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Part III

Income taxes

26 CFR 1.168(k)-2: Additional first year depreciation deduction for property acquired and placed in service after September 27, 2017.
(Also Part I, §§ 168, 446; 1.446-1)

Rev. Proc. 2020-25

SECTION 1. PURPOSE

This revenue procedure provides guidance allowing a taxpayer to change its depreciation under § 168 of the Internal Revenue Code (Code) for qualified improvement property placed in service by the taxpayer after December 31, 2017, in its taxable year ending in 2018 (2018 taxable year), 2019 (2019 taxable year), or 2020 (2020 taxable year). This revenue procedure also allows a taxpayer to make a late election, or to revoke or withdraw an election, under § 168(g)(7), (k)(5), (k)(7), or (k)(10) of the Code for the taxpayer's 2018 taxable year, 2019 taxable year, or 2020 taxable year.

SECTION 2. BACKGROUND

.01 Qualified Improvement Property.

(1) Section 13204 of Public Law 115-97, 131 Stat. 2054, 2109 (2017), commonly referred to as the Tax Cuts and Jobs Act (TCJA), amended § 168(b)(3), (e), and (k) effective for property placed in service after December 31, 2017. See TCJA § 13204(h)(1). Section 168(b)(3), as amended by § 13204(a)(2) of the TCJA, provides that qualified improvement property as described in § 168(e)(6) is depreciated by using the straight-line method of depreciation for purposes of the general depreciation system under § 168(a) (GDS). Section 168(e)(6), as added by § 13204(a)(4)(B)(i) the TCJA, provides the definition of qualified improvement property. Section 168(k)(2)(A)(i)(IV) and (k)(3), which had provided that qualified improvement property was a separate class of property eligible for the additional first year depreciation deduction under § 168(k) prior to amendment by the TCJA, were repealed by § 13204(a)(4)(A)(iii) and (B)(ii) of the TCJA, respectively. Because the amendments made by §§12001(b)(13), 13201(a), (b)(1), (2)(B)–(g), 13203(a), (b), 13205(a), and 13504(b)(1) of the TCJA also did not specify a class of property under § 168(e) for qualified improvement property placed in service after December 31, 2017, such property was classified as nonresidential real property under § 168(e)(2)(B) and, consequently, not eligible for the additional first year depreciation deduction under § 168(k).

(2) Section 2307 of the Coronavirus Aid, Relief, and Economic Security Act, Pub. L. 116-136, 134 Stat. 281 (March 27, 2020) (CARES Act) amended § 168(e)(3)(E), (e)(6), and (g)(3)(B). Section 2307(a)(1)(A) of the CARES Act added a

new clause (vii) to the end of § 168(e)(3)(E) to provide that qualified improvement property is classified as 15-year property. Section 2307(a)(1)(B) of the CARES Act amended the definition of qualified improvement property in § 168(e)(6) by providing that the improvement must be “made by the taxpayer.” In addition, section 2307(a)(2) of the CARES Act amended the table in § 168(g)(3)(B) to provide a recovery period of 20 years for qualified improvement property for purposes of the alternative depreciation system under § 168(g) (ADS). These amendments to § 168(e) and (g) are effective as if included in § 13204 of the TCJA. (Hereinafter, all references in this revenue procedure to qualified improvement property are references to qualified improvement property as defined in § 168(e)(6) as amended by the CARES Act unless otherwise indicated.)

(3) As a result of the amendments to § 168(e) and (g) made by § 2307 of the CARES Act, the depreciation of qualified improvement property placed in service by the taxpayer after December 31, 2017, has changed. Such property is depreciated under the GDS using the straight-line method of depreciation, a 15-year recovery period, and the half-year or mid-quarter convention, as applicable, pursuant to § 168(b)(3), (c), and (d), and is depreciated under the ADS using the straight-line method of depreciation, a 20-year recovery period, and the half-year or mid-quarter convention, as applicable, pursuant to § 168(g)(2) and (3)(B). Further, assuming all requirements of § 168(k) and § 1.168(k)-2 of the Income Tax Regulations are met, qualified improvement property acquired by the taxpayer after September 27, 2017, and placed in service by the taxpayer after December 31, 2017, is eligible for the additional first year depreciation deduction under § 168(k), as amended by the TCJA.

Similarly, assuming all requirements of § 168(k), prior to amendment by the TCJA, and § 1.168(k)-1 are met, qualified improvement property, as defined in § 168(k)(3) as in effect prior to amendment by the TCJA, acquired by the taxpayer before September 28, 2017, and placed in service by the taxpayer after December 31, 2017, is eligible for the additional first year depreciation deduction under § 168(k) as in effect prior to amendment by the TCJA.

.02 Elections under § 168(g)(7) and (k).

(1) Section 168(g)(7) allows a taxpayer to make an election to depreciate under the ADS any class of property placed in service by the taxpayer during the taxable year (§ 168(g)(7) election). If the § 168(g)(7) election is made, the election applies to all property that is in the same class of property and placed in service in the same taxable year. However, for nonresidential real property and residential rental property, the election may be made separately for each property. Once made, the § 168(g)(7) election is irrevocable. See § 168(g)(7)(B). Section 301.9100-7T(a)(2) and (3) of the Procedure and Administration Regulations provide the time and manner of making the § 168(g)(7) election. Such election is made by the due date, including extensions, of the Federal income tax return or Form 1065, *U.S. Return of Partnership Income*, for the taxable year in which the property is placed in service by the taxpayer, and is made by attaching a statement to such return. The instructions to Form 4562, *Depreciation and Amortization*, provide that the § 168(g)(7) election is made by completing line 20 of Form 4562.

(2) Section 168(k)(5)(A) allows a taxpayer to make an election to apply the special rules of § 168(k)(5) to one or more specified plants that are planted, or grafted to a

plant that has already been planted, by the taxpayer in the ordinary course of its farming business, as defined in § 263A(e)(4) (§ 168(k)(5) election). The rules and procedures for making the § 168(k)(5) election are set forth in § 1.168(k)-2(f)(2). Pursuant to § 1.168(k)-2(f)(2)(ii), the § 168(k)(5) election is made by the due date, including extensions, of the Federal income tax return or Form 1065 for the taxable year in which the taxpayer planted or grafted the specified plant to which the § 168(k)(5) election applies, and is made in the manner prescribed on Form 4562 and its instructions. For specified plants planted, or grafted to a plant that was previously planted, by the taxpayer before the applicability date set forth in § 1.168(k)-2(h) for § 1.168(k)-2, section 4.05 of Rev. Proc. 2017-33, 2017-19 I.R.B. 1236, provides the time and manner for making the § 168(k)(5) election and such procedures are the same as in § 1.168(k)-2(f)(2)(ii). Further, if a taxpayer timely filed its Federal income tax return or Form 1065 for the taxpayer's taxable year beginning in 2017 and ending on or after September 28, 2017, sections 4.01(2) and 4.02 of Rev. Proc. 2019-33, 2019-34 I.R.B. 662, provide special procedures to allow the taxpayer to make a deemed § 168(k)(5) election or a late § 168(k)(5) election for a specified plant planted, or grafted to a plant that was previously planted, by the taxpayer after September 27, 2017.

(3) Section 168(k)(7) allows a taxpayer to make an election not to deduct the additional first year depreciation for any class of property that is qualified property placed in service during the taxable year (§ 168(k)(7) election). The rules and procedures for making the § 168(k)(7) election are set forth in § 1.168(k)-2(f)(1). Section 1.168(k)-2(f)(1)(ii) defines "class of property" for purposes of the § 168(k)(7)

election. Under § 1.168(k)-2(f)(1)(ii), qualified improvement property is included in the 15-year property class and is not a separate class of property. However, qualified improvement property, as defined in § 168(k)(3) as in effect prior to amendment by the TCJA, acquired by the taxpayer after September 27, 2017, and placed in service by the taxpayer before January 1, 2018, is a separate class of property under § 1.168(k)-2(f)(1)(ii)(D). Pursuant to § 1.168(k)-2(f)(1)(iii), the § 168(k)(7) election is made by the due date, including extensions, of the Federal income tax return or Form 1065 for the taxable year in which the qualified property is placed in service by the taxpayer, and is made in the manner prescribed on Form 4562 and its instructions. For qualified property placed in service by the taxpayer before the applicability date set forth in § 1.168(k)-2(h) for § 1.168(k)-2, section 4.04 of Rev. Proc. 2017-33 provides the time and manner for making the § 168(k)(7) election and such procedures are the same as in § 1.168(k)-2(f)(1)(iii). Further, if a taxpayer timely filed its Federal income tax return or Form 1065 for the taxpayer's taxable year beginning in 2017 and ending on or after September 28, 2017, sections 5.02(2) and 5.03 of Rev. Proc. 2019-33 provide special procedures to allow the taxpayer to make a deemed § 168(k)(7) election or a late § 168(k)(7) election for a class of property that is qualified property acquired by the taxpayer after September 27, 2017, and placed in service by the taxpayer during such taxable year.

(4) Section 168(k)(10) allows a taxpayer to make an election to deduct 50 percent, instead of 100 percent, additional first year depreciation for: (a) all qualified property acquired by the taxpayer after September 27, 2017, and placed in service by the taxpayer during its taxable year that includes September 28, 2017; and (b) all specified

plants that are planted, or grafted to a plant that has already been planted, after September 27, 2017, by the taxpayer in the ordinary course of the taxpayer's farming business during its taxable year that includes September 28, 2017, if the taxpayer makes the § 168(k)(5) election for that taxable year (§ 168(k)(10) election). The rules and procedures for making the § 168(k)(10) election are set forth in § 1.168(k)-2(f)(3). Pursuant to § 1.168(k)-2(f)(3)(ii), the § 168(k)(10) election is made by the due date, including extensions, of the Federal income tax return or Form 1065 for the taxpayer's taxable year that includes September 28, 2017, and is made in the manner prescribed on the 2017 Form 4562 and its instructions. For qualified property placed in service, and specified plants planted, or grafted to a plant that was previously planted, by the taxpayer before the applicability date set forth in § 1.168(k)-2(h) for § 1.168(k)-2, section 6.02 of Rev. Proc. 2019-33 provides the time and manner for making the § 168(k)(10) election and such procedures are the same as in § 1.168(k)-2(f)(3)(ii). Further, if a taxpayer timely filed its Federal income tax return or Form 1065 for the taxpayer's taxable year beginning in 2017 and ending on or after September 28, 2017, sections 6.03(2) and 6.04 of Rev. Proc. 2019-33 provide special procedures to allow the taxpayer to make a deemed § 168(k)(10) election or a late § 168(k)(10) election for all qualified property acquired by the taxpayer after September 27, 2017, and placed in service by the taxpayer during such taxable year, or for all specified plants planted, or grafted to a plant that was previously planted, by the taxpayer after September 27, 2017.

(5) Section 1.168(k)-2(f)(5) provides that, in general, the § 168(k)(5) election, § 168(k)(7) election, and § 168(k)(10) election, once made, may be revoked only by

filing a request for a private letter ruling and obtaining the written consent of the Commissioner of Internal Revenue (Commissioner) to revoke the election. Further, if a taxpayer timely filed its Federal income tax return or Form 1065 for the taxpayer's taxable year beginning in 2017 and ending on or after September 28, 2017, sections 4.03, 5.04, and 6.05 of Rev. Proc. 2019-33 provide special procedures to allow the taxpayer to revoke its § 168(k)(5) election, § 168(k)(7) election, and § 168(k)(10) election, respectively, made for such taxable year. As noted in section 2.02(1) of this revenue procedure, section 168(g)(7)(B) provides that the § 168(g)(7) election, once made, is irrevocable.

.03 Method of accounting.

(1) Section 446(e) and § 1.446-1(e)(2) require a taxpayer to secure the consent of the Commissioner before changing a method of accounting for Federal income tax purposes. Section 1.446-1(e)(3)(ii) authorizes the Commissioner to prescribe administrative procedures setting forth the limitations, terms, and conditions necessary to permit a taxpayer to obtain consent to change a method of accounting.

(2) Section 2.05 of Rev. Proc. 2015-13, 2015-5 I.R.B 419, 425, provides that a taxpayer may not request, or otherwise make, a retroactive change in method of accounting, unless specifically authorized by the Commissioner or by statute.

(3) Section 1.446-1(e)(2)(ii)(d)(3)(iii) provides that the making of a late depreciation election or the revocation of a timely valid depreciation election is not a change in method of accounting, except as otherwise expressly provided by the Code, the regulations under the Code, or other guidance published in the Internal Revenue Bulletin.

(4) With the enactment of the CARES Act, immediate guidance is needed under § 168 for taxpayers who are affected by the various amendments to the Code, including, for example, the retroactive changes made to § 168(e) and (g) for qualified improvement property. Accordingly, this revenue procedure permits certain taxpayers to file an amended return, administrative adjustment request under section 6227 (AAR), or a Form 3115, *Application for Change in Accounting Method*, to change their depreciation of qualified improvement property placed in service after December 31, 2017, in the taxpayers' 2018, 2019, or 2020 taxable year. See section 3 of this revenue procedure for the procedures for changing the depreciation of qualified improvement property. Further, this revenue procedure permits taxpayers to make a late election under § 168(g)(7), (k)(5), (k)(7), or (k)(10), to revoke an election under § 168(k)(5), (k)(7), or (k)(10), or to withdraw an election under § 168(g)(7), for property placed in service by the taxpayer during its 2018, 2019, or 2020 taxable year, for a limited period of time. Because of the administrative burden of filing amended returns and AARs, the Department of the Treasury and the Internal Revenue Service (IRS) also have determined that it is appropriate to treat the making of a late election under § 168(g)(7), (k)(5), (k)(7), or (k)(10), or the revocation of the revocable election under § 168(k)(5), (k)(7), or (k)(10), for property placed in service by taxpayers during their 2018, 2019, or 2020 taxable years, as a change in method of accounting with a § 481(a) adjustment for a limited period of time. See sections 4 and 5 of this revenue procedure for the procedures to make these late elections, to revoke these elections, or to withdraw the irrevocable election under § 168(g)(7).

SECTION 3. QUALIFIED IMPROVEMENT PROPERTY

.01 Scope. This section 3 applies to qualified improvement property placed in service by the taxpayer after December 31, 2017, in the taxpayer's 2018, 2019, or 2020 taxable year. However, this section 3 does not apply to:

(1) Qualified improvement property placed in service after December 31, 2017, by a taxpayer that made a late election, or withdrew an election, under § 163(j)(7)(B) (electing real property trade or business) or § 163(j)(7)(C) (electing farming business) for the taxable year in which the qualified improvement property is placed in service by the taxpayer, in accordance with Rev. Proc. 2020-22, 2020-18 I.R.B. 745 (April 27, 2020), released on www.irs.gov on April 10, 2020. Any changes to depreciation for such qualified improvement property, or other depreciable property, affected by the late election or withdrawn election under § 163(j)(7)(B) or 163(j)(7)(C) are made in accordance with sections 4.02 and 4.03, or 5.02 of Rev. Proc. 2020-22, as applicable; or

(2) Qualified improvement property for which the taxpayer deducted or deducts the cost or other basis of such property as an expense.

.02 Impermissible method to permissible method of determining depreciation.

(1) In general. A taxpayer changing the depreciation of qualified improvement property within the scope of this section 3 to the depreciation method, recovery period, and convention described in section 2.01(3) of this revenue procedure is changing from an impermissible method of accounting to a permissible method of accounting.

Similarly, a change from not claiming to claiming the additional first year depreciation deduction under § 168(k) for qualified improvement property that is within the scope of

this section 3 and is eligible for the additional first year depreciation deduction is a change from an impermissible method of accounting to a permissible method of accounting.

(2) One-year qualified improvement property. For qualified improvement property that is within the scope of this section 3 and is placed in service by the taxpayer in the taxable year immediately preceding the year of change, as defined in section 3.19 of Rev. Proc. 2015-13 (1-year QIP), the taxpayer may change from the impermissible method of determining depreciation to the permissible method of determining depreciation for the 1-year QIP by filing a Form 3115 for this change in accordance with section 3.02(3)(b) of this revenue procedure, provided the § 481(a) adjustment reported on the Form 3115 includes the amount of any adjustment attributable to all property, including the 1-year QIP, subject to the Form 3115. Alternatively, the taxpayer may change from the impermissible method of determining depreciation to the permissible method of determining depreciation for the 1-year QIP by filing an amended return or AAR in accordance with section 3.02(3)(a) of this revenue procedure.

(3) Changing to the permissible method of determining depreciation. The taxpayer may change from the impermissible method of determining depreciation to the permissible method of determining depreciation for qualified improvement property within the scope of this section 3 by filing either:

(a) Except as provided in Rev. Proc. 2020-23, 2020-18 I.R.B. 749, (April 27, 2020), released on www.irs.gov on April 8, 2020, regarding the time to file amended returns by a partnership subject to the centralized partnership audit regime enacted as part of the Bipartisan Budget Act of 2015 (BBA partnership) for taxable years beginning

in 2018 and 2019, a Federal amended income tax return or amended Form 1065 for the placed-in-service year of the qualified improvement property on or before October 15, 2021, but in no event later than the applicable period of limitations on assessment for the taxable year for which the amended return is being filed. In the case of a BBA partnership that chooses not to file an amended Form 1065 as permitted under Rev. Proc. 2020-23 or that cannot file an amended Form 1065 because the placed-in-service year of the qualified improvement property is a taxable year that is not within the scope of Rev. Proc. 2020-23, the BBA partnership may file an AAR for the placed-in-service year of the qualified improvement property on or before October 15, 2021, but in no event later than the applicable period of limitations on making adjustments under § 6235 for the reviewed year as defined in § 301.6241-1(a)(8). This amended return or AAR must include the adjustment to taxable income for the change in determining depreciation of the qualified improvement property and any collateral adjustments to taxable income or to tax liability. Such collateral adjustments also must be made on original or amended Federal returns or AARs for any affected succeeding taxable years; or

(b) A Form 3115 with the taxpayer's timely filed Federal income tax return or Form 1065 under the automatic change procedures in Rev. Proc. 2015-13. See section 6.03(1) of this revenue procedure for the procedures for making this change in method of accounting.

SECTION 4. AUTOMATIC EXTENSION OF TIME TO FILE CERTAIN ELECTIONS UNDER SECTION 168

.01 Scope. This section 4 applies to:

(1) A taxpayer that (a) placed in service depreciable property during its 2018, 2019, or 2020 taxable year, (b) timely filed its Federal income tax return or Form 1065 for the placed-in-service year of such depreciable property and such return was filed on or before April 17, 2020, (c) wants to make a § 168(g)(7) election, § 168(k)(5) election, or § 168(k)(7) election for such depreciable property, and (d) did not previously revoke or withdraw such election(s) in accordance with section 5.02 of this revenue procedure. The taxpayer makes the § 168(g)(7) election, § 168(k)(5) election, or § 168(k)(7) election in accordance with section 2.02(1), (2), or (3), respectively, of this revenue procedure or under section 4.02 of this revenue procedure; or

(2) A taxpayer that (a) timely filed its Federal income tax return or Form 1065 for the taxpayer's taxable year that includes September 28, 2017, (b) wants to make a § 168(k)(10) election for such taxable year, and (c) did not previously revoke a § 168(k)(10) election for such taxable year in accordance with section 5.02 of this revenue procedure. The taxpayer makes the § 168(k)(10) in accordance with section 2.02(4) of this revenue procedure or under section 4.02 of this revenue procedure.

.02 Time and manner of making a late § 168(g)(7), (k)(5), (k)(7), or (k)(10) election.

A taxpayer within the scope of this section 4 may make the late § 168(g)(7), (k)(5), (k)(7), or (k)(10) election by filing either:

(1) Except as provided in Rev. Proc. 2020-23 regarding the time to file amended returns by BBA partnerships for taxable years beginning in 2018 and 2019, a Federal amended income tax return or amended Form 1065 for the placed-in-service year of the property on or before October 15, 2021, but in no event later than the applicable period of limitations on assessment for the taxable year for which the amended return

is being filed. In the case of a BBA partnership that chooses not to file an amended Form 1065 as permitted under Rev. Proc. 2020-23 or that cannot file an amended Form 1065 because the placed-in-service year of the property is a taxable year that is not within the scope of Rev. Proc. 2020-23, the BBA partnership may file an AAR for the placed-in-service year of the property on or before October 15, 2021, but in no event later than the applicable period of limitations on making adjustments under § 6235 for the reviewed year as defined in § 301.6241-1(a)(8). This amended return or AAR must include the adjustment to taxable income for the late election and any collateral adjustments to taxable income or to tax liability. Such collateral adjustments also must be made on original or amended Federal returns or AARs for any affected succeeding taxable years; or

(2) A Form 3115 with the taxpayer's timely filed original Federal income tax return or Form 1065 (a) for the taxpayer's first or second taxable year succeeding the taxable year in which the taxpayer placed in service the property, or (b) that is filed on or after April 17, 2020, and on or before October 15, 2021. The late § 168(g)(7), (k)(5), (k)(7), or (k)(10) election under this section 4.02(2) will be treated as a change in method of accounting with a § 481(a) adjustment only during this limited period of time. The time and manner of making this late election are described in section 6.03(2) of this revenue procedure.

SECTION 5. CONSENT TO REVOKE OR WITHDRAW CERTAIN ELECTIONS UNDER SECTION 168

.01 Scope. This section 5 applies to:

(1) A taxpayer that (a) placed in service depreciable property during its 2018, 2019, or 2020 taxable year, (b) made a § 168(k)(5) election or § 168(k)(7) election on its timely filed original Federal income tax return or Form 1065 for the placed-in-service year of such depreciable property and such return was filed on or before April 17, 2020, or made a § 168(k)(5) election or § 168(k)(7) election in accordance with section 4 or 5 of Rev. Proc. 2019-33, respectively, for the placed-in-service year of such depreciable property on or before April 17, 2020, and (c) wants to revoke such election. If the taxpayer revokes the § 168(k)(7) election in accordance with section 5.02(2) of this revenue procedure, the revocation applies to all property included in the class of property and placed in service during the same taxable year;

(2) A taxpayer that made a § 168(k)(10) election on its timely filed original Federal income tax return or Form 1065 for the taxpayer's taxable year that includes September 28, 2017, and such return was filed on or before April 17, 2020, or made a § 168(k)(10) election in accordance with section 6 of Rev. Proc. 2019-33 for the taxpayer's taxable year that includes September 28, 2017, on or before April 17, 2020, and that wants to revoke the § 168(k)(10) election. If the taxpayer revokes the § 168(k)(10) election in accordance with section 5.02(2) of this revenue procedure, the revocation applies to (a) all qualified property acquired by the taxpayer after September 27, 2017, and placed in service by the taxpayer during its taxable year that includes September 28, 2017, and (b) all specified plants that are planted, or grafted to a plant that has already been planted, after September 27, 2017, by the taxpayer in the ordinary course of the taxpayer's farming business during its taxable year that includes September 28, 2017, if the taxpayer made the § 168(k)(5) election for that taxable year; or

(3) A taxpayer that (a) placed in service depreciable property during its 2018, 2019, or 2020 taxable year, (b) made a § 168(g)(7) election on its timely filed original Federal income tax return or Form 1065 for the placed-in-service year of such depreciable property and such return was filed on or before April 17, 2020, and (c) wants to withdraw such election. If the taxpayer withdraws the § 168(g)(7) election in accordance with section 5.02(3) of this revenue procedure, the taxpayer will be treated as if the election was never made for all property included in the class of property and placed in service during the same taxable year. However, if the taxpayer withdraws the § 168(g)(7) election for an item of nonresidential real property or residential rental property in accordance with section 5.02(3) of this revenue procedure, the taxpayer will be treated as if the election was not made for that specific item of nonresidential real property or residential rental property.

.02 Consent granted to revoke or withdraw election.

(1) In general. The Commissioner grants a taxpayer within the scope of this section 5 consent to revoke its § 168(k)(5) election, § 168(k)(7) election, or § 168(k)(10) election, or consent to withdraw its § 168(g)(7) election, provided the taxpayer makes this revocation or withdrawal, as applicable, in the time and manner described in this section 5.02.

(2) Revocation of § 168(k)(5), (7), or (10) election. A taxpayer within the scope of this section 5 may revoke its § 168(k)(5) election, § 168(k)(7) election, or § 168(k)(10) election by filing either:

(a) Except as provided in Rev. Proc. 2020-23 regarding the time to file amended returns by BBA partnerships for taxable years beginning in 2018 and 2019, a Federal

amended income tax return or amended Form 1065 for the placed-in-service year of the property on or before October 15, 2021, but in no event later than the applicable period of limitations on assessment for the taxable year for which the amended return is being filed. In the case of a BBA partnership that chooses not to file an amended Form 1065 as permitted under Rev. Proc. 2020-23 or that cannot file an amended Form 1065 because the placed-in-service year of the property is a taxable year that is not within the scope of Rev. Proc. 2020-23, the BBA partnership may file an AAR for the placed-in-service year of the property on or before October 15, 2021, but in no event later than the applicable period of limitations on making adjustments under § 6235 for the reviewed year as defined in § 301.6241-1(a)(8). This amended return or AAR must include the adjustment to taxable income for the revocation of the § 168(k)(5), (k)(7), or (k)(10) election and any collateral adjustments to taxable income or to tax liability. Such collateral adjustments also must be made on original or amended Federal returns or AARs for any affected succeeding taxable years; or

(b) A Form 3115 with the taxpayer's timely filed original Federal income tax return or Form 1065 (i) for the taxpayer's first or second taxable year succeeding the taxable year in which the taxpayer placed in service the property, or (ii) that is filed on or after April 17, 2020, and on or before October 15, 2021. The revocation of the § 168(k)(5), (k)(7), or (k)(10) election under this section 5.02(2)(b) will be treated as a change in method of accounting with a § 481(a) adjustment only during this limited period of time. The time and manner of making this revocation are described in section 6.03(2) of this revenue procedure.

(3) Withdrawal of § 168(g)(7) election. A taxpayer within the scope of this section 5 may withdraw a § 168(g)(7) election by filing an amended Federal income tax return, amended Form 1065, or AAR, as applicable. Except as provided in Rev. Proc. 2020-23 regarding the time to file amended returns by BBA partnerships for taxable years beginning in 2018 and 2019, the Federal amended income tax return or amended Form 1065 for the placed-in-service year of the property must be filed on or before October 15, 2021, but in no event later than the applicable period of limitations on assessment for the taxable year for which the amended return is being filed. In the case of a BBA partnership that chooses not to file an amended Form 1065 as permitted under Rev. Proc. 2020-23 or that cannot file an amended Form 1065 because the placed-in-service year of the property is a taxable year that is not within the scope of Rev. Proc. 2020-23, the BBA partnership may file an AAR for the placed-in-service year of the property on or before October 15, 2021, but in no event later than the applicable period of limitations on making adjustments under § 6235 for the reviewed year as defined in § 301.6241-1(a)(8). This amended return or AAR must include the adjustment to taxable income for the withdrawal of the § 168(g)(7) election and any collateral adjustments to taxable income or to tax liability. Such collateral adjustments also must be made on original or amended Federal returns or AARs for any affected succeeding taxable years.

SECTION 6. CHANGE IN METHOD OF ACCOUNTING

.01 In general. The making of a late election, or the revocation of an election, under sections 4.02(2) and 5.02(2)(b) of this revenue procedure is treated as a change in method of accounting for a limited period of time to which §§ 446(e) and

481, and the corresponding regulations, apply. A taxpayer that wants to make a late election, or revoke an election, under sections 4.02(2) and 5.02(2)(b) of this revenue procedure must use the automatic change procedures in Rev. Proc. 2015-13 or its successor.

.02 Modifications to existing automatic changes.

(1) Section 6.01(1)(c) of Rev. Proc. 2019-43, 2019-48 I.R.B. 1107, is modified by:

(a) At the end of section 6.01(1)(c)(xv), deleting “or”;

(b) At the end of section 6.01(1)(c)(xvi), deleting the period and adding “;” in its place;

(c) Adding new sections 6.01(1)(c)(xvii) and (xviii) to read as follows:

(xvii) any qualified improvement property, as defined in § 168(e)(6), placed in service by the taxpayer after December 31, 2017, to which section 6.19 of this revenue procedure applies; or

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

(2) Section 6.04 of Rev. Proc. 2019-43 is modified by revising 6.04(1) to read as follows:

(1) Description of change.

(a) Applicability. This change applies to a taxpayer that wants to change the method of accounting for general asset account treatment of MACRS property (as defined in § 1.168(b)-1(a)(2)) to the method of accounting provided in § 1.168(i)-

1(c)(2)(ii)(I) or § 1.168(i)-1(h)(2), which applies when there is a change in the use of MACRS property pursuant to § 1.168(i)-4(d).

(b) Inapplicability. The changes described in section 6.04(1)(a) of this revenue procedure do not apply to any property to which section 4 or 5 of Rev. Proc. 2020-22, 2020-18 I.R.B. 745, applies. (See sections 4.02 and 4.03, or 5.02 of Rev. Proc. 2020-22, as applicable, for making such changes for such property.)

(3) Section 6.05 of Rev. Proc. 2019-43 is modified by revising 6.05(1) to read as follows:

(1) Description of change.

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

(b) Inapplicability. The change described in section 6.05(1)(a)(i) of this revenue procedure does not apply to any property to which section 4 or 5 of Rev. Proc. 2020-22, 2020-18 I.R.B. 745, applies. (See sections 4.02 and 4.03, or 5.02 of Rev. Proc. 2020-22, as applicable, for making such change for such property.)

.03 New automatic changes.

(1) Rev. Proc. 2019-43 is modified to add new section 6.19 to read as follows:

6.19 Qualified improvement property placed in service after December 31, 2017.

(1) Description of change.

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

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

(ii) for which the taxpayer used the impermissible method of accounting in at least two taxable years immediately preceding the year of change (but see section 6.19(1)(b) of this revenue procedure for qualified improvement property placed in service in the taxable year immediately preceding the year of change); and

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

(b) Taxpayer has not adopted a method of accounting for the qualified improvement property. If a taxpayer does not satisfy section 6.19(1)(a)(ii) of this revenue procedure for an item of qualified improvement property because the item of qualified improvement property is placed in service by the taxpayer in the taxable year immediately preceding the year of change (1-year QIP), the taxpayer may change from the impermissible method of determining depreciation to the permissible method of determining depreciation for the 1-year QIP by filing a Form 3115 for this change, provided the § 481(a) adjustment reported on the Form 3115 includes the amount that is attributable to all property (including the 1-year QIP) subject to the Form 3115. Alternatively, the taxpayer may change from the impermissible method of determining depreciation to the permissible method of determining depreciation for the 1-year QIP by filing an amended Federal income tax return, or an administrative adjustment

request under section 6227 (AAR), for the property's placed-in-service year prior to the date the taxpayer files its Federal income tax return or Form 1065, as applicable, for the taxable year succeeding the placed-in-service year. In addition, if the 1-year QIP is within the scope of section 3 of Rev. Proc. 2020-25, 2020-18 I.R.B. ____, the taxpayer may change from the impermissible method of determining depreciation to the permissible method of determining depreciation for the 1-year QIP by filing an Federal amended income tax return, amended Form 1065, or AAR, as applicable, in accordance with section 3.02(3)(a) of Rev. Proc. 2020-25.

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

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

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

(iii) any qualified improvement property for which the taxpayer is changing its method of accounting for depreciation to the method of accounting for depreciation

provided in § 1.168(i)-4, which applies when there is a change in use of the property (but see section 6.04 or 6.05 of this revenue procedure for making this change).

(2) Certain eligibility rules temporarily inapplicable. For an item of qualified improvement property placed in service by the taxpayer after December 31, 2017, in its taxable year ending in 2018, 2019, or 2020, the eligibility rules in section 5.01(1)(d) and (f) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, do not apply to this change for the taxpayer's first or second taxable year succeeding the taxable year in which the item of qualified improvement property is placed in service by the taxpayer or, if later, for any taxable year for which the taxpayer timely files an original Federal income tax return or Form 1065, as applicable, on or after April 17, 2020, and on or before October 15, 2021.

(3) Reduced filing requirement. A taxpayer making a change under this section 6.19 is required to complete only the following information on Form 3115 (Rev. December 2018):

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

(4) Concurrent automatic change.

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

(b) A taxpayer making this change and the change in section 6.01 or 6.20 of this revenue procedure for the same year of change should file a single Form 3115 for all such changes and must enter the designated automatic accounting method change numbers on the appropriate line on the Form 3115. See section 6.03(1)(b) of Rev. Proc. 2015-13 for information on making concurrent changes.

(5) Designated automatic accounting method change number. The designated automatic accounting method change number for a change to the method of accounting under this section 6.19 is “244.”

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

(2) Rev. Proc. 2019-43 is modified to add new section 6.20 to read as follows:

6.20 Late elections under § 168(g)(7), (k)(5), (k)(7), and (k)(10) or revocation of elections under § 168(k)(5), (k)(7), and (k)(10).

(1) Description of change.

(a) Applicability. This change applies to a taxpayer within the scope of section 4 of Rev. Proc. 2020-25, 2020-18 I.R.B. ____, that wants to make a late election provided in section 4.02(2) of Rev. Proc. 2020-25 under § 168(g)(7), (k)(5), (k)(7), or (k)(10). This change also applies to a taxpayer within the scope of section 5 of Rev. Proc. 2020-25 that wants to revoke an election provided in section 5.02(2)(b) of Rev. Proc. 2020-25 under § 168(k)(5), (k)(7), or (k)(10).

(b) Inapplicability. The IRS will treat the making of a late election provided in section 4 of Rev. Proc. 2020-25 under § 168(g)(7), (k)(5), (k)(7), and (k)(10), or the revocation of an election provided in section 5 of Rev. Proc. 2020-25 under § 168(k)(5), (k)(7), and (k)(10), as a change in method of accounting with a § 481(a) adjustment only for the taxable years specified in section 6.20(2) of this revenue procedure. This treatment does not apply to a taxpayer that makes these late elections or revocations before or after the time specified in section 6.20(2) of this revenue procedure, and any such late election or revocation is not a change in method of accounting pursuant to § 1.446-1(e)(2)(ii)(d)(3)(iii).

(2) Time for making the change. The change under this section 6.20 must be made for (a) the taxpayer's first or second taxable year succeeding the taxable year in which the taxpayer placed in service the property affected by the late election under § 168(g)(7), (k)(5), (k)(7), or (k)(10), as applicable, or revocation of the election under § 168(k)(5), (k)(7), or (k)(10), as applicable, or, if later, (b) any taxable year for which the taxpayer timely files an original Federal income tax return or Form 1065, as applicable, on or after April 17, 2020, and on or before October 15, 2021.

(3) Certain eligibility rules inapplicable. The eligibility rules in section 5.01(1)(d) and (f) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, do not apply to this change for the taxpayer's first or second taxable year succeeding the taxable year in which the taxpayer placed in service the property affected by the late election under § 168(g)(7), (k)(5), (k)(7), or (k)(10), as applicable, or revocation of the election under § 168(k)(5), (k)(7), or (k)(10), as applicable, or if later, for any taxable year for which the taxpayer

timely files an original Federal income tax return or Form 1065, as applicable, on or after April 17, 2020, and on or before October 15, 2021.

(4) Reduced filing requirement. A taxpayer making a change under this section 6.20 is required to complete only the following information on Form 3115 (Rev. December 2018):

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

(5) Concurrent automatic change.

(a) A taxpayer making one or more late elections, and/or revoking one or more elections, under sections 4 and 5 of Rev. Proc. 2020-25 for the same year of change should file a single Form 3115 for all such changes. The single Form 3115 must provide a single net § 481(a) adjustment for all such changes.

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

(6) Designated automatic accounting method change number. The designated automatic accounting method change number for a change to the method of accounting under this section 6.20 is “245.”

(7) Contact information. For further information regarding a change under this section 6.20, contact Elizabeth R. Binder at (202) 317-7005 (not a toll-free number).

SECTION 7. REMODEL-REFRESH SAFE HARBOR

.01 Section 5.02(3)(b)(ii) of Rev. Proc. 2015-56, 2015-49 I.R.B. 827, is modified to read as follows:

(ii) Classification under § 168(e). For purposes of determining the appropriate classification under § 168(e) for property placed in service by the taxpayer after December 31, 2017, the capital expenditure portion is treated as qualified improvement property (as defined in § 168(e)(6)) under § 168(e)(3)(E)(vii), only to the extent that the taxpayer can substantiate that the capital expenditure portion is qualified improvement property. For property placed in service by the taxpayer before January 1, 2018, the capital expenditure portion is treated as qualified leasehold improvement property (as defined in § 168(e)(6) prior to amendment by Public Law 115-97, 131 Stat. 2054 (2017), commonly referred to as the Tax Cuts and Jobs Act (TCJA)) under § 168(e)(3)(E)(iv) prior to amendment by the TCJA, as qualified restaurant property (as defined in § 168(e)(7) prior to amendment by the TCJA) under § 168(e)(3)(E)(v) prior to amendment by the TCJA, or as qualified retail improvement property (as defined in § 168(e)(8) prior to amendment by the TCJA) under § 168(e)(3)(E)(ix) prior to amendment by the TCJA, as applicable, only to the extent that the taxpayer can substantiate that the capital expenditure portion is qualified leasehold improvement

property, qualified restaurant property, or qualified retail improvement property, as applicable. The remaining capital expenditure portion is classified as nonresidential real property under § 168(e)(2)(B). Also, if § 168(e)(3)(E)(iv), (v), or (ix) (prior to amendment by the TCJA), or § 168(e)(3)(E)(vii), as applicable, is not in effect when the taxpayer places in service the capital expenditure portion, the capital expenditure portion is classified as nonresidential real property under § 168(e)(2)(B).

SECTION 8. EFFECT ON OTHER DOCUMENTS

.01 Section 5.02(3)(b)(ii) of Rev. Proc. 2015-56 is modified.

.02 Section 6 of Rev. Proc. 2019-43 is modified to include the modifications provided in section 6.02 of this revenue procedure and the accounting method changes provided in section 6.03 of this revenue procedure.

SECTION 9. EFFECTIVE DATE

This revenue procedure is effective April 17, 2020.

SECTION 10. DRAFTING INFORMATION

The principal authors of this revenue procedure are Kathleen Reed and Elizabeth Binder of the Office of Associate Chief Counsel (Income Tax & Accounting). For further information regarding this revenue procedure, contact Ms. Binder at (202) 317-4869 (not a toll-free call) or Ms. Reed at (202) 317-4660 (not a toll-free call).