See section 6.02 (4) of this revenue procedure.

(5) Contact information. For further information regarding a change under this section, contact R. Matthew Kelley at 202-622-7900 (not a toll-free call).

.08 Credit card cash advance fees.

(1) Description of change. This change applies to a taxpayer that wants to change its method of accounting for credit card cash advance fees to a method that treats these fees as creating or increasing original issue discount (OID) on a pool of credit card loans that includes the cash [*333] advances that give rise to the fees. This change is available only to a taxpayer that issues credit cards allowing cardholders to access a revolving line of credit established by the taxpayer both to make credit card purchase transactions and to obtain cash advances and that, for federal income tax purposes, does not treat the credit card purchase transactions of its cardholders as creating debt that is given in consideration for the sale or exchange of property. See Rev. Proc. 2005-47, 2005-2 C.B. 269, for additional guidance relating to this change.

(2) Other requirements. A taxpayer making this change must be able to demonstrate both of the following:

- (a) the amount of any credit card cash advance fee charged to a cardholder by the taxpayer is separately stated on the cardholder's account when that fee is imposed; and

- (b) under the credit card agreement with the cardholder, no amount identified as a credit card cash advance fee is charged for property or for specific services performed by the taxpayer for the benefit of the cardholder.

(3) Audit protection. The audit protection provided in connection with this change is not a determination by the Commissioner that the taxpayer is properly [*334] accounting for any OID income on that pool of credit card loans. Thus, for example, the Service is not precluded from pursuing the issue of whether, under § 1272 (a) (6), a taxpayer is correctly accounting for its OID income (including any OID income attributable to credit card cash advance fees) on its pool of credit card loans.

(4) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under section 15.08 of this APPENDIX is "94." See section 6.02 (4) of this revenue procedure.

(5) Contact information. For further information regarding a change under this section, contact Jon Silver at 202-622-3930 (not a toll-free call).

.09 Reserved.

.10 Retainages.

(1) Description of change.

- (a) Applicability. This change applies to an accrual method taxpayer 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 section 15.10 of this APPENDIX must treat all retainages (receivables and payables) in the same manner.

- (b) Inapplicability. This change does not apply to retainages that [*335] are received under long-term contracts as defined in § 460.

(2) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under section 15.10 of this APPENDIX is "130." See section 6.02 (4) of this revenue procedure.

(3) Contact information. For further information regarding a change under this section, contact R. Matthew Kelley at 202-622-7900 (not a toll-free call).

.11 Advance payments - change in applicable financial statements (AFS).

(1) Description of change.

(a) Applicability.

- (i) This change applies to a taxpayer that: (A) receives advance payments, as defined in Rev. Proc. 2004-34, 2004-1 C.B. 991, (B) uses the deferral method described in section 5.02 (3) (a) of Rev. Proc. 2004-34 for including those advance payments in gross income in accordance with its applicable financial statement (AFS), (C) changes the manner in which it recognizes advance payments in revenues in its AFS, and (D) wants to change its method of accounting to use its new method of recognizing advance payments in revenues in its AFS for determining the extent to which advance payments are included in gross income under Rev. Proc. 2004-34.
 - (ii) A [*336] taxpayer's restatement of its AFS for financial accounting presentation does not affect the propriety of the taxpayer's method of accounting for advance payments in the prior taxable year (s). Thus, if the taxpayer uses the deferral method described in section 5.02 (3) (a) of Rev. Proc. 2004-34 for including advance payments in gross income in accordance with its AFS (even if the AFS for that taxable year is later restated), the taxpayer satisfies requirement (ii) in this paragraph and may change its method of accounting under this section if it is otherwise eligible.
- (b) Inapplicability. This change does not apply to:
- (i) a taxpayer that uses a present method of accounting for advance payments that is not the deferral method described in section 5.02 (3) (a) of Rev. Proc. 2004-34. For example, this change does not apply to a taxpayer that uses the full inclusion method under section 5.01 of Rev. Proc. 2004-34;
 - (ii) a taxpayer that wants to change its method for allocating payments under section 5.02 (4) of Rev. Proc. 2004-34.
- (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 advance payments [*337] received on or after the beginning of the year of change. Any advance payments received prior to the year of change are accounted for under the taxpayer's former method of accounting (i.e., according to its former AFS). See also section 2.06 of this revenue procedure for more information regarding a cut-off basis. 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 an application on Form 3115 is waived and a statement in lieu of the Form 3115 is authorized for this change. To secure automatic consent for the change in method of

accounting under section 15.11 of this APPENDIX, the taxpayer must attach the statement to its original return for the year of change (or to the amended return if the limited relief for a late application provided in section 6.02 (3) (d) of this revenue procedure applies). Except as provided in section 15.11 (4) (b) of this APPENDIX, the requirement to file a duplicate application, under section 6.02 (3) (a) of this revenue procedure, is waived. The statement attached to the taxpayer's [*338] return for the year of change must include all of the following:

- (i) the designated automatic accounting method change number for this change, which is "153;"
- (ii) the taxpayer's name and employer identification (or social security number in the case of an individual) for each applicant as would be provided had a Form 3115 been required;
- (iii) the year of change (both the beginning and ending dates);
- (iv) for each applicant, identify the type of applicable financial statement (as defined in section 4.06 of Rev. Proc. 2004-34) used by the taxpayer;
- (v) a detailed and complete description of each type of item affected by the change in revenue recognition and the line number (or schedule) where the affected item is reflected on the federal tax return for the year of change; and
- (vi) a detailed description of the basis used for deferral (i.e., the method the taxpayer uses in its applicable financial statement or how the taxpayer determines amounts earned, as applicable) both before and after the change in the revenue recognition policy for the applicable financial statement.

(3) Scope limitation inapplicable. The scope limitation in section 4.02 (7) of this revenue procedure does not apply to a change [*339] in method of accounting request made under section 15.11 of this APPENDIX.

(4) Special transition rules. In lieu of the general transition rules in section 13.02 of this revenue procedure, the following transition rules apply regarding this section 15.11 of the APPENDIX.

(a) Form 3115 filed under Rev. Proc. 97-27. If before January 10, 2011, a taxpayer within the scope of Rev. Proc. 97-27 timely filed a Form 3115 under Rev. Proc. 97-27 requesting consent for a change in method of accounting described in section 15.11 of this APPENDIX for a year of change ending on or after April 30, 2010, and the Form 3115 is pending with the national office on January 10, 2011, the taxpayer may choose to make the change under this revenue procedure and make the

change on a cut-off basis as provided in section 15.11 (2) (a) of this APPENDIX if the taxpayer is otherwise eligible under this revenue procedure. The taxpayer must notify the national office of its intent to make the change under this section 15.11 (4) (a) before the later of (a) February 11, 2011, or (b) the issuance of either a letter ruling granting or denying consent for the change or a letter closing the case. If the taxpayer timely notifies [*340] the national office that it will make the change under this section 15.11 (4) (a), the national office ordinarily will return the Form 3115 to the taxpayer and refund the user fee.

A taxpayer may make the change under this section 15.11 (4) (a) if the taxpayer attaches an application that complies with the provisions of section 15.11 (2) of this APPENDIX to its original or amended return for the year of change, filed no later than the date required in section 6.02 (3) of this revenue procedure. If the taxpayer converts the Form 3115 under this section 15.11 (4) (a), for purposes of the audit protection in section 7 of this revenue procedure, the application will be considered filed as of the date the taxpayer originally filed the Form 3115 under Rev. Proc. 97-27.

A Form 3115 filed under Rev. Proc. 97-27 before January 10, 2011, that is pending with the national office on January 10, 2011, will be disregarded for purposes of the prior 5 year change rule in section 4.02 (7) of Rev. Proc. 2011-14, in the following circumstances:

- (1) the taxpayer converts the Form 3115 under this section 15.11 (4) (a); or
- (2) the taxpayer withdraws the Form 3115 and files an application under Rev. Proc. 2011-14 [*341] for the same change in method of accounting for a year of change ending on or before April 30, 2011.

(b) Form 3115 filed under Rev. Proc. 2008-52. If before January 10, 2011, a taxpayer properly filed a Form 3115 under Rev. Proc. 2008-52 for a year of change ending on or after April 30, 2010, for a change in method of accounting described in section 15.11 of this APPENDIX, the taxpayer may choose to file an application for that year of change under this revenue procedure and make the change on a cut-off basis as provided in section 15.11 (2) (a) of this APPENDIX if, within 6 months from the due date of the federal income tax return for the year of change (excluding any extension), the taxpayer (i) files an original or amended return implementing the new method of accounting pursuant to this revenue procedure; (ii) attaches an application (amending the previously filed Form 3115) that complies with the provisions of section 15.11 (2) of this APPENDIX to its original (or amended) return for the year of change; (iii) writes on the top of page 1 of a copy of the application: "Statement Revising Form 3115 Filed Pursuant to Sec. 15.11 of the APPENDIX of Rev. Proc. 2011-14"; and (iv) sends [*342] the copy of the application to the following address no later than the date the application is filed with the original or amended return: Internal Revenue Service, P.O. Box 14095, Benjamin Franklin Station, Washington, D.C. 20044, Attention - CC:ITA:8. A Form 3115 filed under Rev. Proc 2008-52 before January 10, 2011, for a taxable year ending on or after April 30, 2010, that is amended under this section 15.11 of the APPENDIX will be disregarded for purposes of the prior 5 year change rule in section 4.02 (7) of Rev. Proc. 2011-14.

- (c) No Form 3115 filed.

(i) Background. Under § 446 (e), a taxpayer that changes its book method of accounting must secure the Commissioner's consent before applying its new book method of accounting for tax purposes. See also § 1.446-1 (e) (2) (i). Accordingly, a taxpayer that previously elected to defer advance payments under Rev. Proc. 2004-34 is required to obtain consent under § 446 (e) if the taxpayer subsequently changes its book method for the deferred advance payments and wants to use its new AFS in determining the extent to which advance payments are included in gross income under Rev. Proc. 2004-34. The Service recognizes that some taxpayers took [*343] the position that consent under § 446 (e) was not required in these circumstances and changed their method of accounting without properly obtaining consent. The safe harbor described below in section 15.11 (4) (c) (ii) of this APPENDIX is provided to reduce controversy in this area.

(ii) Safe harbor. If before January 10, 2011, a taxpayer: (1) received advance payments, as defined in Rev. Proc. 2004-34; (2) used the deferral method described in section 5.02 (3) (a) of Rev. Proc. 2004-34 for including those advance payments in gross income in accordance with its AFS; (3) changed the manner in which advance payments are recognized in revenues in its AFS; and (4) used its new AFS method with respect to a timely filed original federal income tax return in determining the amount of advance payments included in gross income under the deferral method of Rev. Proc. 2004-34 without securing the consent of the Commissioner to that change in accordance with § 446 (e) and § 1.446-1 (e) (2) (i), the Service will not assert that the taxpayer's present method of accounting for advance payments is not a proper deferral method described in section 5.02 (3) (a) of Rev. Proc. 2004-34 solely on the ground [*344] that the taxpayer failed to obtain the consent of the Commissioner for that change.

(5) Contact information. For further information regarding a change under this section, contact Nancy Lee at 202-622-5020 (not a toll-free number).

SECTION 16. OBLIGATIONS ISSUED AT DISCOUNT (§ 454)

.01 Series E, EE or I U.S. savings bonds.

(1) Description of change. This change applies to a cash method taxpayer 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 has 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. See section 2.06 [*345] of this revenue procedure for more information regarding a cut-off basis. 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 an application on Form 3115 is waived and a statement in lieu of the Form 3115 is authorized for this change. The statement must set forth:

- (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) an agreement to report all interest on any 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) an agreement to report all interest on the 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 [*346] years.

(3) Contact information. For further information regarding a change under this section, contact William E. Blanchard at 202-622-3950 (not a toll-free call).

.02 Reserved.

SECTION 17. PREPAID SUBSCRIPTION INCOME (§ 455)

.01 Prepaid subscription income.

(1) Description of change. This change applies to an accrual method taxpayer 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) 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. Any prepaid subscription income received prior to the year of change is accounted for under the taxpayer's former method of accounting. See section 2.06 of this revenue procedure for more information regarding a cut-off basis. 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 an [*347] application on Form 3115 is waived and a statement in lieu of the Form 3115 is authorized for this change. The statement must set forth:
 - (i) the designated automatic accounting method change number for this change, which is "132";

 - (ii) the taxpayer's name and employer identification number (or social security number in the case of an individual);

 - (iii) the year of change (both the beginning and ending dates); and

 - (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) The consent granted under this revenue procedure satisfies the consent required under § 455 (c) (3) and § 1.455-6 (b).

(3) Contact information. For further information regarding a change under this section, contact Patrick M. Clinton at 202-622-4970 (not a toll-free call).

.02 Reserved.

SECTION 18. SPECIAL RULES FOR LONG-TERM CONTRACTS (§ 460)

.01 Change from exempt-contract method to percentage-of-completion method.

(1) Description of change. This change applies to a taxpayer that:

- (a) is not required by § 460 and regulations thereunder to use the percentage-of-completion [*348] method to account for its long-term contracts, and
- (b) wants to change its method of accounting for long-term contracts from an exempt-contract method properly applied (see § 1.460-4 (c)) to the percentage-of-completion method (see § 1.460-4 (b)).

(2) Manner of making change. 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." See section 2.06 of this revenue procedure for more information regarding a cut-off basis. Accordingly, a § 481 (a) adjustment is neither permitted nor required.

(3) No audit protection. The taxpayer does not receive audit protection under section 7 of this revenue procedure in connection with this change.

(4) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under section 18.01 of this APPENDIX is "41." See section 6.02 (4) of this revenue procedure.

(5) Contact information. For further information regarding a change under this section, contact Lore Cavanaugh at 202-622-4960 (not a toll-free call).

.02 Reserved.

SECTION 19. TAXABLE YEAR OF DEDUCTION (§ 461)

.01 [*349] Timing of incurring liabilities for employee compensation.

(1) Self-insured employee medical benefits.

(a) Description of change.

(i) Applicability. This change applies to an accrual method taxpayer 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 and to 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, 107 S. Ct. 1732, 95 L. Ed. 2d 226 (1987), 1987-2 C.B. 134.

- (B) If the taxpayer has a liability to pay a 3rd party for medical services provided to its employees, the taxpayer will treat the liability as incurred in the taxable year in which the services [*350] 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 19.01 (1) of the APPENDIX 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 11.01 or 11.02 of this APPENDIX (as applicable).

 - (b) Amounts taken into account. Applicable provisions of the Code, regulations, and other guidance published in the IRB prescribe the manner in which a liability that has been incurred is taken into account. For example, for a taxpayer with inventories, direct labor costs must be included in inventory costs and may be recovered through cost of goods sold. See § 1.263A-1 (e) (2) (i) (B). A taxpayer may not rely on the provisions of this section 19.01 of the APPENDIX to take a current year deduction.

 - (c) Concurrent automatic change. A taxpayer that wants to make both this change and a change to a UNICAP method under section 11.01 or 11.02 of this APPENDIX (as applicable) for the [*351] 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.

 - (d) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under section 19.01 (1) of this APPENDIX is "42." See section 6.02 (4) of this revenue procedure.
- (2) Bonuses.
- (a) Description of change.

(i) **Applicability.** This change applies to an accrual method taxpayer 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 section 19.01 (2) of this APPENDIX 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 [*352] 15th day of the 3rd 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 section 19.01 (2) of this APPENDIX 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 11.01 or 11.02 of this APPENDIX (as applicable).

(b) **Concurrent automatic change.** A taxpayer that wants to make both this change and a change to a UNICAP method under section 11.01 or 11.02 of this APPENDIX [*353] (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.

(c) **Designated automatic accounting method change number.** The designated automatic accounting method change number for a change under section 19.01 (2) of this APPENDIX is "133." See section 6.02 (4) of this revenue procedure.

(3) **Vacation pay.**

(a) Description of change.

(i) Applicability. This change applies to an accrual method taxpayer that wants to change its method of accounting to treat vacation pay as incurred in the taxable year in which all 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)). Specifically, a taxpayer may change its method of accounting under section 19.01 (3) of this APPENDIX to one of the following methods:

(A) If all the events that establish the fact of the liability to pay vacation pay have occurred by the end of the taxable year in which the related services are provided, the taxpayer [*354] will treat the vacation pay liability as incurred in that taxable year. A taxpayer may change to this method of accounting only if the vacation pay vests in that taxable year.

(B) If all the events that establish the fact of the liability to pay vacation 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 liability as incurred in such subsequent taxable year.

(ii) Inapplicability. This change does not apply:

(A) if the vacation pay is not received by the employee by the 15th day of the 3rd calendar month after the end of the taxable year in which the related services are provided; or

(B) 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 section 19.01 (3) of this APPENDIX 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 11.01 or 11.02 of this APPENDIX (as applicable).

- (b) Concurrent automatic change. A taxpayer that wants to make both [*355] this change and a change to a UNICAP method under section 11.01 or 11.02 of this APPENDIX (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.
- (c) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under section 19.01 (3) of this APPENDIX is "134." See section 6.02 (4) of this revenue procedure.

(4) Contact information. For further information regarding a change under this section, contact Sandra Cheston at 202-622-7900 (not a toll-free call).

.02 Timing of incurring liabilities for real property taxes, personal property taxes, state income taxes, and state franchise taxes.

(1) Background. An accrual method taxpayer 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), [*356] 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 an accrual method taxpayer 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 19.02 of the [*357] APPENDIX 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 11.01 or 11.02 of this APPENDIX (as applicable).

(3) Amounts taken into account. Applicable provisions of the Code, regulations, and other guidance published in the IRB prescribe the manner in which a liability that has been incurred is taken into account. For example, for a taxpayer with inventories, certain real property taxes must be included in inventory costs and may be recovered through cost of goods sold. See § 1.263A-1 (e) (3) (ii) (L). A taxpayer may not rely on the provisions of this section 19.02 of the APPENDIX to take a current year deduction.

(4) Concurrent automatic change. A taxpayer that wants to make both this change and a change to a UNICAP method under section 11.01 or 11.02 of this APPENDIX (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.

(5) Designated automatic accounting [*358] method change number. The designated automatic accounting method change number for a change under section 19.02 of this APPENDIX is "43." See section 6.02 (4) of this revenue procedure.

(6) Contact information. For further information regarding a change under this section, contact Jamie Kim at 202-622-4950 (not a toll-free call).

.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 an accrual method taxpayer 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) [*359] 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 19.01 (1) of this APPENDIX.

- (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 19.03 of the APPENDIX 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 11.01 or 11.02 of this APPENDIX (as applicable).

(2) Amounts taken into account. Applicable provisions of the Code, regulations, and other guidance published in the IRB prescribe the manner in which a liability that has been incurred is taken into account. For example, for a taxpayer with inventories, certain employee benefit costs (including workers' compensation) must be included in inventory costs and may be recovered through costs of goods sold. See § 1.263A-1 (e) (3) (ii) (D). [*360] A taxpayer may not rely on the provisions of this section 19.03 of the APPENDIX to take a current year deduction.

(3) Concurrent automatic change. A taxpayer that wants to make both this change and change to either a method provided in section 19.01 (1) of this APPENDIX for self-insured employee medical expenses or a UNICAP method under section 11.01 or 11.02 of this APPENDIX (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.

(4) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under section 19.03 of this APPENDIX is "44." See section 6.02 (4) of this revenue procedure.

(5) Contact information. For further information regarding a change under this section, contact Jamie Kim at 202-622-4950 (not a toll-free call).

.04 Timing of incurring certain liabilities for payroll taxes.

(1) Description of change.

(a) Applicability. This change applies to:

- (i) an accrual method employer that wants to change its method of accounting for:

- (A) FICA and FUTA [*361] taxes to a method consistent with the holding in Rev. Rul. 96-51, 1996-2 C.B. 36. Rev. Rul. 96-51 holds that, under the all events test of § 461, an accrual method employer may deduct in Year 1 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 deduct 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 [*362] 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 deduct 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) an accrual method taxpayer 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 [*363] 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 19.04 of the APPENDIX 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 11.01 or 11.02 of this APPENDIX (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 railroad

retirement taxes (if applicable) must change to the recurring item exception method for FICA taxes, FUTA taxes, state unemployment taxes, and railroad retirement taxes (if applicable) as specified in § 461 (h) (3) as part of this change.

(3) Amounts taken into account. Applicable provisions of the Code, regulation, and other guidance published in the IRB prescribe the manner in which a liability [*364] that has been incurred is taken into account. For example, for a taxpayer with inventories, certain taxes must be included in inventory costs and may be recovered through cost of goods sold. See § 1.263A-1 (e) (3) (ii) (L). A taxpayer may not rely on the provisions of this section 19.04 of the APPENDIX to take a current year deduction.

(4) Concurrent automatic change. A taxpayer that wants to make both this change and a change to a UNICAP method under section 11.01 or 11.02 of this APPENDIX (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.

(5) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under section 19.04 (1) (a) (i) or (ii) of this APPENDIX is "45." The designated automatic accounting method change number for a change under section 19.04 (1) (a) (iii) of this APPENDIX is "113." See section 6.02 (4) of this revenue procedure.

(6) Contact information. For further information regarding a change under this section, [*365] contact Jamie Kim at 202-622-4950 (not a toll-free call).

.05 Cooperative advertising.

(1) Description of change. This change applies to a taxpayer 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 section 19.05 of this APPENDIX is "46." See section 6.02 (4) of this revenue procedure.

(3) Contact information. For further information regarding a change under this section, contact Jamie Kim at 202-622-4950 (not a toll-free call).

.06 Timing of incurring certain liabilities for services or insurance.

(1) Description of change. This change applies to a taxpayer [*366] 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 section 19.06 of this APPENDIX is "106." See section 6.02 (4) of this revenue procedure.

(3) Contact information. For further information regarding a change under this section, contact Charles Kim at 202-622-5020 (not a toll-free call).

.07 Rebates and allowances.

(1) Description of change.

(a) **Applicability.** This change applies to an accrual method taxpayer 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 [*367] 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 section 19.07 of this APPENDIX is "135." See section 6.02 (4) of this revenue procedure.

(3) Contact information. For further information regarding a change under this section, contact Jamie Kim at 202-622-4950 (not a toll-free call).

.08 Ratable accrual of real property taxes.

(1) Description of change. This change applies to an accrual method taxpayer 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) 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 [*368] 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)*. See also section 2.06 of this revenue procedure for more information regarding a cut-off basis. 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 an application on Form 3115 is waived and a statement in lieu of the Form 3115 is authorized for this change. The taxpayer's request (Form 3115 or statement) to make the change under this section of the APPENDIX must include all of the following:

- (i) the designated automatic accounting method change number for this change, which is "149";
- (ii) the taxpayer's name and employer identification number (or social security number in the case of an individual);
- (iii) the year of change (both the beginning and ending dates); and
- (iv) the information described in § 1.461-1 (c) (3) (ii) (a) through (f).

(c) The consent granted under this revenue procedure satisfies the consent required under § 461 (c) (2) (B) and § 1.461-1 (c) (3) (ii).

(3) Contact information. For further [*369] information regarding a change under this section, contact Daniel Cassano at 202-622-7900 (not a toll-free call).

.09 California Franchise Taxes.

(1) Description. This change applies to a taxpayer 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 section 19.09 of this APPENDIX is "154." See section 6.02 (4) of this revenue procedure.

(3) Contact information. For further information regarding a change under this section, contact Charles Kim at 202-622-5020.

.10 Gift cards issued as a refund for returned goods.

(1) Description of change.

- (a) **Applicability.** This change applies to an accrual method taxpayer [*370] 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) 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) **Scope limitations temporarily inapplicable.** The scope limitations in section 4.02 of this revenue procedure do not apply to the taxpayer's first or second taxable year ending on or after December 31, 2010.

(3) **Concurrent automatic change.** A taxpayer that wants to make both this change and an automatic change to the deferral method for advance payments under Rev. Proc. 2004-34 (see section 15.07 of this APPENDIX) for the same taxable year of change must 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.

(4) **Concurrent non-automatic change.** [*371] A taxpayer that wants to make both this change and change to a permissible method of accounting under § 1.451-5 for the same taxable year of change must request this change in method of accounting using the non-automatic procedures in Rev. Proc. 97-27 (or any successor).

(5) **Designated automatic accounting method change number.** The designated automatic accounting method change number for a change under section 19.10 of this APPENDIX is "156." See section 6.02 (4) of this revenue procedure.

(6) **Contact information.** For further information regarding a change under this section, contact Sean M. Dwyer at 202-622-5020 (not a toll-free call).

SECTION 20. 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) 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. [*372] This change does not apply to taxpayers required to use the constant rental accrual method described in § 1.467-3 (a) or the proportional rental accrual method described in § 1.467-2 (a) for their fixed rent.

(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. Audit protection under section 7 of this revenue procedure 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 section 20.01 of this APPENDIX is "136." See section 6.02 (4) of this revenue procedure.

(5) Contact information. For further information regarding a change under this section, contact William Ruane at 202-622-4920 (not a toll-free call).

.02 Reserved.

SECTION 21. INVENTORIES (§ 471)

.01 Cash discounts.

(1) Description of change. This change applies [*373] to a taxpayer that wants to change its method of accounting for cash discounts (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) 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 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 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. [*374] The net § 481 (a) adjustment can be 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).

(3) 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 adjustment is required to prevent omissions arising from the fact that the net invoice [*375] method did not report income upon timely payment for some or all of the goods that remain in inventory, and a negative 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) [*376] and the Available Discount is \$20 (\$1,000 - \$980). Thus, Taxpayer's net § 481 (a) adjustment is a positive \$25 (\$45 - \$20).

(4) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under section 21.01 of this APPENDIX is "48." See section 6.02 (4) of this revenue procedure.

(5) Contact information. For further information regarding a change under this section, contact Patty Ward at 202-622-4970 (not a toll-free call).

.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; 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 new method of accounting (that estimates inventory shrinkage) clearly reflects income under § 446 (b).

(2) Scope limitations inapplicable. The scope limitations in section 4.02 of this revenue procedure do not apply to this [*377] change.

(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 new 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).

(4) Audit protection. A taxpayer does not receive audit protection under section 7 of this revenue procedure in connection with a change to the retail safe harbor method if, on the date the taxpayer files a copy of the Form 3115 with the national office, the taxpayer's present method of estimating inventory shrinkage is an issue under consideration within the meaning of section 3.09 of this revenue procedure.

(5) Future change. A taxpayer that changes to the retail safe harbor method described in Rev. Proc. 98-29 will not be precluded, solely by reason of such change, from changing to another safe harbor method for estimating inventory shrinkage in computing ending inventory in the first year such other safe harbor [*378] method is available.

(6) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under section 21.02 of this APPENDIX is "49." See section 6.02 (4) of this revenue procedure.

(7) Contact information. For further information regarding a change under this section, contact Steven Gee at 202-622-4970 (not a toll-free call).

.03 Small taxpayer exception from requirement to account for inventories under § 471.

(1) Description of change. This change applies to either a taxpayer (other than a taxpayer described § 448 (a) (3)) with "average annual gross receipts" (as defined in section 5.01 of Rev. Proc. 2001-10, as modified by Announcement 2004-16 and Rev. Proc. 2011-14) of \$1,000,000 or less or a qualifying taxpayer (other than a taxpayer described in § 448) with "average annual gross receipts" (as defined in section 5.02 of Rev. Proc. 2002-28, as modified by Announcement 2004-16 and Rev. Proc. 2011-14) of \$10,000,000 or less that wants to change from a method of accounting for inventoriable items (including, if applicable, from the method of capitalizing costs under § 263A) to the method described in Rev. Proc. 2001-10 and Rev. Proc. 2002-28, [*379] for treating inventoriable items in the same manner as materials and supplies that are not incidental under § 1.162-3.

(2) Scope limitations applicable. The scope limitations in section 4.02 of this revenue procedure (including the limitation regarding a prior change within five taxable years of section 4.02 (6)) and the requirements in sections 6.03 (regarding taxpayers under examination), 6.04 (regarding taxpayers before an appeals office) and 6.05 (regarding taxpayers before a federal court) of this

revenue procedure apply to a change in method of accounting made under this section 21.03 of the APPENDIX. See sections 14.05 and 14.06 of Rev. Proc. 2011-14.

(3) Manner of making change. See Rev. Proc. 2001-10 or Rev. Proc. 2002-28 (as applicable) for additional guidance on the computation of the § 481 (a) adjustment and the completion of the Form 3115.

(4) Concurrent automatic change to the overall cash method under Rev. Proc. 2001-10 or Rev. Proc. 2002-28. A taxpayer that wants to make both this change and a change to the overall cash method under Rev. Proc. 2001-10 or Rev. Proc. 2002-28 (see section 14.03 of this APPENDIX) for the same year of change may file a single Form 3115 for [*380] both changes, provided the taxpayer enters the designated automatic accounting method change numbers for both changes on the appropriate line on that Form 3115.

(5) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under section 21.03 of this APPENDIX for the small taxpayer (\$1 million) inventory exception contained in Rev. Proc. 2001-10 is "50." The designated automatic accounting method change number for a change under section 21.03 of this APPENDIX for the small taxpayer (\$10 million) inventory exception contained in Rev. Proc. 2002-28 is "51." See section 6.02 (4) of this revenue procedure.

(6) Contact information. For further information regarding a change under this section, contact Kari Fisher, at 202-622-4970 (not a toll-free call).

.04 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 [*381] 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) 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 21.01 (2) of this APPENDIX.

(3) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under section 21.04 of this APPENDIX is "53." See section 6.02 (4) of this revenue procedure.

(4) Contact information. For further information regarding a change under this section, contact Patty Ward at 202-622-4970 (not a toll-free call).

.05 Impermissible methods of identification and valuation.

(1) Description of change. This change applies to a taxpayer:

- (a) changing [*382] from an impermissible method of accounting described in §§ 1.471-2 (f) (1) through (5), including a LIFO taxpayer restoring a write down of inventory below cost or discontinuing maintaining an inventory reserve;
- (b) changing from a gross profit method or from a method of determining market that is not in accordance with § 1.471-4; or
- (c) changing from a method that is not in accordance with § 1.471-2 (c) for determining the value of "subnormal" goods.
 - (i) Gross profit method. 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.
 - (ii) Method of determining market. 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.

(2) Applicability. [*383] For purposes of this change, a taxpayer must be changing to an inventory method (identification or valuation, or both) specifically permitted by the Code, the regulations, or a decision of the United States Supreme Court, a revenue ruling, a revenue procedure, or other guidance published in the IRB for the inventory goods, and the taxpayer is neither prohibited from using that method nor required to use a different inventory method for those inventory goods. This change does not apply to a change described in another section of this revenue procedure or in other guidance published in the IRB.

(3) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under section 21.05 of this APPENDIX is "54." See section 6.02 (4) of this revenue procedure.

(4) Contact information. For further information regarding a change under this section, contact Patty Ward at 202-622-4970 (not a toll-free call).

.06 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 [*384] 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 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).

(2) **Concurrent automatic change.** A taxpayer that wants to make both this change and (i) a change from the cost method to the LCM method under section 21.11 of this APPENDIX, or (ii) a change from the LIFO inventory method to a permitted method for identification under (and as determined and defined in) section 22.01 (1) (b) [*385] of this APPENDIX 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.

(3) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under section 21.06 of this APPENDIX is "55." See section 6.02 (4) of this revenue procedure.

(4) Contact information. For further information regarding a change under this section, contact Eric D. Brauer at 202-622-4970 (not a toll-free call).

.07 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, for its vehicle parts inventory. See Rev. Proc. 2002-17 for further information regarding this change.

(2) Manner of [*386] 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. See section 2.06 of this revenue procedure for more information regarding a cut-off basis. 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 section 21.07 of this APPENDIX is "63." See section 6.02 (4) of this revenue procedure.

(4) Contact information. For further information regarding a change under this section, contact Eric D. Brauer at 202-622-4970 (not a toll-free call).

.08 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, [*387] for its heavy equipment parts inventory.

(2) 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. See section 2.06 of this revenue procedure for more information regarding a cut-off basis. Accordingly, a § 481 (a) adjustment is neither permitted nor required.

(3) Concurrent automatic change. A taxpayer that wants to make both this change and another automatic change in method of accounting under § 263A (see section 11 of this APPENDIX) 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).

(4) Designated automatic accounting method change number. The taxpayer must prepare and file a Form 3115 in accordance with section 6 of Rev. Proc. 2006-14. The designated automatic accounting method change number for a change under section 21.08 of this APPENDIX is "96." See section 6.02 (4) of this revenue procedure.

(5) Contact information. For further information [*388] regarding a change under this section, contact Eric D. Brauer at 202-622-4970 (not a toll-free call).

.09 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, 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 21.09 of the APPENDIX, must use a proper inventory method to identify and value its rotatable spare parts.

(2) Scope limitations inapplicable. The scope limitations in section 4.02 of this revenue procedure do 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.

(3) Designated automatic accounting method [*389] change number. The designated automatic accounting method change number for a change under section 21.09 of this APPENDIX is "110." See section 6.02 (4) of this revenue procedure.

(4) Contact information. For further information regarding a change under this section, contact Gwen Turner at 202-622-5020 (not a toll-free call).

.10 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) Scope. This change in method of accounting applies to an accrual method taxpayer required to use an inventory method of accounting and maintaining inventories, as provided in § 471 and the regulations thereunder, that receives advance trade discounts as defined in § 4.03 of Rev. Proc. 2007-53.

(3) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under section 21.10 of this APPENDIX is "111." See section 6.02 (4) of this revenue procedure.

(4) Contact information. For further information regarding a change under this section, contact Eric D. Brauer, at 202-622-4970 (not a toll-free call).

.11 Permissible [*390] methods of identification and valuation.

(1) Description of change.

(a) Applicability. This change applies to a taxpayer that wants to change from one permissible method of identifying and valuing inventories to another permissible method of identifying and valuing inventories. For example, a taxpayer using first-in, first-out (FIFO) as its inventory-identification method may change its inventory-valuation method from cost to cost or market, whichever is lower (LCM). (Note, however, a real estate developer may not value real property or improvements to the real property at LCM because real property is not inventoriable property under § 1.471-1. Also, a taxpayer who meets the definition of a "dealer in securities" under both § 1.471-5 and § 475 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.) Furthermore, a taxpayer may change to a permissible method of valuing "subnormal" goods under § 1.471-2 (c).

However, this change does not apply to any change described in another section of the APPENDIX of this revenue procedure or in other guidance published in the IRB, or to any changes within the last-in, [*391] first-out (LIFO) inventory method. For example, this change does not apply to a taxpayer that wants to change to a rolling-average method (see section 21.14 of this APPENDIX).

(b) Permissible method defined. For purposes of this change, a permissible method is an inventory method (identification or valuation, or both) specifically permitted by the Code, the regulations, a decision of the United States Supreme Court, a revenue ruling, a revenue procedure, or other guidance published in the IRB for inventories. However, an otherwise permissible

inventory method is not permissible under this section 21.11 of the APPENDIX of this revenue procedure 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 section 21.11 of this APPENDIX is "137." See section 6.02 (4) of this revenue procedure.

(3) Contact information. For further information regarding a change under this section, contact Patty Ward at 202-622-4970 (not a toll-free call).

.12 Change in the official used vehicle guide [*392] 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) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under section 21.12 of this APPENDIX is "138." See section 6.02 (4) of this revenue procedure.

(3) Contact information. For further information regarding a change under this section, contact Patty Ward at 202-622-4970 (not a toll-free call).

.13 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 [*393] 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 new 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) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under section 21.13 of this APPENDIX is "139." See section 6.02 (4) of this revenue procedure.

(3) [*394] Contact information. For further information regarding a change under this section, contact Patty Ward at 202-622-4970 (not a toll-free call).

.14 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 I.R.B. 186, as modified by Rev. Proc. 2008-52 (see section 13).

(2) Certain scope limitation temporarily inapplicable. The scope limitation in section 4.02 (7) of this revenue procedure does not apply to the change to a rolling-average method in the taxpayer's first or second taxable year ending on or after December 31, 2007.

(3) Manner of making change. This change is made on a cut-off basis unless the taxpayer's books and records contain sufficient information to compute a § 481 (a) adjustment, in which case the taxpayer may choose to implement the change with a § 481 (a) adjustment as provided in section 5.04 of this revenue procedure. See section 2.06 of this revenue procedure for more information [*395] regarding a cut-off basis.

(4) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under section 21.14 of this APPENDIX is "114." See section 6.02 (4) of this revenue procedure.

(5) Contact information. For further information regarding a change under this section, contact Leo Nolan at 202-622-4970 (not a toll-free call).

SECTION 22. 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 22.01 (1) (b) of this APPENDIX.

(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 [*396] 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 section 22.01 of this APPENDIX, an inventory method (identification or valuation, or both) is a permitted method if it is specifically permitted by the Code, the regulations, a decision of the United States Supreme Court, a revenue ruling, a revenue procedure, or other guidance published in the IRB for the inventory goods and if the taxpayer is neither prohibited from using that method nor required to use a different inventory method for those inventory goods.
- (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) Certain scope limitation inapplicable. The scope limitation in section 4.02 (7) of this revenue procedure does not apply [*397] in 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.

(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 Rev. Proc. 97-27 (or any successor). A taxpayer that wants to re-elect the LIFO inventory method after a period of five taxable years (beginning with the year of change) is not required to file a Form 3115 in accordance with Rev. Proc. 97-27, but must file a Form 970, *Application to Use LIFO Inventory Method*, in accordance [*398] with § 1.472-3.

(4) Effect of subchapter S election by corporation.

(a) S election effective for year of LIFO discontinuance. If a C corporation elects to be treated as an S corporation for the taxable year in which it discontinues use of the LIFO inventory method, § 1363 (d) requires an increase in the taxpayer's gross income for the LIFO recapture amount (as defined in § 1363 (d) (3)) for the taxable year preceding the year of change (the taxpayer's last taxable year as a C corporation) and a corresponding adjustment to the basis of the taxpayer's inventory as of the end of the taxable year preceding the year of change. Any increase in income tax as a result of the inclusion of the LIFO recapture amount is payable in four equal installments,

beginning with the taxpayer's last taxable year as a C corporation as provided in § 1363 (d) (2). Any corresponding basis adjustment is taken into account in computing the § 481 (a) adjustment (if any) that results upon the discontinuance of the LIFO inventory method by the corporation.

(b) S election effective for a year after LIFO discontinuance. If a C corporation elects to be treated as an S corporation for a taxable year after the taxable year [*399] in which it discontinued use of the LIFO inventory method, the remaining balance of any positive § 481 (a) adjustment must be included in its gross income in its last taxable year as a C corporation. If this inclusion results in an increase in tax for its last taxable year as a C corporation, this increase in tax is payable in four equal installments, beginning with the taxpayer's last taxable year as a C corporation as provided in § 1363 (d) (2), unless the taxpayer is required to take the remaining balance of the § 481 (a) adjustment into account in the last taxable year as a C corporation under another acceleration provision in section 5.04 (3) (c) of this revenue procedure.

(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 new method of identifying [Insert description of inventory goods] is the [Insert method, as appropriate; that is, specific identification; FIFO; retail; etc.] method."

(b) "The new method of valuing [*400] [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 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 22.10 of this APPENDIX and then may change from the LIFO method pursuant to section 22.01 of this APPENDIX. See section 22.10 (2) of this APPENDIX. 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 method must compute a section 481 (a) adjustment for the year of change. See section 5.03 of this revenue procedure.

(b) Special rule for changes that would otherwise be implemented with a cutoff. If a taxpayer is changing from the LIFO method to a method that is implemented on a cut-off basis under another section of this revenue procedure (see, e.g., sections 21.07, 21.08, and 21.14 of this APPENDIX), the taxpayer's § 481 (a) adjustment is "the [*401] 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 new method (i.e., treat the deemed change from the FIFO method to the new method on a cut-off basis).

(8) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under section 22.01 of this APPENDIX is "56." See section 6.02 (4) of this revenue procedure.

(9) Contact information. For further information regarding a change under this section, contact Leo Nolan at 202-622-4970 (not a toll-free call).

.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 [*402] 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 (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 22.02 of the APPENDIX.

(2) **Certain scope limitation temporarily inapplicable.** The scope limitation in section 4.02 (7) of this revenue procedure does not apply to the change to a rolling-average method in the taxpayer's first or second taxable year ending on or after December 31, 2007.

(3) **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. See section 2.06 of this revenue procedure for more information [*403] regarding a cut-off basis. Accordingly, a § 481 (a) adjustment is neither permitted nor required.

(4) **Concurrent change to a rolling-average method.** A taxpayer that wants to make both a change to a rolling-average method of determining current-year cost for its LIFO inventory under

this section 22.02 of the APPENDIX and a change to a rolling-average method of accounting for non-LIFO inventories under Rev. Proc. 2008-43 (see section 21.14 of this APPENDIX) 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.

(5) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under section 22.02 of this APPENDIX is "57." See section 6.02 (4) of this revenue procedure.

(6) Contact information. For further information regarding a change under this section, contact Leo Nolan at 202-622-4970 (not a toll-free call).

.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 [*404] 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 2.06 of this revenue procedure and 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 [*405] 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 22.08 of this APPENDIX). Further, the automobile dealer must establish a separate inventory pool for the parts and accessories.

(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, the automobile dealer also must attach to the application 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 section 22.03 of this APPENDIX for each class of goods.

(3) Concurrent change to the Vehicle-Pool Method. A taxpayer that wants to make both a change to [*406] the Alternative LIFO Method under this section 22.03 of the APPENDIX and a change to the Vehicle-Pool Method under Rev. Proc. 2008-23 (see section 22.08 of this APPENDIX) 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.

(4) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under section 22.03 of this APPENDIX is "58." See section 6.02 (4) of this revenue procedure.

(5) Contact information. For further information regarding a change under this section, contact Leo Nolan at 202-622-4970 (not a toll-free call).

.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 [*407] 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. See section 2.06 of this revenue procedure for more information regarding a cut-off basis. 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 section 22.04 of this APPENDIX except for complying with section 22.04 (3) (b) of this APPENDIX, an examining agent may not deny [*408] the taxpayer the change. However, the taxpayer does not receive audit protection under section 7 of this revenue procedure with respect to the improper method of accounting for the bargain purchase. Accordingly, the examining agent may make any necessary adjustments in any open year 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, any LIFO inventory cost increments previously determined and the value of those increments must be retained. Instead of using the earliest taxable year for which the taxpayer adopted LIFO as the base year, the year of change must be used 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 will be 1.00). The base-year cost of all LIFO cost increments at the beginning of the year of change must be restated in terms of new base-year costs, using the year of change as the new base year, and the indexes for previously determined inventory increments must be recomputed accordingly. The new base-year cost of a [*409] pool is equal to the total current-year cost of all the vehicles in the pool.
- (d) Application. Taxpayers are reminded to complete all applicable parts of the Form 3115, including 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 22.08 of this APPENDIX). Further, the used vehicle dealer must establish a separate inventory pool for the parts and accessories.

(5) Concurrent change to the Vehicle-Pool Method. A taxpayer that wants to make both a change to the Used Vehicle Alternative LIFO Method under this section 22.04 of the APPENDIX

and a change to the Vehicle-Pool Method under Rev. Proc. 2008-23 (see section 22.08 of this [*410] APPENDIX) 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.

(6) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under section 22.04 of this APPENDIX is "59." See section 6.02 (4) of this revenue procedure.

(7) Contact information. For further information regarding a change under this section, contact Leo Nolan at 202-622-4970 (not a toll-free call).

.05 Determining the cost of used vehicles purchased or taken as a trade-in.

(1) Description of change and scope.

(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 official used vehicle guide selected must be consistently used unless the taxpayer receives permission to use a different guide;
- (ii) use a different official used vehicle guide for determining the cost of [*411] 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 22.04 of the APPENDIX 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. See section 2.06 of this revenue procedure for more information regarding a cut-off basis. 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 section 22.05 of this APPENDIX is "60." See section 6.02 (4) of this revenue procedure.

(4) Contact information. For further information regarding a change under this [*412] section, contact Patty Ward at 202-622-4970 (not a toll-free call).

.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 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. See section 2.06 [*413] of this revenue procedure for more information regarding a cut-off basis. 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 section 22.06 of this APPENDIX except for complying with section 22.06 (3) of this APPENDIX, an examining agent may not deny the taxpayer the change. However, the taxpayer does not receive audit protection under section 7 of this revenue procedure with respect to the improper method of accounting for the bargain purchase. Accordingly, the examining agent may make any necessary adjustments in any open year to effect compliance with Hamilton Industries, Inc.

(4) Concurrent automatic changes.

(a) A taxpayer that wants to make this change and to change its method of determining current-year cost under section 22.02 of this APPENDIX [*414] 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.

(b) A taxpayer that wants to make 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 22.07 of this APPENDIX 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.

(c) A taxpayer that wants to make this change and to change its method of pooling under section 22.10 of this APPENDIX 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.

(5) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under section 22.06 of this APPENDIX is "61." See section 6.02 (4) of this revenue procedure.

(6) Contact information. For further information [*415] regarding a change under this section, contact Leo Nolan at 202-622-4970 (not a toll-free call).

.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 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 [*416] 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 6 (Producer price indexes percent changes for commodity groupings and individual items, not seasonally adjusted) of the monthly PPI Detailed Report, 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 (Consumer Price Index for All Urban Consumers (CPI-U): U.S. City average, detailed expenditure categories) of the monthly CPI Detailed Report or Table 6 (Producer price indexes and percent changes for commodity groupings and individual items, not seasonally adjusted) of the monthly PPI Detailed Report. 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 [*417] 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 22.02 of this APPENDIX. 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. See section 6.02 (4) of this revenue procedure; and
- (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.

(2) Certain scope limitation inapplicable. The scope limitation in section 4.02 (7) of this revenue procedure does not apply to the changes described in sections 22.07 (1) (d) and (g) of this APPENDIX.

(3) Manner of making change. These changes are made on [*418] a cut-off basis and apply only to the computation of ending inventories after the beginning of the year of change. See section 2.06 of this revenue procedure for more information regarding a cut-off basis. Accordingly, a § 481 (a) adjustment is neither permitted nor required. A taxpayer that changes pursuant to sections 22.07 (1) (a), (b) and (e) of this APPENDIX 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 section 22.07 of this APPENDIX is "62." See section 6.02 (4) of this revenue procedure.

(5) Contact information. For further information regarding a change under this section, contact Leo Nolan at 202-622-4970 (not a toll-free call).

.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. This change is made on a cut-off basis and applies only to the computation of ending inventories after the beginning [*419] of the year of change. See section 2.06 of this revenue procedure for more information regarding a cut-off basis. 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 22.08 of the APPENDIX must comply with § 1.472-8 (g). 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 (i.e., the cumulative index at the beginning of the year of change will be 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) Scope limitations temporarily inapplicable. The scope limitation in section 4.02 (7) of this revenue procedure does not apply for the reseller's first taxable year ending on or after December 31, 2007.

(4) Concurrent change to the Alternative LIFO Method or the Used Vehicle Alternative [*420] LIFO Method. A reseller that wants to make both a change to the Vehicle-Pool Method under this section 22.08 of the APPENDIX and a change to the Alternative LIFO Method under Rev. Proc. 97-36 (see section 22.03 of this APPENDIX) or the Used Vehicle Alternative LIFO Method under Rev. Proc. 2001-23 (see section 22.04 of this APPENDIX) 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.

(5) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under section 22.08 of this APPENDIX is "112." See section 6.02 (4) of this revenue procedure.

(6) Contact information. For further information regarding a change under this section, contact Leo Nolan at 202-622-4970 (not a toll-free call).

.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, [*421] 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 (e.g., 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. 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. See section 2.06 of this revenue procedure for more information regarding a cut-off basis. Accordingly, a § 481 (a) adjustment is neither permitted nor required. A taxpayer that changes its method pursuant to section 22.09 of this APPENDIX 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 section 22.09 of this APPENDIX is "140." See section 6.02 (4) of this revenue procedure.

(4) Contact information. For further information regarding a change under this section, contact Leo Nolan at 202-622-4970 (not a toll-free [*422] call).

.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. See section 2.06 of this revenue procedure for more information regarding a cut-off basis. Accordingly, a § 481 (a) adjustment is neither permitted nor required. A taxpayer that changes its method of pooling pursuant to section 22.10 of this APPENDIX 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 section 22.10 of this APPENDIX, which must be implemented [*423] 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 22.01 of this APPENDIX, 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 section 22.10 of this APPENDIX is "141." See section 6.02 (4) of this revenue procedure.

(4) Contact information. For further information regarding a change under this section, contact Leo Nolan at 202-622-4970 (not a toll-free call).

SECTION 23. MARK-TO-MARKET ACCOUNTING METHOD FOR DEALERS IN SECURITIES (§ 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 an election under § 475 (e) or (f), then beginning with the first taxable year for which the election is effective (election [*424] year), mark to market is the only permissible method of accounting for securities or commodities subject to the election. Thus, if the electing taxpayer's method of accounting for its taxable year immediately preceding the election year is inconsistent with § 475, the taxpayer is required to change its method of accounting to comply with the election. A taxpayer that makes a § 475 (e) or (f) election but fails to change its method of accounting to comply with that election is using an impermissible method. See section 4 of Rev. Proc. 99-17.

(2) Scope. 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); and
- (c) the year of change is the election year.

(3) Scope limitations inapplicable. The scope limitations in section 4.02 of this revenue procedure do not apply to this change.

(4) Election [*425] under Rev. Proc. 99-17. In accordance with section 5.03 (1) of Rev. Proc. 99-17, in order to make a section 475 (e) or (f) election, a taxpayer must file a statement satisfying the requirements in section 5.04 of Rev. Proc. 99-17. The statement must be filed not later than the due date (without regard to extensions) of the original federal income tax return for the taxable year immediately preceding the election year 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, if a calendar year individual taxpayer wants to make a section 475 (e) or (f) election for 2009 (the election year), the taxpayer

must file the statement on or before April 15, 2009, with the taxpayer's timely filed (without regard to extensions) federal income tax return for 2008 or the taxpayer's timely filed request for an extension of time to file the 2008 federal income tax return. On the Form 3115 filed for the year of change, a taxpayer should indicate that the taxpayer has filed the statement in compliance with section 5.03 (1) of Rev. Proc. 99-17.

(5) Designated automatic accounting method change number. The designated automatic [*426] accounting method change number for a change under section 23.01 of this APPENDIX is "64." See section 6.02 (4) of this revenue procedure.

(6) Contact information. For further information regarding a change under this section, contact Eric E. Boody at 202-622-3950 (not a toll-free call).

.02 Reserved.

SECTION 24. 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 scope limitations inapplicable.** A bank that changed from the § 593 reserve method under § 593 (g) to the § 585 reserve method will not be prohibited under section 4.02 (7) of this revenue procedure from changing its method of accounting for bad debts under this section 24.01 of the APPENDIX solely because of the § 593 (g) change. A bank for which a Qsub [*427] election is filed will not be prohibited under section 4.02 (7) of this revenue procedure from changing its method of accounting for bad debts under this section 24.01 of the APPENDIX 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 24.01 of the APPENDIX 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 5.04 (3) (c) of this revenue procedure, a bank that ceases to be a bank under § 581 must accelerate its § 481 (a) adjustment.

(4) Change from § 585 required when [*428] 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 applicable provisions of this revenue procedure (including section 6 of this revenue procedure, which requires filing a Form 3115 in duplicate). The resulting § 481 (a) adjustment is recognized built-in gain under § 1374, unless the bank elects under § 1361 (g) and section 24.01 (4) (b) of this APPENDIX 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 [*429] preceding the year of change.

(i) Election requirements. A bank that changes its method of accounting for bad debts under this section 24.01 of the APPENDIX, 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 6.02 (3) of this revenue procedure 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 6.02 (3) of this revenue procedure, 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) [*430] 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 6.02 (3) of this revenue procedure 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 6.02 (3) of this revenue procedure, 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 24.01 (4) (b) of this APPENDIX.

Example. X, a calendar year taxpayer, is a bank as defined in § 581 and is not a large bank as defined in § 585 (c) (2). For taxable years before 2010, X accounted for its bad debts under the § 585 [*431] reserve method. By March 15, 2010, X properly

filed a Form 2553 electing to be an S corporation effective January 1, 2010. Pursuant to section 24.01 (4) (a) of this APPENDIX, 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 in 2010 in accordance with all of the applicable provisions of this revenue procedure. Thus, for example, X must file a Form 3115 for this 2010 change in duplicate, in accordance with section 6.02 (3) of this revenue procedure, by attaching the original Form 3115 to X's timely filed (including extensions) original federal income tax return for 2010 and filing a copy of the Form 3115 with the national 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, 2009. X wishes to elect under § 1361 (g) to include the § 481 (a) adjustment in income in the taxable year ending December 31, 2009, 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 2010 change under section 6.02 (3) of this revenue procedure, (2) file an additional [*432] copy of that Form 3115 with its original (or amended) federal income tax return for 2009 filed no later than the date the original Form 3115 is properly filed under section 6.02 (3) of this revenue procedure, and (3) include the amount of its § 481 (a) adjustment in gross income in its return for 2009. 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 2009, 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 section 24.01 of this APPENDIX is "66." See section 6.02 (4) of this revenue procedure.

(6) Contact information. For further information regarding a change under this section, contact David B. Silber at 202-622-3930 or Laura Fields at 202-622-3050 (not a toll-free call).

.02 Reserved.

SECTION 25. INSURANCE COMPANIES (§§ 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 [*433] 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 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) Scope. This automatic change in accounting method applies to any insurance company [*434] 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) Scope limitations inapplicable. The scope limitations in section 4.02 of this revenue procedure do not apply to this change.

(4) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under section 25.01 of this APPENDIX is "67." See section 6.02 (4) of this revenue procedure.

(5) Contact information. For further information regarding a change under this section, contact Kay Hossofsky at 202-622-3970 (not a toll-free call).

.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 [*435] the 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) Scope limitations inapplicable. The scope limitations of section 4.02 of this revenue procedure do not apply to this change.

(3) Accelerated § 481 (a) adjustment period in certain situations. In addition to the circumstances set forth in section 5.04 (3) of this revenue procedure, the § 481 adjustment period provided in section 5.04 (1) 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 APPENDIX section 25.02 is required to effect another change in method of accounting described in this APPENDIX section 25.02. 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 [*436] designated automatic accounting method change number for a change under section 25.02 of this APPENDIX is "155." See section 6.02 (4) of this revenue procedure.

(5) Contact information. For further information regarding this section, contact Rebecca L. Baxter at (202) 622-7117 (not a toll-free call).

SECTION 26. 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 [*437] 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 section 26.01 of this APPENDIX is "68." See section 6.02 (4) of this revenue procedure.

(3) Contact information. For further information regarding a change under this section, contact Kay Hossofsky at 202-622-3970 (not a toll-free call).

.02 Reserved.

SECTION 27. 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 [*438] 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 section 27.01 of this APPENDIX is "79." See section 6.02 (4) of this revenue procedure.

(4) Contact information. For further information regarding a change under this section, contact John W. Rogers, III at 202-622-4695 (not a toll-free call).

.02 Reserved.

SECTION 28. RESERVED

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 [*439] 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 section 29.01 of this APPENDIX is "70." See section 6.02 (4) of this revenue procedure.

(4) Contact information. For further information regarding a change under this section, contact Peter Merkel at 202-622-3870 (not a toll-free call).

.02 Reserved.

SECTION 30. RESERVED

SECTION 31. 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 [*440] 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) Scope limitations inapplicable. The scope limitations in section 4.02 of this revenue procedure do 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. See section 2.06 of this revenue procedure for more information regarding a cut-off basis. Accordingly, a § 481 (a) adjustment is neither permitted nor required.

(b) The [*441] 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 new 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 7 of this revenue procedure in connection with this change.

(7) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under section 31.01 of this APPENDIX is "72." See section 6.02 (4) of this revenue procedure.

(8) Contact information. For further information regarding a change under this section, contact William E. Blanchard at 202-622-3950 (not a toll-free call).

.02 Reserved.

SECTION 32. 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 [*442] 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). 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 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 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.

(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. See section 2.06 of this revenue [*443] procedure for more information regarding a cut-off basis. 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 [*444] not effective in the year of acquisition.

(5) Audit protection. A taxpayer receives audit protection under section 7 of this revenue procedure in connection with this change. However, the audit protection applicable to this change 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 section 32.01 of this APPENDIX is "73." See section 6.02 (4) of this revenue procedure.

(7) Contact information. For further information regarding a change under this section, contact William E. Blanchard at 202-622-3950 (not a toll-free call).

.02 Reserved.

SECTION 33. SHORT-TERM OBLIGATIONS (§ 1281)

.01 Interest income on short 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 [*445] 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, 99th 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 [*446] 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 section 33.01 of this APPENDIX is "74." See section 6.02 (4) of this revenue procedure.

(4) Contact information. For further information regarding a change under this section, contact William E. Blanchard at 202-622-3950 (not a toll-free call).

.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 (10th 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 (8th Cir. 1993), aff'g 98 T.C. 33 (1992), in which the [*447] 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) Scope limitations inapplicable. The scope limitations in section 4.02 of this revenue procedure are not applicable 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 section 33.02 of this APPENDIX is "75." See section 6.02 (4) of this revenue procedure.

(5) Contact information. For further information regarding a change under this section, contact William E. Blanchard at 202-622-3950 (not a toll-free call).

APPENDIX CONTACT LIST

APPEN DIX Section Number	Designated Automatic Accounting Change Number	Contact Name	Telephone Number	Office
1.01	91	David B. Silber	202-622-3930	FI&P
2.01	1	William Ruane	202-622-4920	IT&A
3.01	2	Martin Osborne	202-622-7900	IT&A
3.02	3	Martin Osborne	202-622-7900	IT&A
3.03	4	Martin Osborne	202-622-7900	IT&A
3.04	86	Martin Osborne	202-622-7900	IT&A
3.05	143	Justin G. Meeks	202-622-5020	IT&A
3.06	144	Alan Williams	202-622-4950	IT&A
4.01	5	Justin G. Meeks	202-622-5020	IT&A
5.01	16	William E. Blanchard	202-622-3950	FI&P
6.01	7	Douglas Kim	202-622-4930	IT&A
6.02	8	Douglas Kim	202-622-4930	IT&A
6.03	10	Edward Schwartz	202-622-4960	IT&A
6.04	11	Douglas Kim	202-622-4930	IT&A
6.05	12	Douglas Kim	202-622-4930	IT&A
6.06	13	Douglas Kim	202-622-4930	IT&A
6.07	14	Douglas Kim	202-622-4930	IT&A
6.08	15	Douglas Kim	202-622-4930	IT&A
6.09	87	Douglas Kim	202-622-4930	IT&A
6.10	88	Douglas Kim	202-622-4930	IT&A
6.11	89	Bernard Harvey	202-622-4930	IT&A
6.12	97	Douglas Kim	202-622-4930	IT&A
6.13	98	Mark Weiss	202-622-7750	CORP
6.14	Reserved	Reserved	Reserved	
6.15	Reserved	Reserved	Reserved	
6.16	Reserved	Reserved	Reserved	
6.17	107	Douglas Kim	202-622-4930	IT&A
6.18	116	Douglas Kim	202-622-4930	IT&A
6.19	117	Douglas Kim	202-622-4930	IT&A
6.20	118	Douglas Kim	202-622-4930	IT&A
6.21	119	Douglas Kim	202-622-4930	IT&A
6.22	115	Douglas Kim	202-622-4930	IT&A
6.23	145	Ruba Nasrallah	202-622-4930	IT&A
6.24	146	Charles Magee	202-622-4930	IT&A
6.25	147	Charles Magee	202-622-4930	IT&A
7.01	17	Grant D. Anderson	202-622-4930	IT&A
8.01	Reserved	Reserved	Reserved	
8.02	Reserved	Reserved	Reserved	
8.03	Reserved	Reserved	Reserved	

APPENDIX CONTACT LIST

APPEN DIX Section Number	Designated Automatic Accounting Change Number	Contact Name	Telephone Number	Office
8.04	152	Jennifer Bernardini	202-622-3110	P&SI
9.01	18	Douglas Kim	202-622-4930	IT&A
9.02	Reserved	Reserved	Reserved	
10.01	19	Gwen Turner	202-622-5020	IT&A
10.02	20	Gwen Turner	202-622-5020	IT&A
10.03	21	Gwen Turner	202-622-5020	IT&A
10.04	47	Gwen Turner	202-622-5020	IT&A
10.05	78	Gwen Turner	202-622-5020	IT&A
10.06	109	Gwen Turner	202-622-5020	IT&A
10.07	121	Gwen Turner	202-622-5020	IT&A
11.01	22	Alexander R. Roche	202-622-4970	IT&A
		Kari Fisher	202-622-4970	IT&A
11.02	23	Alexander R. Roche	202-622-4970	IT&A
		Kari Fisher	202-622-4970	IT&A
11.03	24	Alexander R. Roche	202-622-4970	IT&A
		Kari Fisher	202-622-4970	IT&A
11.04	25	Cheryl Oseekey	202-622-4970	IT&A
11.05	77	John Faron	202-622-4930	IT&A
11.06	92	John Faron	202-622-4930	IT&A
11.07	150, 151	Kari Fisher	202-622-4970	IT&A
12.01	26	Steven Gee	202-622-4970	IT&A
13.01	27	Maryellen Furr	202-622-6030	TEGE
13.02	28	Maryellen Furr	202-622-6030	TEGE
13.03	29	James Holland	202-283-9699	EP
		Carlton Watkins	202-283-9625	EP
14.01	122, 123	Karen Myrick	202-622-4970	IT&A
		Kari Fisher	202-622-4970	IT&A
14.02	31	Erika Reigle	202-622-4950	IT&A
14.03	32,33	Karen Myrick	202-622-4970	IT&A
		Kari Fisher	202-622-4970	IT&A
14.04	34, 35	Karla M. Meola	202-622-4930	IT&A
14.05	71	William E. Blanchard	202-622-3950	FI&P
14.06	85	Bernard Harvey	202-622-4930	IT&A
14.07	90	Kay Hossofsky	202-622-3970	FI&P
14.08	108	Timothy Sebastian	202-622-3920	FI&P
14.09	124	Gwen Turner	202-622-5020	IT&A
14.10	125	Erika Reigle	202-622-4950	IT&A
14.11	126	Kari Fisher	202-622-4970	IT&A
14.12	127	David B. Silber	202-622-3930	FI&P
14.13	128	Robert Basso	202-622-4950	IT&A
		Renay France	202-622-5020	IT&A

APPENDIX CONTACT LIST

APPEN DIX Section Number	Designated Automatic Accounting Change Number	Contact Name	Telephone Number	Office
14.14	129	David H. McDonnell	202-622-3040	P&SI
14.15	148	Sonja Kotlica	202-622-3950	FI&P
15.01	36	Timothy Sebastian	202-622-3920	FI&P
15.02	37	R. Matthew Kelley	202-622-7900	IT&A
15.03	38	R. Matthew Kelley	202-622-7900	IT&A
15.04	39	R. Matthew Kelley	202-622-7900	IT&A
15.05	80, 81	Jon Silver	202-622-3930	FI&P
15.06	82	Jon Silver	202-622-3930	FI&P
15.07	83, 84	R. Matthew Kelley	202-622-7900	IT&A
15.08	94	Jon Silver	202-622-3930	FI&P
15.09	Reserved	Reserved	Reserved	
15.10	130	R. Matthew Kelley	202-622-7900	IT&A
15.11	153	Nancy Lee	202-622-5020	IT&A
16.01	131	William E. Blanchard	202-622-3950	FI&P
17.01	132	Patrick M. Clinton	202-622-4970	IT&A
18.01	41	Lore Cavanaugh	202-622-4960	IT&A
19.01	42, 133, 134	Sandra Cheston	202-622-7900	IT&A
19.02	43	Jamie Kim	202-622-4950	IT&A
19.03	44	Jamie Kim	202-622-4950	IT&A
19.04	45, 113	Jamie Kim	202-622-4950	IT&A
19.05	46	Jamie Kim	202-622-4950	IT&A
19.06	106	Charles Kim	202-622-5020	IT&A
19.07	135	Jamie Kim	202-622-4950	IT&A
19.08	149	Daniel Cassano	202-622-7900	IT&A
19.09	154	Charles Kim	202-622-5020	IT&A
19.10	156	Sean M. Dwyer	202-622-5020	IT&A
20.01	136	William Ruane	202-622-4920	IT&A
21.01	48	Patty Ward	202-622-4970	IT&A
21.02	49	Steven Gee	202-622-4970	IT&A
21.03	50, 51	Kari Fisher	202-622-4970	IT&A
21.04	53	Patty Ward	202-622-4970	IT&A
21.05	54	Patty Ward	202-622-4970	IT&A
21.06	55	Eric D. Brauer	202-622-4970	IT&A
21.07	63	Eric D. Brauer	202-622-4970	IT&A
21.08	96	Eric D. Brauer	202-622-4970	IT&A
21.09	110	Gwen Turner	202-622-5020	IT&A
21.10	111	Eric D. Brauer	202-622-4970	IT&A
21.11	137	Patty Ward	202-622-4970	IT&A
21.12	138	Patty Ward	202-622-4970	IT&A
21.13	139	Patty Ward	202-622-4970	IT&A
21.14	114	Leo Nolan	202-622-4970	IT&A

APPENDIX CONTACT LIST

APPEN DIX Section Number	Designated Automatic Accounting Change Number	Contact Name	Telephone Number	Office
22.01	56	Leo Nolan	202-622-4970	IT&A
22.02	57	Leo Nolan	202-622-4970	IT&A
22.03	58	Leo Nolan	202-622-4970	IT&A
22.04	59	Leo Nolan	202-622-4970	IT&A
22.05	60	Patty Ward	202-622-4970	IT&A
22.06	61	Leo Nolan	202-622-4970	IT&A
22.07	62	Leo Nolan	202-622-4970	IT&A
22.08	112	Leo Nolan	202-622-4970	IT&A
22.09	140	Leo Nolan	202-622-4970	IT&A
22.10	141	Leo Nolan	202-622-4970	IT&A
23.01	64	Eric E. Boody	202-622-3950	FI&P
24.01	66	David B. Silber	202-622-3930	FI&P
		Laura Fields	202-622-3050	P&SI
25.01	67	Kay Hossofsky	202-622-3970	FI&P
25.02	155	Rebecca L. Baxter	202-622-7117	FI&P
26.01	68	Kay Hossofsky	202-622-3970	FI&P
27.01	79	John W. Rogers, III	202-622-4695	FI&P
28	Reserved	Reserved	Reserved	
29.01	70	Peter Merkel	202-622-3870	INTL
30.01	Reserved	Reserved	Reserved	
31.01	72	William E. Blanchard	202-622-3950	FI&P
32.01	73	William E. Blanchard	202-622-3950	FI&P
33.01	74	William E. Blanchard	202-622-3950	FI&P
33.02	75	William E. Blanchard	202-622-3950	FI&P

