

Rev. Proc. 2015-13

26 CFR 601.204: Changes in accounting periods and in methods of accounting.
(Also Part I, §§ 446, 481; 1.446-1, 1.481-1, 1.481-4.)

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SECTION 1. PURPOSE

This revenue procedure updates and revises the general procedures under § 446(e) of the Internal Revenue Code and § 1.446-1(e) of the Income Tax Regulations to obtain the consent of the Commissioner of Internal Revenue (Commissioner) to change a method of accounting for federal income tax purposes. Specifically, this revenue procedure provides the general procedures to obtain the advance (non-automatic) consent of the Commissioner to change a method of accounting and provides the procedures to obtain the automatic consent of the Commissioner to change a method of accounting described in Rev. Proc. 2015-14, 2015-5 I.R.B. XX, (or successor) (List of Automatic Changes).

SECTION 2. BACKGROUND

.01 Method of accounting.

(1) The term "method of accounting" includes (a) an overall plan of accounting, such as for gross income and deductions, and (b) 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, or both. See § 1.446-1(e)(2)(ii)(a). 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 taxable income. If the practice does not permanently affect the taxpayer's lifetime taxable income, but does or could change the taxable year(s) in which the item is taken into account, 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 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 characterization 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 federal income tax 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. Once a taxpayer has adopted a method of accounting, the taxpayer has established a method of accounting. An established method of accounting includes a finalized Internal Revenue Service (IRS) imposed method of accounting under Rev. Proc. 2002-18, 2002-1 C.B. 678.

(3) The regulations under § 446 provide that no method of accounting is acceptable unless, in the opinion of the Commissioner, it clearly reflects income. To clearly reflect income, the method must, for example, be used consistently from one taxable year to another. See §§ 1.446-1(a)(2), 1.446-1(c)(1)(ii)(C), and 1.446-1(c)(2)(ii).

(4) Section 446(a) and § 1.446-1(a)(1) provide that taxable income shall be computed under the method of accounting on the basis of which the taxpayer regularly computes income in keeping the taxpayer's books (§ 446 book-tax conformity requirement). Section 1.446-1(a)(4) requires each taxpayer to maintain accounting records that will enable the taxpayer to file a correct return and states that accounting records include the taxpayer's regular books of account and other records and data as

may be necessary to support the entries on the taxpayer's books of account and on the taxpayer's return, as for example, a reconciliation of any differences between such books and his return. Thus, a taxpayer satisfies the § 446 book-tax conformity requirement if the taxpayer reconciles the results obtained under the method of accounting used in keeping its records and accounts and the method used for federal income tax purposes and maintains sufficient records to support that reconciliation.

.02 Changing a method of accounting.

(1) A change in method of accounting occurs when the method of accounting to be used by the taxpayer for an item (or that would be used if the taxpayer had the item in the year of change) in computing its taxable income for the year of change is different than the taxpayer's established method of accounting used (or that would have been used if the taxpayer had the item in the immediately preceding year) to compute the taxpayer's taxable income for the immediately preceding taxable year.

(2) 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).

.03 Securing consent for a change in method of accounting.

(1) Section 446(e) and § 1.446-1(e)(2)(i) state that, except as otherwise provided, a taxpayer must secure the consent of the Commissioner before changing a method of accounting for any item for federal income tax purposes. Unless specifically authorized by the Commissioner or by statute, a taxpayer may not change an established method of accounting by amending its prior federal income tax return(s).

See Rev. Rul. 90-38, 1990-1 C.B. 57. A taxpayer must secure the consent of the Commissioner regardless of whether the taxpayer's established or proposed 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 established method of accounting. If a taxpayer changes a method of accounting without complying with all the applicable procedures, the taxpayer has initiated a change in method of accounting without obtaining the consent of the Commissioner as required by § 446(e).

(2) Under § 1.446-1(e)(3)(i), to obtain the Commissioner's consent to change a method of accounting, a taxpayer generally must file a Form 3115, Application for Change in Accounting Method, during the taxable year for which the taxpayer desires to make the proposed change in method of accounting, except as otherwise provided in administrative guidance. Section 1.446-1(e)(3)(ii) provides that the Commissioner may prescribe the administrative procedures under which a taxpayer will be permitted to change its method of accounting. Many Forms 3115 filed under the non-automatic change procedures require additional information and development. Therefore, the IRS recommends that taxpayers file a Form 3115 under the non-automatic change procedures as early as possible during the requested year of change. See also, SECTION 13.01(1)(b).

(3) Rev. Proc. 2011-14, 2011-4 I.R.B. 330, as clarified and modified by Rev. Proc. 2012-39, 2012-41 I.R.B. 470, previously provided procedures for automatic changes in method of accounting listed in its APPENDIX. 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, as clarified and modified by Rev. Proc. 2009-39, 2009-38 I.R.B. 371, as modified by Rev. Proc. 2011-14, 2011-4 I.R.B. 330, and as modified by Rev. Proc. 2012-39, 2012-41 I.R.B. 470, previously provided procedures for non-automatic changes in method of accounting. This revenue procedure, in conjunction with the List of Automatic Changes, provides the current procedures for automatic changes and non-automatic changes.

.04 Terms and conditions of a change in method of accounting. Section 1.446-1(e)(3)(ii) provides that the Commissioner may prescribe administrative procedures setting forth the terms and conditions deemed necessary to permit a taxpayer to obtain consent to change a method of accounting under § 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.

.05 No retroactive change in method of accounting. Unless specifically authorized by the Commissioner or by statute, a taxpayer may not request, or otherwise make, a retroactive change in method of accounting. See generally Rev. Rul. 90-38.

.06 Change in method of accounting 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 of accounting 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, taxable income for the taxable year preceding the year of change must be

determined under the method of accounting that was then employed, and taxable income for the year of change and the following taxable years must be determined under the method of accounting for which consent is granted as if that method of accounting 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 taxable years (closed years) in which the events giving rise to the need for an adjustment occurred.

When the Commissioner grants consent to a taxpayer to change its method of accounting, § 481(c) and §§ 1.446-1(e)(3)(ii) and 1.481-4 provide that the taxpayer may take the adjustment required by § 481(a) into account in determining taxable income only in the manner and subject to the conditions agreed to by the Commissioner and the taxpayer.

(2) Effect on earnings and profits. A corporation takes any § 481(a) adjustment resulting from a change in method of accounting into account in computing its earnings and profits. See § 1.312-6 and Rev. Proc. 79-47, 1979-2 C.B. 528.

.07 Change in method of accounting using a cut-off basis. The IRS may determine that certain changes in methods of accounting must be made without a § 481(a) adjustment. When a change in method of accounting is made without a § 481(a) adjustment (for example, 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 method of accounting for which consent is granted. 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, § 263A (which generally

applies to costs incurred after December 31, 1986, for non-inventory property), § 461(h) (which generally applies to amounts incurred on or after July 18, 1984), and sections 2.01, 5.01, and 22.02 of the List of Automatic Changes. When a change in method of accounting is made on a cut-off basis, no amounts are duplicated or omitted, and therefore, a § 481(a) adjustment is not necessary or permitted.

.08 Separate trades or businesses.

(1) 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 will be considered separate and distinct unless the taxpayer keeps a complete and separable set of books and records for that trade or business. See § 1.446-1(d)(2).

(2) 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 reflected, the taxpayer's trades or businesses will not be considered to be separate and distinct. See § 1.446-1(d)(3).

.09 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 IRS may change the taxpayer's method of accounting to one that, in the opinion of the IRS, does clearly reflect income. In that case, a change in method of accounting 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. But see SECTION 8 regarding audit protection.

SECTION 3. DEFINITIONS

The following definitions apply to this revenue procedure and the List of Automatic Changes:

.01 Applicable provisions. The term “applicable provisions” means all provisions and requirements of this revenue procedure and either the List of Automatic Changes (in the case of an automatic change) or the letter ruling (in the case of a non-automatic change) pertinent to the taxpayer and its requested change in method of accounting.

.02 Automatic change. An “automatic change” is a change in method of accounting for which the taxpayer is eligible under SECTION 5.01(1) to request the Commissioner's consent for the requested year of change.

.03 Automatic change procedures. The “automatic change procedures” are all of the procedures and provisions in this revenue procedure applicable to an automatic change and in the applicable section of the List of Automatic Changes.

.04 Cessation of a trade or business.

(1) In general. Except as provided in SECTION 3.04(3), 3.04(4), or 3.04(5), a taxpayer is considered to cease to engage in a trade or business if the taxpayer terminates its existence for federal income tax purposes, ceases operation of the trade or business, or transfers substantially all the assets of the trade or business 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.

(2) 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:

- (a) the trade or business is incorporated;
- (b) the trade or business is purchased by another taxpayer in a transaction to which § 1060 applies;
- (c) the trade or business is terminated or transferred pursuant to a taxable liquidation;
- (d) a division of a corporation ceases to operate the trade or business;
- (e) the assets of a trade or business are contributed to a partnership; or
- (f) within a 12-month period there is a sale or exchange of 50 percent or more of the total interest in a partnership's capital and profits under § 708(b)(1)(B).

(3) Exception for conversion to or from S corporation status. A C corporation electing to be treated as an S corporation or an S corporation terminating its S election that is then treated as a C corporation is not treated as ceasing to engage in a trade or business.

(4) Exception for certain transfers to which § 381(a) applies. A corporation is not considered to cease to engage in a trade or business to the extent (a) the corporation transfers substantially all the assets of that trade or business to another corporation in a transfer to which § 381(a) applies, and (b) the transferor's method of accounting for an item for that trade or business is a tax attribute that the acquiring corporation carries over and uses for that item immediately after the transfer pursuant to § 381(c).

(5) Exception for certain transfers within a consolidated group to which § 351 applies. A corporation is not considered to cease to engage in a trade or business to the extent (a) the corporation transfers substantially all the assets of that trade or business to another member of the same consolidated group in an exchange qualifying under § 351, and (b) the transferee member adopts and uses the transferor member's method of accounting for an item.

.05 Director. The term "director" has the same meaning as this term has in Rev. Proc. 2014-1, 2014-1 I.R.B. 1 (or successor).

.06 Federal income tax return. A "federal income tax return" includes a return of tax (for example, Form 1120, U.S. Corporation Income Tax Return, and Form 1120S, U.S. Income Tax Return for an S Corporation) and, for a taxpayer that is not required to file a return of tax, the appropriate information return (for example, Form 1065, U.S. Return of Partnership Income, and Form 990, Return of Organization Exempt From Income Tax) for federal income tax purposes.

.07 Form 3115.

(1) In general. The term "Form 3115" means the Form 3115 most recently released by the IRS or, when permitted in the applicable section of the List of Automatic Changes, a short Form 3115, as described in SECTION 3.07(2), and any attachments to the Form 3115 or short Form 3115.

(2) Short Form 3115. A "short Form 3115" means:

(a) only the following information must be completed on Form 3115:

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

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

(iii) Part I, line 1(a); and

(b) any additional information required in this revenue procedure or the applicable section of the List of Automatic Changes to be attached to or included with a Form 3115.

.08 Issue under consideration.

(1) Under examination. A taxpayer's method of accounting for an item is an "issue under consideration" for the taxable year(s) under examination as of the date of any written notification to the taxpayer (for example, draft or final (a) examination plan, (b) information document request (IDR), or (c) 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. If an examining agent does not propose an adjustment for the item that is an issue under consideration during the examination, the item continues to be an issue under consideration after that examination ends only if the issue is placed in suspense. An item is an issue placed in suspense if, by the date the examination ends, the examining agent provides the taxpayer with written notification of the IRS's intent to examine the issue during the examination of the subsequent taxable year(s) to be examined.

An entity (including a limited liability company) treated as a partnership or an S corporation for federal income tax purposes also has an issue under consideration for the taxable year(s) under examination if the same item is an issue under consideration in an examination of a partner, member, or shareholder's federal income tax return.

A corporation that is (or was formerly) a member of a consolidated group also has an issue under consideration for the taxable year(s) under examination if the same

item is an issue under consideration in an examination of any other member of that consolidated group for one or more of the taxable year(s) that the corporation was a member of the consolidated group.

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. 2014-2, 2014-1 I.R.B. 90 (or successor).

Example 1. 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.

Example 2. 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 in inventoriable costs, but it is not an issue under consideration as a result of an IDR that requests documentation supporting the amount of cost of goods sold reported on the federal income tax return.

(2) Before an Appeals office. A taxpayer's method of accounting for an item is an issue under consideration for the taxable year(s) before an Appeals office if the treatment of the item is included as an item of adjustment in the examination report referred to Appeals. Further, a taxpayer's method of accounting for an item is an issue under consideration as of the date of Appeals' written notification to the taxpayer specifically identifying the method of accounting for the item as an issue under consideration. If an Appeals office submits to the Joint Committee on Taxation pursuant to § 6405 a report of a refund or credit, the 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.

An entity (including a limited liability company) treated as a partnership or an S corporation for federal income tax purposes also has an issue under consideration by an Appeals office if the same item is an issue under consideration by an Appeals office with respect to a partner, member, or shareholder's federal income tax return.

(3) Before a federal court. A taxpayer's method of accounting for an item is an issue under consideration for the taxable year(s) 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. Further a taxpayer's method of accounting for an item is an issue under consideration as of the date of the government counsel's written notification to the taxpayer specifically identifying the method of accounting for the item as under consideration. If a settlement stipulation is submitted to the Joint Committee on Taxation pursuant to § 6405, the 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.

An entity (including a limited liability company) treated as a partnership or an S corporation for federal income tax purposes also has an issue under consideration before a federal court if the same item is an issue under consideration before a federal court with respect to a partner, member, or shareholder's federal income tax return.

A corporation that is (or was formerly) a member of a consolidated group also has an issue under consideration before a federal court if the same item is an issue under consideration before a federal court for any other member of that consolidated

group for one or more of the taxable year(s) that the corporation was a member of the consolidated group.

(4) Certain foreign corporations. In the case of a CFC or 10/50 corporation, the foreign corporation's method of accounting for an item is an issue under consideration if any of the corporation's controlling domestic shareholders (as defined in § 1.964-1(c)(5)) receives notification described in SECTION 3.08(1), 3.08(2), or 3.08(3) that the treatment of a distribution, deemed distribution, or inclusion from the foreign corporation, or the amount of its earnings and profits or foreign taxes deemed paid, is an issue under consideration.

.09 List of Automatic Changes. The List of Automatic Changes refers to Rev. Proc. 2015-14 (or successor).

.10 Non-automatic change. A "non-automatic change" is any change in method of accounting for which the taxpayer is eligible under SECTION 5.01(2) to request the Commissioner's consent for the requested year of change.

.11 Non-automatic change procedures. The "non-automatic change procedures" are all of the procedures and provisions in this revenue procedure applicable to a non-automatic change.

.12 Present method. The term "present method" means the established method of accounting from which the taxpayer is requesting the Commissioner's consent to change under this revenue procedure.

.13 Proposed method. The term "proposed method" means the method of accounting to which the taxpayer is requesting the Commissioner's consent to change under this revenue procedure.

.14 SECTION. For purposes of this revenue procedure, the term "SECTION" means a section of this revenue procedure.

.15 Section 481(a) adjustment. The "§ 481(a) adjustment" is the amount necessary to prevent amounts from being duplicated or omitted as a result of the taxpayer computing its taxable income for the year of change and thereafter using a different method of accounting as if the different method of accounting had always been used. See SECTION 2.06(1). The § 481(a) adjustment is computed as of the beginning of the year of change. For a change in method of accounting that affects multiple accounts, the taxpayer's § 481(a) adjustment for that change is a net § 481(a) adjustment. In computing the net § 481(a) adjustment for a change, the taxpayer must take into account all relevant accounts. For example, the net § 481(a) 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. The term "§ 481(a) adjustment" includes a net § 481(a) adjustment.

Example 1. A taxpayer that is not required to use inventories uses the overall cash receipts and disbursements method of accounting and changes to an overall accrual method of accounting. 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 in method of accounting. A positive net § 481(a) adjustment of \$20,000 (\$120,000 accounts receivable less \$100,000 accounts payable) is required as a result of the change in method of accounting.

Example 2. X Corporation, a calendar year taxpayer, is a producer and capitalizes costs that are required to be capitalized into inventory under § 263A. Each February, X Corporation pays a salary bonus to each production employee who remains in its employment as of January 31 for the employee's services provided in the prior calendar year. Under its present method, X Corporation treats these salary bonuses as incurred in the taxable year the employee provides the related services. \$40,000 of these salary bonuses were treated as incurred in 2013, \$8,000 of which were capitalized into 2013 ending inventory, and \$32,000 of which were included in cost of

goods sold. For 2014, X Corporation proposes to change its method of accounting to treat salary bonuses as incurred in the taxable year in which all events have occurred that establish the fact of the liability to pay the salary bonuses and the amount of the liability can be determined with reasonable accuracy. The computation of X Corporation's net § 481(a) adjustment for the change in method of accounting for salary bonuses, which reflects the impact of the change in method of accounting on the amount of salary bonuses capitalized into beginning inventory for the year of change, is demonstrated as follows:

Salary bonuses treated as incurred before January 1, 2014, under the present method of accounting, but not incurred until on or after January 1, 2014, under the proposed method	\$40,000
Beginning inventory as of January 1, 2014, with capitalized salary bonuses computed under the present method	\$100,000
Beginning inventory as of January 1, 2014, with capitalized salary bonuses, computed under the proposed method	<u>\$92,000</u>
Decrease in beginning inventory as of January 1, 2014	<u>(\$8,000)</u>
Net positive § 481(a) adjustment	\$32,000

.16 Section 481(a) adjustment period. The "§ 481(a) adjustment period" is the applicable number of taxable years that the taxpayer takes into account the § 481(a) adjustment required as a result of the change in method of accounting, beginning with the year of change.

.17 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)), and includes, where appropriate, the taxpayer's authorized representative, or designated shareholder, or controlling domestic shareholders (as defined in § 1.964-1(c)(5)).

(2) Consolidated group. Except as otherwise provided (see, for example, SECTION 3.08(1)), in the case of a consolidated group, the term “taxpayer” is the consolidated group member to which the request for a change in method of accounting relates. However, for any action for which the common parent of the consolidated group must act as the agent for that member pursuant to § 1.1502-77, the taxpayer is the common parent of the consolidated group acting on behalf of that member.

.18 Under examination.

(1) In general.

(a) Except as provided in SECTIONS 3.18(2), 3.18(3), 3.18(4), and 3.18(6), a taxpayer is "under examination" with respect to a federal income tax return as of the date the taxpayer is contacted in any manner by a representative of the IRS for the purpose of scheduling or conducting any type of examination of the return. Except as provided in SECTIONS 3.18(1)(b), 3.18(1)(c), 3.18(2), 3.18(3), 3.18(4), and 3.18(5), an examination ends:

(i) in a case in which the IRS accepts the federal income tax return as filed, on the date of the IRS's “no change” final letter (for example Letter 590, No Change Final Letter) that 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, 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 IRS's final "closing" letter (for example, Letter 987, Agreed Income Tax Change) that is sent to the taxpayer; or

(iii) in an unagreed or a partially agreed case, on the earliest of the date Appeals notifies the taxpayer that jurisdiction for the case has been transferred to Appeals from Examination, 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 final 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 of the notification to the taxpayer that Appeals has transferred jurisdiction of the case to Examination for reconsideration. Further, notwithstanding SECTIONS 3.18(1)(a)(iii) and 8.02(1)(b), if the taxpayer is within a 120-day window provided in SECTION 8.02(1)(b), that 120-day window is no longer available to the taxpayer as of the date the IRS notifies the taxpayer that jurisdiction for the case has been transferred to the examining agent(s) for reconsideration. The 120-day window provisions in SECTION 8.02(1)(b) will be available to the taxpayer when the resumed examination ends.

(2) Consolidated group member. A corporation that is (or was formerly) a member of a consolidated group is under examination during the period of time the consolidated group is under examination for a taxable year(s) that the corporation was a member of the group.

Example. X Corporation was a member of Y consolidated group from Year 1 through Year 4. On January 1, Year 5, Z consolidated group purchased X Corporation. Thus, X Corporation is a member of Z consolidated group in Year 5. On July 1, Year 5, a representative of the IRS contacts the common parent of Y consolidated group for purposes of scheduling or conducting an examination of the Y consolidated group return for year 2. Because X Corporation was a member of Y consolidated group for the taxable year under examination, X Corporation is under examination as of July 1, Year 5, for purposes of this SECTION 3.18 even though it is no longer a member of Y consolidated group.

(3) Partnerships subject to TEFRA. Except as provided in SECTION 3.18(1)(b), 3.18(1)(c), 3.18(5), and 3.18(6), 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 that is sent to the Tax Matters Partner (TMP) and ends:

(a) in a case in which the IRS accepts the partnership return as filed, on the date of the “no adjustments” final letter or the “no change” notice of final administrative adjustment that is sent to the TMP;

(b) in a fully agreed case, when all the partners or members execute a Form 870-P, Agreement to Assessment and Collection of Deficiency in Tax for Partnership Adjustments, or Form 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 IRS notifies the TMP that the examining agent(s) has transferred jurisdiction for the case to Appeals (for example, the date that Appeals issues its uniform acknowledgement letter to the TMP), the date the TMP (or a partner or member)

requests judicial review, or the date on which the period for requesting judicial review expires.

(4) 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 § 1.964-1(c)(5)) is under examination for a taxable year(s) in which any such shareholder was a United States shareholder, as defined in § 951(b) or § 953(c)(1)(A), of the foreign corporation. For purposes of this revenue procedure, a foreign corporation is no longer under examination when all of its controlling domestic shareholders are no longer under examination, as defined in this SECTION 3.18.

(5) 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 3.18(1), 3.18(2), 3.18(3), or 3.18(4), for purposes of this revenue procedure, the taxpayer continues to be under examination (for the taxable year(s) that Examination reported to the Joint Committee on Taxation) while the taxpayer has a refund or credit under review by the Joint Committee on Taxation. A taxpayer that is not otherwise under examination as of the date of an IRS letter notifying the taxpayer of the IRS's proposal to the Joint Committee on Taxation in a report mandated by § 6405 regarding the taxpayer's federal income tax return(s) is not under examination solely as a result of that letter. The examination ends on the later of (i) the performance of the applicable act described in SECTION 3.18(1), 3.18(2), 3.18(3), or 3.18(4), or (ii) the date of the Joint Committee Specialist'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.

Example. A taxpayer's 2014 federal income tax return is under examination. The examination results in a minimum refund, which is an amount the taxpayer is due to receive after offsetting any potential unagreed deficiency, in excess of \$2 million. The taxpayer indicates agreement with the examiner's findings on the agreed issues resulting in the minimum refund by signing Form 870, Waiver of Restrictions on Assessment and Collection of Deficiency in Tax and Acceptance of Overassessment, and the Joint Committee Specialist Group reports the refund to the Joint Committee on Taxation before releasing the unagreed issues to Appeals. The taxpayer continues to be under examination for 2014 until the later of (i) the performance of the applicable act described in SECTION 3.18(1), 3.18(2), 3.18(3), or 3.18(4) for the 2014 return, or (ii) the date of the Joint Committee Specialist's written notification to the taxpayer that the Joint Committee on Taxation has completed its consideration of the minimum refund for 2014 (for example, Letter 1574 (P)), or that the 2014 minimum refund case has been withdrawn from consideration by the Joint Committee on Taxation.

(6) Taxpayer in Compliance Assurance Process. For purposes of this revenue procedure, a taxpayer participating in the Compliance Assurance Process (CAP) is under examination as of the date the taxpayer executes the Memorandum of Understanding for the CAP.

.19 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 taxpayer uses the proposed method of accounting, even if no affected items are taken into account for that year. The year of change is also the first taxable year the taxpayer must comply with all the applicable provisions. For an automatic change, the year of change is the taxable year designated on the Form 3115 and for which the Taxpayer timely filed a Form 3115 under SECTION 6.03(1)(a). For a non-automatic change, except as provided in SECTION 13 (request to revise the year of change), SECTION 6.03(4)(b) (other

extensions of time), or other guidance published in the Internal Revenue Bulletin (IRB), the year of change is the taxable year for which the taxpayer timely filed a Form 3115 under SECTION 6.03(2)(a).

SECTION 4. SCOPE

This revenue procedure applies to a taxpayer that requests the Commissioner's consent pursuant to § 446(e) and § 1.446-1(e)(3) to make a change in method of accounting:

(1) described in the List of Automatic Changes, or

(2) not described in the List of Automatic Changes, unless the taxpayer may obtain the Commissioner's consent to make the requested change in method of accounting under another automatic change request procedure in the Code or other guidance published in the IRB (see, for example, section 9.22(2) of Rev. Proc. 2014-1 (or successor)).

SECTION 5. ELIGIBILITY

.01 In general.

(1) Automatic change. Except as otherwise provided in the List of Automatic Changes, a taxpayer within the scope of this revenue procedure is eligible to request the Commissioner's consent to make a change in method of accounting under the automatic change procedures only if:

(a) on the date the taxpayer files a Form 3115 (original or Ogden copy under SECTION 6.03(1), whichever is filed earlier), the change is described in the List of Automatic Changes;

(b) on the date the taxpayer files a Form 3115 (original or Ogden copy under SECTION 6.03(1), whichever is filed earlier), the taxpayer meets all requirements for the change provided in the applicable section of the List of Automatic Changes;

(c) within the requested year of change, the taxpayer does not engage in a liquidation or reorganization transaction to which § 381(a) applies as described in SECTION 5.02(1), except as provided in SECTION 5.02(2);

(d) the requested year of change is not the final year of the trade or business as described in SECTION 5.03(1), except as provided in SECTION 5.03(2)(a);

(e) the taxpayer has not made or requested an overall method change during any of the five taxable years ending with the year of change as described in SECTION 5.04(1), except as provided in SECTION 5.04(2); and

(f) the taxpayer has not made or requested a change for the same item during any of the five taxable years ending with the year of change as described in SECTION 5.05(1), except as provided in SECTION 5.05(2).

(2) Non-automatic change. A taxpayer within the scope of this revenue procedure is eligible to request the Commissioner's consent to make a change in method of accounting under the non-automatic change procedures only if:

(a) on the date the taxpayer files a Form 3115 with the national office, the taxpayer is not eligible to use the automatic change procedures to make the change; and

(b) the requested year of change is not the final year of the trade or business under SECTION 5.03(1), except as provided in SECTION 5.03(2).

.02 Liquidations and reorganizations under § 381(a).

(1) In general. Except as provided in SECTION 5.02(2), any party that engages in a liquidation or reorganization transaction to which § 381(a) applies (§ 381(a) transaction) within the requested year of change (determined without regard to any potential closing of the year under § 381(b)(1)) may not request the Commissioner's consent to make a change in method of accounting under the automatic change procedures for the taxable year in which the § 381(a) transaction occurs or is expected to occur.

(2) Exception. SECTION 5.02(1) does not apply if the taxpayer is requesting a change in method of accounting described in § 1.381(c)(4)-1(a)(4) or (5) or § 1.381(c)(5)-1(a)(4) or (5) that is not required to be made under § 1.381(c)(4)-1(d)(1) or § 1.381(c)(5)-1(d)(1), or a change in method of computing the depreciation allowance under § 381(c)(6).

.03 Final year of trade or business.

(1) In general. Except as provided in SECTION 5.03(2), a taxpayer may not request the Commissioner's consent to make a change in method of accounting under this revenue procedure for the taxable year the taxpayer ceases to engage in the trade or business to which the change in method of accounting would relate (final year), as defined in SECTION 3.04.

(2) Exceptions. SECTION 5.03(1) does not apply to a taxpayer:

(a) requesting consent to change its method of accounting in the final year of its trade or business as the result of a transaction to which § 381(a) applies, or

(b) requesting consent under the non-automatic change procedures if the taxpayer demonstrates to the satisfaction of the national office compelling

circumstances, or that it is in the interest of sound tax administration, for the taxpayer to change the method of accounting pursuant to SECTION 11.02(1).

.04 Prior five-year overall method change.

(1) In general. Except as provided in SECTIONS 5.04(2) and 15.02, if during any of the five taxable years ending with the year of change a taxpayer changed, or applied for consent to change, its overall method of accounting, regardless of whether it implemented that change, the taxpayer may not request the Commissioner's consent to change its overall method of accounting under the automatic change procedures. However, a taxpayer that changed its overall method of accounting during the five taxable years ending with the year of change may use the automatic change procedures to request a change in method of accounting for a specific item when that change may otherwise be implemented under the provisions of this revenue procedure. For purposes of this SECTION 5.04(1), 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 IRS pursuant to Rev. Proc. 2002-18 (or any successor).

(2) Exception. SECTION 5.04(1) does not apply to a taxpayer if the national office sent the taxpayer a letter instructing the taxpayer to file the Form 3115, if otherwise eligible, that was originally filed under the non-automatic change procedures, under the automatic change procedures and the taxpayer timely files a Form 3115 for the same change in method of accounting for the same year of change under the automatic change procedures.

(3) Examples.

Example 1. A, an attorney, began business in 2003 and adopted the overall cash method of accounting. For 2010, A changed to an overall accrual method of accounting using the appropriate administrative guidance. A may not use the automatic change procedures for 2014 to change to the overall cash method because of the five-year change limitation in this SECTION 5.04. However, A may still be able to use the automatic change procedures to change the method of accounting the taxpayer will use to treat advances made on behalf of clients for 2014. See section 3.01 of the List of Automatic Changes.

Example 2. B, an attorney, began business in 2003 and adopted the overall cash method of accounting. B is a calendar year taxpayer. For the 2011 taxable year, B filed the national office copy of the Form 3115 on January 31, 2011, requesting to change its method of accounting to an overall accrual method under section 14.01 of the APPENDIX of Rev. Proc. 2011-14. B did not implement the requested change to an overall accrual method of accounting on its 2011 federal income tax return. Rather, B timely filed its 2011 federal income tax return using the overall cash method of accounting, and did not attach the original Form 3115 to its return. B may not use the automatic change procedures for 2014 to change to an overall accrual method because of the five-year change limitation in this SECTION 5.04. However, B may still be able to use the automatic change procedures to change the method of accounting the taxpayer will use to treat advances made on behalf of clients for 2014. See section 3.01 of the List of Automatic Changes.

.05 Prior five-year item change.

(1) In general. Except as provided in SECTIONS 5.05(2) and 15.02, if during any of the five taxable years ending with the year of change a taxpayer changed, or applied for consent to change, its method of accounting for a specific item, regardless of whether it implemented that change, the taxpayer may not request the Commissioner's consent to change its method of accounting for that same item under the automatic change procedures. For purposes of this SECTION 5.05(1), a change in method of accounting for a specific item does not include the use of a method of accounting (for example, include in income, deduct, or capitalize) for the first taxable year that the

taxpayer accounts for the item or a change in method of accounting imposed by the IRS pursuant to Rev. Proc. 2002-18 (or any successor).

(2) Exceptions. SECTION 5.05(1) does not apply to a taxpayer if:

(a) the change in method of accounting for the specific item is required as part of another change in method of accounting that the taxpayer may otherwise request under the automatic change procedures;

(b) the national office sent the taxpayer a letter instructing the taxpayer to file the Form 3115, if otherwise eligible, that was originally filed under the non-automatic change procedures, under the automatic change procedures and the taxpayer timely files a Form 3115 for the same change in method of accounting for the same year of change under the automatic change procedures; or

(c) the specific item is an inventory sub-method within the last-in, first-out (LIFO) inventory method (for example, the method of determining current-year cost or the method of computing a dollar-value pool index) and during any of the five taxable years ending with the year of change, the taxpayer (i) adopted or changed to the LIFO inventory method, or (ii) did not change its method of accounting with respect to the same inventory sub-method within LIFO.

(3) Examples.

Example 1. A uses the LIFO inventory method. For 2010, 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 2014, 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 the automatic change procedures because A changed its method of accounting with respect to the same LIFO inventory sub-method within the proscribed five-year period.

Example 2. B uses the dollar-value LIFO inventory method and maintains separate dollar-value pools for its inventory of (1) new cars; (2) new trucks; (3) used cars; and (4) used trucks. For 2010, B terminated its use of the LIFO inventory method for its used cars and used trucks under Rev. Proc. 2008-52. For 2014, 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 the automatic change procedures because it has not changed the inventory identification method for the pools of new cars and new trucks 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 2012, C properly elected the deferral method for advance payments as described in Rev. Proc. 2004-34. For 2014, 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 under the automatic change procedures 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 2014 because C is required to change its treatment of advance payments as part of its change to the overall cash method of accounting.

SECTION 6. GENERAL APPLICATION PROCEDURES

.01 Requesting consent. Except as otherwise provided in the List of Automatic Changes, the Code, or other guidance published in the IRB, a taxpayer requests the Commissioner's consent to change a method of accounting under this revenue procedure by completing and filing a Form 3115.

.02 Completing Form 3115.

(1) Separate Forms 3115. Ordinarily, a taxpayer may request only one change in method of accounting on a Form 3115. If the taxpayer wants to request a change in method of accounting for more than one unrelated item or sub-method of accounting, the taxpayer must submit a separate Form 3115 for each unrelated item or sub-method, except in certain situations in which the IRS specifically permits certain

unrelated changes to be included on a single Form 3115. See, for example, section 14.03 of the List of Automatic Changes. See section 9.02 of Rev. Proc. 2014-1 (or successor).

(2) Form 3115 contents. The taxpayer must submit a Form 3115 that is accurate and, except as specifically permitted in the applicable section of the List of Automatic Changes, complete. The Form 3115 must include all relevant facts, including all information and representations required by this revenue procedure, the applicable provisions of Rev. Proc. 2014-1 (or successor), the current instructions for Form 3115, and the applicable section of the List of Automatic Changes (in the case of an automatic change).

(3) Designated automatic accounting method change number. In the case of a Form 3115 filed under the automatic change procedures, the taxpayer must include the designated automatic accounting method change number in the applicable section of the List of Automatic Changes on the applicable line of Form 3115. For example, the designated automatic accounting method change number for the change in method of accounting identified in section 1.01 of the List of Automatic Changes is 91. Therefore, a taxpayer requesting consent for the change in method of accounting identified in section 1.01 of the List of Automatic Changes for its taxable year ending December 31, 2014, must enter the number “91” on Line 1(a) of Form 3115.

In general, a taxpayer may enter only one designated automatic accounting method change number on a Form 3115. However, where the List of Automatic Changes or other guidance published in the IRB specifically permits or requires a taxpayer to request two or more particular changes in method of accounting on a single

Form 3115, the taxpayer must enter the designated automatic accounting method change number for each such particular change being requested on the applicable line of the Form 3115.

(4) Taxpayer with more than one trade or business. A taxpayer with multiple trades or businesses filing a Form 3115 for one or more of those trades or businesses must identify, by name, the trades or businesses to which the change relates. The taxpayer must also identify, by name, all other trades or businesses and explain the method of accounting used for each trade or business for the particular item that is the subject of the Form 3115. Except as provided in sections 9.02 and 15.07(4) of Rev. Proc. 2014-1 (or successor), the taxpayer must submit a separate Form 3115 and, in the case of a non-automatic change, user fee for each trade or business of the taxpayer for which consent for a change in method of accounting is requested.

(5) Consolidated groups. A common parent requesting a change in method of accounting on behalf of a member of the consolidated group must explain the method of accounting used by each member of the consolidated group for the particular item that is the subject of the Form 3115. Except as provided in sections 9.02 and 15.07(4) of Rev. Proc. 2014-1 (or successor), the common parent must submit a separate Form 3115 and, in the case of a non-automatic change, user fee for each member of the consolidated group (and for each trade or business of each member) for which consent for a change in method of accounting is requested.

(6) Certain foreign corporations. In the case of a CFC or a 10/50 corporation that is not required to file a federal income 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 must satisfy the requirements set forth in § 1.964-1(c)(3). The designated shareholder that retains the jointly executed consent described in § 1.964-1(c)(3)(ii) must complete and file a Form 3115 on behalf of the foreign corporation, the applicant. Except as provided in sections 9.02 and 15.07(4) of Rev. Proc. 2014-1 (or successor), the designated shareholder must submit a separate Form 3115 and, in the case of a non-automatic change, user fee for each CFC or 10/50 corporation for which consent for a change in method of accounting is requested.

(7) Certain foreign partnerships. In the case of a foreign partnership that is not required to file a federal income tax return, the partners or partner described in § 1.6031(a)-1(b)(5)(i) or (ii), respectively, may file a Form 3115 on behalf of the foreign partnership, the applicant.

(8) Signature requirements. The Form 3115 must be signed by, or on behalf of, the taxpayer requesting the change in method of accounting by an individual who has personal knowledge of the facts of, and authority to bind the taxpayer in, such matters. For example, if the taxpayer is a member of a consolidated group, the Form 3115 submitted on behalf of the taxpayer must be signed by a duly authorized officer of the common parent with personal knowledge of the facts of, and authority to bind the taxpayer in, such matters. Further, if the individual who, for compensation, prepared the Form 3115 is not the taxpayer or an individual with authority to sign the Form 3115 on behalf of the taxpayer, the preparer must also sign the Form 3115. See the additional signature requirements in the current Instructions for Form 3115 regarding those who are permitted and required to sign.

.03 Filing Form 3115. A Form 3115 is filed under this revenue procedure if the taxpayer complies with all applicable provisions of this SECTION 6.03.

(1) Automatic change.

(a) When and where to file Form 3115. The requirement in § 1.446-1(e)(3)(i) to file a Form 3115 within the requested year of change is waived for any Form 3115 filed under the automatic change procedures. See § 1.446-1(e)(3)(ii).

(i) In general. Except as otherwise provided in this revenue procedure or in the List of Automatic Changes, a taxpayer requesting to change a method of accounting under the automatic change procedures must complete a Form 3115 as required by SECTION 6.02 and file that Form 3115 in duplicate, as follows:

(A) Original Form 3115. The original completed Form 3115 (or an electronic version of the Form 3115) must be attached to the taxpayer's timely filed (including any extension) original federal income tax return implementing the requested automatic change for the requested year of change; and

(B) Ogden copy of Form 3115. A signed copy of the original Form 3115 must be filed with the IRS in Ogden, UT (Ogden copy) at the applicable address in section 9.05 of Rev. Proc. 2014-1 (or successor) no earlier than the first day of the requested year of change and no later than the date the taxpayer files the original Form 3115 with the federal income tax return for the requested year of change.

(ii) Certain foreign corporations. If SECTION 6.02(6) applies, the original Form 3115 must be attached to the designated shareholder's (or, if a member of a consolidated group, 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 signed copy of the original Form 3115 must be filed with the IRS in Ogden, UT (see the applicable address in section 9.05 of Rev. Proc. 2014-1 (or successor)) 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 Form 3115 with the designated shareholder's (or its common parent's) federal income tax return for its taxable year with or within which ends the year of change of the foreign corporation.

(iii) Certain foreign partnerships. If SECTION 6.02(7) applies, the original Form 3115 must be attached to the return on the form prescribed for the partnership return that must be filed for the partnership as described in § 1.6031(a)-1(b)(5) (for example, Form 1065, U.S. Return of Partnership Income) and a signed copy of the original Form 3115 must be filed with the IRS in Ogden, UT (see the applicable address in section 9.05 of Rev. Proc. 2014-1 (or successor)) no earlier than the first day of the requested year of change and no later than the date the partnership files the original Form 3115.

(b) Certain concurrent changes in method of accounting. Ordinarily, a taxpayer must submit a separate Form 3115 for each automatic change. See SECTION 6.02(1). In some cases, however, the List of Automatic Changes describes particular changes in method of accounting that a taxpayer is required or permitted to request on a single Form 3115 (concurrent changes). See, for example, section 14.03 of the List of Automatic Changes. When the taxpayer is required or permitted to file a single Form 3115 for two or more concurrent changes, the taxpayer must provide all of the information required for each change separately. For example, the single Form

3115 filed for the taxable year ending December 31, 2014, must include the information required by Part II, line 12, Part IV (including the amount of any § 481(a) adjustment), and any other line(s) on Form 3115 for each change in method of accounting included on that Form 3115.

(c) No user fee. A user fee is not required for a Form 3115 filed under the automatic change procedures.

(d) No acknowledgement of receipt. The IRS does not send an acknowledgement of receipt for a Form 3115 (original or copy) filed under the automatic change procedures.

(e) Correspondence regarding a previously filed Form 3115. If a taxpayer submits additional correspondence regarding its Form 3115 filed under the automatic change procedures (for example, a revised § 481(a) adjustment or power of attorney), it must attach a copy of the additional correspondence behind a copy of page 1 of the previously filed Form 3115 and submit it to the IRS in Ogden, UT (see the applicable address in section 9.05 of Rev. Proc. 2014-1 (or successor)). Further, if the taxpayer is under examination, before an Appeals office, or before a federal court with respect to any income tax issue, the taxpayer must provide a copy of any additional correspondence it submits regarding its Form 3115 to the examining agent(s), Appeals officer(s), and all counsel to the government, as applicable, no later than the date the taxpayer submits the additional correspondence to the IRS in Ogden, UT.

(2) Non-automatic change.

(a) When to file Form 3115.

(i) In general. A taxpayer requesting to change a method of accounting under the non-automatic change procedures must complete a Form 3115 as required by SECTION 6.02 and, except as specifically provided in this revenue procedure or other guidance published in the IRB, file that Form 3115 during the requested year of change. See § 1.446-1(e)(3)(i). However, see, for example, SECTIONS 6.03(2)(a)(ii), 6.03(2)(a)(iii), and 6.03(4)(b), which allow a taxpayer in certain limited circumstances additional time to file a Form 3115 after the year of change.

(ii) New member of a consolidated group in CAP. A taxpayer requesting a change in method of accounting to which SECTION 8.02(1)(d) (new member of a consolidated group in CAP) applies must file the Form 3115 on behalf of a new member by the earlier of:

(A) 90 calendar days after the date the new member becomes a member of the consolidated group, or

(B) 30 calendar days after the end of the taxable year in which the new member becomes a member of the consolidated group.

(iii) Certain transactions to which § 381(a) applies. A party to a transaction to which § 381(a) applies requesting consent to make a non-automatic change described in § 1.381(c)(4)-1(a)(4) or (5), or in § 1.381(c)(5)-1(a)(4) or (5) must file the Form 3115 on or before the later of:

(A) the due date for filing a Form 3115 as specified in § 1.446-1(e),
or

(B) the earlier of:

(1) the day that is 180 calendar days after the date of distribution or transfer, or

(2) the day on which the acquiring corporation files its federal income tax return for the taxable year in which the distribution or transfer occurred. See §§ 1.381(c)(4)-1(d)(2)(iii) and 1.381(c)(5)-1(d)(2)(iii).

(b) Where to file Form 3115. A taxpayer requesting consent to change a method of accounting under the non-automatic change procedures must file its completed Form 3115, together with the appropriate user fee, with the national office at the applicable address in section 9.05 of Rev. Proc. 2014-1 (or successor).

(c) User fee. A taxpayer requesting to change a method of accounting under the non-automatic change procedures must submit the required user fee(s) for its Form 3115. Rev. Proc. 2014-1 (or successor) contains the schedule of user fees and provides guidance regarding the user fee requirements.

(3) Additional required copies of Form 3115 and Consent Agreement.

(a) Taxpayer under examination, before an Appeals office, or before a federal court. If the taxpayer is under examination, before an Appeals office, or before a federal court with respect to any income tax issue, the taxpayer must provide an additional signed copy of the original Form 3115 to the examining agent(s), Appeals officer(s), and all counsel to the government, as applicable, no later than the date the taxpayer timely files the Form 3115 (original or Ogden copy, whichever is filed earlier, in the case of an automatic change).

(b) Certain foreign corporations. If SECTION 6.02(6) applies, each controlling domestic shareholder (or, if a member of a consolidated group, its common

parent), other than the designated shareholder, must attach a signed copy of the Form 3115 (in the case of an automatic change) or a copy of the jointly executed Consent Agreement (in the case of a non-automatic change) (see further, SECTION 11.03(2)(a)) to its federal income tax return filed for its taxable year with or within which ends such year of change. Further, SECTION 6.03(3)(a) applies to each controlling domestic shareholder that is under examination, before an Appeals office, or before a federal court with respect to any income tax issue.

(c) Certain foreign partnerships. If SECTION 6.02(7) applies, each partner that is required to file a Form 8865, Return of U.S. Persons With Respect to Certain Foreign Partnerships, as a Category 1 or Category 2 filer must attach a signed copy of the Form 3115 (in the case of an automatic change) or a copy of the jointly executed Consent Agreement (in the case of a non-automatic change) (see further, SECTION 11.03(2)(a)) to its federal income tax return filed for its taxable year with or within which ends such year of change. Further, SECTION 6.03(3)(a) applies to each partner that is required to file a Form 8865, Return of U.S. Persons With Respect to Certain Foreign Partnerships, as a Category 1 or Category 2 filer that is under examination, before an Appeals office, or before a federal court with respect to any income tax issue.

(4) Extensions of time to file.

(a) Automatic extension for Form 3115. An automatic extension of 6 months from the due date (excluding any extension) of the federal income tax return for the year of change requested on the Form 3115 is granted to file a Form 3115 under the automatic change procedures provided the taxpayer:

(i) timely filed (including any extension) its original federal income tax return for the year of change;

(ii) files an amended return within the 6-month extension period implementing the requested change in method of accounting for the year of change;

(iii) attaches the original Form 3115 to the amended return;

(iv) files a signed copy of the original Form 3115 with the IRS in Ogden, UT (see the applicable address in section 9.05 of Rev. Proc. 2014-1 (or successor) no later than the date the original is filed with the amended return;

(v) provides a signed copy of the original Form 3115 to the examining agent, Appeals officer(s) or all counsel to the government, as applicable, as required by SECTION 6.03(3); and

(vi) attaches a statement to the Form 3115 (original, Ogden, and any other copy required by SECTION 6.03(3)) that the Form 3115 is being filed pursuant to § 301.9100-2(b) of the Procedure and Administration Regulations.

(b) Other extensions of time. Except in unusual and compelling circumstances or as provided in SECTION 6.03(4)(a), a taxpayer is not eligible for an extension of time to file a Form 3115 and is not eligible to make a late election under SECTION 7.03(3)(d) under §§ 301.9100-1 and 301.9100-3. See § 301.9100-3(c)(2) and Rev. Proc. 2014-1 (or successor).

SECTION 7. TERMS AND CONDITIONS OF CHANGE

.01 In general. A change in method of accounting requested under this revenue procedure for which consent is granted must be implemented pursuant to both the terms and conditions provided in this revenue procedure and either the List of Automatic

Changes (in the case of an automatic change) or the letter ruling for the change (in the case of a non-automatic change). Notwithstanding the terms and conditions in this revenue procedure, based on the unique facts of a particular case and in the interest of sound tax administration, the national office may prescribe in the letter ruling for a non-automatic change terms and conditions for the requested change in method of accounting that differ from and override those provided in this revenue procedure.

.02 Section 481(a) adjustment. Except as otherwise provided in this revenue procedure, the List of Automatic Changes (in the case of an automatic change), a letter ruling to the taxpayer (in the case of a non-automatic change), or other guidance published in the IRB, a taxpayer making a change in method of accounting under this revenue procedure must apply § 481(a) and take into account the § 481(a) adjustment in the manner provided in SECTION 7.03. See SECTION 2.06(1); but see SECTION 13.01(3).

.03 Section 481(a) adjustment period.

(1) In general. Except as otherwise provided in this revenue procedure, the List of Automatic Changes (in the case of an automatic change), a letter ruling to the taxpayer (in the case of a non-automatic change), or other guidance published in the IRB, the § 481(a) adjustment period is one taxable year (year of change) for a negative § 481(a) adjustment and four taxable years (year of change and next three taxable years) for a positive § 481(a) adjustment. Except as otherwise provided in this revenue procedure, the List of Automatic Changes (in the case of an automatic change), or other guidance published in the IRB, a taxpayer must take a positive § 481(a) adjustment into account ratably over the § 481(a) adjustment period. Where multiple eligible taxpayers

or trades or businesses request an identical change in method of accounting for the same item on a single Form 3115 pursuant to section 15.07(4) of Rev. Proc. 2014-1 (or successor), each taxpayer or trade or business has its own § 481(a) adjustment period, applied to its own § 481(a) adjustment.

(2) Short period as a separate taxable year.

(a) In general. If the year of change or any other taxable year during the § 481(a) adjustment period for a positive § 481(a) adjustment is a short taxable year, the taxpayer must take the § 481(a) adjustment into account as if that short taxable year were a full 12-month taxable year. See Rev. Rul. 78-165, 1978-1 C.B. 276.

(b) Examples.

Example 1. A calendar year taxpayer receives permission to change its method of accounting beginning with the 2014 calendar year in a situation not described in SECTION 7.03(3) or 7.03(4). The § 481(a) adjustment for this change in method of accounting is a positive adjustment of \$60,000 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, 2015. The taxpayer must include \$15,000 of the § 481(a) adjustment in gross income for the short period from January 1, 2015, through September 30, 2015.

Example 2. Corporation X, a calendar year taxpayer, received permission to change its method of accounting beginning with the 2014 calendar year. The § 481(a) adjustment for this method of accounting change is a positive adjustment of \$60,000 and the adjustment period is four taxable years. On July 1, 2015, 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 2014. Corporation X must include \$15,000 of the § 481(a) adjustment in gross income for its short period for January 1, 2015, through June 30, 2015. In addition, Corporation Z must include \$15,000 of the § 481(a) adjustment in gross income for calendar year 2015.

(c) Certain transfers to which § 381(a) applies. For a § 381 transaction that is described in SECTION 3.04(4) and that occurs between members of a consolidated group, for purposes of this revenue procedure, the portion of the § 481(a)

adjustment attributable to the short taxable year of the transferor ending on the date of the § 381(a) transaction must be treated as an intercompany item as defined in § 1.1502-13(b)(2) and taken into account under the rules of § 1.1502-13. 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.

(3) Shortened adjustment periods. The four-year § 481(a) adjustment period provided in SECTION 7.03(1) for a positive § 481(a) adjustment does not apply in the following situations:

(a) Cooperatives. For a cooperative within the meaning of § 1381(a), the § 481(a) adjustment period for a positive § 481(a) adjustment generally is one taxable year (year of change). See Rev. Rul. 79-45, 1979-1 C.B. 284.

(b) Taxpayers under examination with positive § 481(a) adjustments. The § 481(a) adjustment period is two taxable years (year of change and next taxable year) for a positive § 481(a) adjustment for a change in method of accounting requested when a taxpayer is under examination, unless SECTION 8.02(1)(a) (change filed in a three-month window), 8.02(1)(b) (change filed in a 120-day window), 8.02(1)(c) (present method not before the director) or 8.02(1)(d) (new member of a consolidated group in CAP) applies.

(c) De minimis election. A taxpayer may elect a one-year § 481(a) adjustment period (year of change) for a positive § 481(a) adjustment that is less than \$50,000. To make this election, the taxpayer must complete the appropriate line on the Form 3115 and take the entire § 481(a) adjustment into account in the year of change when it implements the change in method of accounting.

(d) Eligible acquisition transaction election.

(i) In general. A taxpayer may elect a one-year § 481(a) adjustment period (year of change) for all (but not some) positive § 481(a) adjustments for the year of change if an eligible acquisition transaction, as defined in SECTION 7.03(3)(d)(iii), occurs during the year of change or in the subsequent taxable year on or before the due date (including any extension) for filing the taxpayer's federal income tax return for the year of change. The election, once made, is irrevocable and applies to all changes in method of accounting the taxpayer makes pursuant to this revenue procedure for the year of change. A taxpayer may make this election even if the taxpayer executes a Consent Agreement that contains a longer § 481(a) adjustment period in the case of a Form 3115 filed under the non-automatic change procedures. To make this election, a taxpayer must file, in duplicate, the election statement that contains the required information in SECTION 7.03(3)(d)(ii). The taxpayer must attach the original election statement to the taxpayer's timely filed (including any extension) original federal income tax return for the year of change (even if a non-automatic change is pending with the national office) and file the copy, which must be signed by the Form(s) 3115 filer, with the IRS, no later than the date the taxpayer files the original election statement with its original federal income tax return for the year of change. See also SECTION 6.03(4)(b). The taxpayer must submit the signed copy to the following address: Internal Revenue Service; Attn: Eligible Acquisition Transaction Office, CC:ITA; 1111 Constitution Ave., N.W.; Washington DC 20224. Further, a pass-through entity must retain in its books and records for the year of change each owner or beneficiary's agreement to not apply § 481(b) and § 1.481-2 to support the statement required by SECTION 7.03(3)(d)(ii)(G).

(ii) Election Statement. The eligible acquisition transaction election statement must include:

(A) the name and taxpayer identification number of the Form(s) 3115 filer;

(B) the name of the applicant (taxpayer making the change in method of accounting) on the Form(s) 3115;

(C) the year of change (including the beginning and ending dates);

(D) the date of the eligible acquisition transaction;

(E) the Form(s) 3115 filer's signature and date;

(F) the following statement:

"The Form(s) 3115 filer elects a one-year adjustment period pursuant to SECTION 7.03(3)(d) of Rev. Proc. 2015-13 for all changes in method of accounting made by the applicant (the taxpayer) pursuant to Rev. Proc. 2015-13 for the year of change. The filer agrees that the limitation on tax in § 481(b) and § 1.481-2 will not be applied for any § 481(a) adjustment for all changes in method of accounting made by the taxpayer."; and

(G) if the taxpayer is a pass-through entity, such as a partnership, S corporation, or trust, the following representation:

"The taxpayer represents that it has obtained (either directly or by delegation) from each owner or beneficiary, as applicable, who was an owner or beneficiary during the year of change a written agreement that the owner or beneficiary agrees to not apply the limitation on tax in § 481(b) and § 1.481-2 for any

§ 481(a) adjustment for all changes in method of accounting made by the taxpayer pursuant to Rev. Proc. 2015-13 for the year of change.”

(iii) Eligible acquisition transaction. An eligible acquisition transaction means:

(A) For a CFC or a corporation that is not an S corporation, (1) an acquisition of stock ownership interest in the taxpayer by another party that either results in the acquisition of control of the taxpayer or causes the taxpayer’s taxable year to end, or (2) an acquisition of assets in a transaction to which § 381(a) applies, and

(B) For all other taxpayers, an acquisition of an ownership interest in the taxpayer by another party that does not cause the taxpayer to cease to exist for federal income tax purposes (for example, the sale or exchange of a partnership interest that does not cause a technical termination of the partner under § 708(b)(1)(B)).

(iv) Examples.

Example 1. X Corporation enters into an agreement to sell all of X Corporation’s stock ownership interest in T Corporation, a wholly-owned subsidiary of X, to Z Corporation. T Corporation is a calendar year taxpayer. In the course of Z Corporation’s due diligence review of T Corporation, Z Corporation discovers that T Corporation improperly defers advance payments for services. Z Corporation requests that prior to its acquisition of T Corporation’s stock, T Corporation change its method of accounting for advance payments for services to a proper deferral method for 2014. On February 28, 2015, Z Corporation acquires X Corporation’s stock ownership interest in T Corporation. On March 14, 2015, T Corporation files for an extension of time to file its 2014 federal income tax return. On September 15, 2015, T Corporation files the original and Ogden copy of a Form 3115 under the automatic change procedures to change its method of accounting for advance payments for services for 2014 (year of change), which results in a positive § 481(a) adjustment of \$1,000,000. T Corporation follows the procedures in SECTION 7.03(3)(d) to elect a one-year adjustment period for all changes in method of accounting that it makes pursuant to this revenue procedure for 2014 (year of change). Pursuant to this election, T Corporation must take into account the entire \$1,000,000 § 481(a) adjustment for its change in method of accounting for advance payments for services in determining its taxable income for 2014 (year of change).

Example 2. On December 31, 2014, X Corporation, the common parent of an affiliated group of corporations (X Group) that file a consolidated return, owns 65% of the stock of T Corporation. On June 30, 2015, X Corporation purchases additional shares of T Corporation's stock sufficient to include T Corporation in the consolidated return of the X Group. T Corporation is a calendar year taxpayer. X Corporation's acquisition of additional shares of T Corporation stock causes T Corporation's taxable year to end under § 1.1502-76(b). On August 1, 2015, T Corporation files the original and Ogden copy of a Form 3115 under the automatic change procedures to change its method of accounting for T Corporation's short taxable year ending June 30, 2015 (year of change), which results in a positive § 481(a) adjustment of \$1,000,000. T Corporation follows the procedures in SECTION 7.03(3)(d) to elect a one-year adjustment period for all changes in method of accounting made by T Corporation pursuant to this revenue procedure for its short taxable year ending June 30, 2015 (year of change). Pursuant to this election, T Corporation must take into account the entire \$1,000,000 § 481(a) adjustment for this change in method of accounting in determining T Corporation's taxable income for its short taxable year ending June 30, 2015 (year of change).

Example 3. During 2014, P Partnership, a calendar year taxpayer consisting of Partners A, B, C, and D, files a Form 3115 under the non-automatic change procedures for a change in method of accounting for 2014 (year of change) that results in a positive § 481(a) adjustment of \$1,200,000. P Partnership receives consent for that change in method of accounting in a letter ruling dated February 12, 2015. On February 26, 2015, Partner A, who already owns 10% interest in P Partnership purchases all of Partner B's 20% interest in P Partnership. P Partnership is a calendar year taxpayer. On April 15, 2015, P Partnership files the original and Ogden copy of a Form 3115 under the automatic change procedures for 2014 (year of change), which results in a positive § 481(a) adjustment of \$1,000,000. P Partnership obtains from each of Partners A, B, C, and D a written agreement that each partner agrees to not apply the limitation on tax in § 481(b) and § 1.481-2 for any § 481(a) adjustment for all changes in method of accounting made by P Partnership pursuant to Rev. Proc. 2015-13 for P Partnership's 2014 year of change, and otherwise follows the procedures in SECTION 7.03(3)(d) to elect a one-year adjustment period for all changes in method of accounting made by P Partnership pursuant to this revenue procedure for 2014 (year of change). Pursuant to this election, P Partnership must take into account both the entire \$1,200,000 § 481(a) adjustment for the non-automatic change in method of accounting and the entire \$1,000,000 § 481(a) adjustment for the automatic change in method of accounting in determining P Partnership's business income (or loss) for 2014 (year of change).

(4) Accelerated adjustment periods. The four-year § 481(a) adjustment period for a positive § 481(a) adjustment provided in SECTION 7.03(1) is accelerated in the following situations:

(a) Ceasing to engage in the trade or business. A taxpayer that ceases to engage in a trade or business, as defined in SECTION 3.04, must take the remaining balance of any § 481(a) adjustment relating to that trade or business into account in computing taxable income in the taxable year of the cessation.

(b) 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 of accounting, § 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). The corporation must take into account any corresponding basis adjustment in computing the § 481(a) adjustment (if any) that results from discontinuing the LIFO method of accounting.

(c) 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 in which it discontinued use of the LIFO inventory method of accounting, the corporation must include the remaining balance of any positive § 481(a) adjustment 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 7.03(4).

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

(i) In general. For a transfer within a consolidated group to which § 351 applies that is described in SECTION 3.04(5), the transferor member must continue to take the § 481(a) adjustment (arising from a method of accounting of the transferor that the transferee adopts and uses) into account pursuant to the applicable terms and conditions. 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. 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 the first sentence of this SECTION 7.03(4)(d)(i) or in SECTION 3.04(4).

(ii) Exception. The provisions of SECTION 7.03(4)(d)(i) cease to apply and the transferor member must take any remaining balance of the § 481(a) adjustment into account in the earliest of the following taxable years:

(A) if the transferor ceases to be a member of the consolidated group, in the last consolidated return year in which the transferor member is included in the consolidated group;

(B) if 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 consolidated group, in the last consolidated return year in which that transferee member is a member of the consolidated group; or

(C) if the consolidated group terminates, in the last consolidated return year of that consolidated group.

In applying the preceding sentence, the rules in § 1.1502-13(j)(2), (j)(5), and (j)(6) apply, but only if the method of accounting 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.

.04 Changes within the LIFO method of accounting. Except as specifically provided in the Code or other guidance published in the IRB, a taxpayer must

implement a change within the LIFO inventory method of accounting using a cut-off basis. Announcement 91-173, 1991-47 I.R.B. 29 (regarding LIFO taxpayers changing their method of accounting for certain bulk bargain purchases of inventory to comply with Hamilton Industries, Inc. v. Commissioner, 97 T.C. 120 (1991)), is an example of other guidance that requires a § 481(a) adjustment. A change within the LIFO inventory method of accounting 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 a taxpayer not using the LIFO inventory method of accounting could make (for example, a method of accounting governed by § 471 or § 263A).

.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 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. For purposes of this SECTION 7.05, if the taxpayer is a member of a consolidated group, the taxpayer is the consolidated group.

.06 Maintenance of adequate records. The taxpayer must maintain accounting records for the year of change and subsequent taxable years to support the method of accounting for which consent is granted to the taxpayer. Accounting records include the taxpayer's regular books of account and such other records and data as may be necessary to support the entries on its books of account and on its return, including for

example, a reconciliation of any differences between the method of accounting used in its accounting records and the method of accounting used for federal income tax purposes.

.07 Certain foreign corporations. If the change in method of accounting is on behalf of a CFC or a 10/50 corporation, 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 (or any positive component of a § 481 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 (or any positive component of a § 481 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 corporation's income would have had in the prior year or years. A negative § 481(a) adjustment (or any negative component of a § 481 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 (or any negative component of a § 481

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 federal income tax return for its taxable year with or 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 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 10/50 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

10/50 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 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.

.08 Trade or business of a domestic corporation, domestic partnership, or other United States person that affects the amount of foreign source taxable income. If the change in method of accounting is on behalf of a trade or business of a domestic corporation, domestic partnership, or other United States person that affects the amount of foreign source taxable income, the following additional terms and conditions apply:

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

(2) A positive § 481(a) adjustment (or any positive component of a § 481 adjustment) necessary to prevent the duplication of an expense item must take the same source, separate limitation classification, and character as the gross income that was offset by the expense in the prior year or years. A positive § 481(a) adjustment (or any positive component of a § 481 adjustment) necessary to prevent the omission of amounts of an income item must take the same source, separate limitation classification, and character as the income would have had in the prior year or years. A negative § 481(a) adjustment (or any negative component of a § 481 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 income that would have been offset by the expense in the prior year or years. A negative § 481(a) adjustment (or any negative component of a § 481 adjustment) necessary to prevent the duplication of amounts of an income item offsets gross income that has the same source, separate limitation classification, and character as the 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 United States person;

(4) The United States person must maintain records and accounts of the trade or business for the year of change and for subsequent taxable years, in conformity

with the method of accounting granted to the United States person. This condition is satisfied if the United States person reconciles the results obtained under the method used in keeping the trade or business' books and records and the method used for federal income tax purposes and maintains sufficient records to support such reconciliation; and

(5) The United States person 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 trade or business to a foreign corporation during the adjustment period.

.09 Foreign partnerships. If the change in method of accounting is made 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 (or any positive component of a § 481 adjustment) necessary to prevent the duplication of an expense item must take the same source, separate limitation classification, and character as the gross income that was offset by the expense in the prior year or years. A positive § 481(a) adjustment (or any positive component of a § 481 adjustment) necessary to prevent the omission of amounts of an income item must take the same source, separate limitation classification, and character as the income would have had in the prior year or years. A negative § 481(a) adjustment (or any negative component of a § 481 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 income that would have been offset by the expense in the prior year or years. A negative § 481(a) adjustment (or any negative component of a § 481 adjustment) necessary to prevent the duplication of amounts of an income item offsets gross income that has the same source, separate limitation classification, and character as the 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 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 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 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.

SECTION 8. AUDIT PROTECTION FOR TAXABLE YEARS PRIOR TO YEAR OF CHANGE

.01 In general. Except as provided in SECTION 8.02 or under any other guidance published in the IRB, when a taxpayer timely files a Form 3115 under this revenue procedure, the IRS will not require the taxpayer to change its method of accounting for the same item for a taxable year prior to the requested year of change.

.02 Exceptions. SECTION 8.01 does not apply if any exception in SECTIONS 8.02(1) through 8.02(7) applies.

(1) No audit protection for taxpayers under examination. Except as provided in SECTIONS 8.02(1)(a) through (f), the IRS may require the taxpayer to change its method of accounting for the same item that is the subject of a Form 3115 filed under this revenue procedure for taxable years prior to the requested year of change if the taxpayer is under examination as of the date the taxpayer files the Form 3115.

(a) Change filed in a three-month window.

(i) In general. Except as provided in SECTION 8.02(1)(a)(iii), SECTION 8.02(1) (no audit protection for taxpayers under examination) does not apply to a request for a change in method of accounting for an item filed in a three-month window if (1) the taxpayer has been under examination for at least 12 consecutive months as of the first day of the three-month window, and (2) the method of accounting for the same item the taxpayer is requesting to change is not an issue under consideration as described in SECTION 3.08 as of the date the taxpayer files the Form 3115.

(ii) Three-month window. A "three-month window" is the period beginning on the fifteenth day of the seventh month of the taxpayer's taxable year and ending on the fifteenth day of the tenth month of the taxpayer's taxable year. However, if the taxable year is a short taxable year that ends before the fifteenth day of the tenth month after the short taxable year begins, the "three-month window" is the period beginning on the first day of the second month preceding the month in which the short taxable year ends and ending on the last day of the short taxable year.

(iii) Certain foreign corporations. In the case of a taxpayer that is a CFC or 10/50 corporation, a three-month window is determined with reference to the CFC or 10/50 corporation's taxable year and is only available if:

(A) all of the controlling domestic shareholders that are under examination have been under examination for at least 24 consecutive months as of the first day of the three-month window,

(B) as of the date the designated shareholder files the Form 3115, the CFC or 10/50 corporation's method of accounting for the item to be changed is not an issue under consideration within the meaning of SECTION 3.08(4) or has been an issue under consideration within the meaning of SECTION 3.08(4) for at least 24 consecutive months; and

(C) the CFC or 10/50 corporation's method of accounting for the item to be changed is not an issue under consideration within the meaning of SECTION 3.08(1), 3.08(2), or 3.08(3) as of the date the designated shareholder files the Form 3115.

(iv) Statement required. The Form 3115 must include a statement that the Form 3115 is filed under a three-month window in SECTION 8.02(1)(a) of Rev. Proc. 2015-13.

(b) Change filed in a 120-day window.

(i) In general. Except as provided in SECTION 8.02(1)(b)(iii), SECTION 8.02(1) (no audit protection for taxpayers under examination) does not apply to a request for a change in method of accounting for an item filed in a 120-day window if the method of accounting for the same item the taxpayer is requesting to change is not an issue under consideration as described in SECTION 3.08 as of the date the taxpayer files the Form 3115. However, the 120-day window ends on the date the IRS notifies the taxpayer that jurisdiction for the case has been transferred from Appeals to the examining agent(s) for reconsideration. See SECTION 3.18(1)(c).

(ii) 120-day window. A "120-day window" is the 120-day period following the date an examination of the taxpayer ends, regardless of whether a subsequent examination has commenced.

(iii) Certain foreign corporations. The 120-day window provisions in SECTION 8.02(1)(b)(i) are not available for a CFC or 10/50 corporation.

(c) Present method not before the director.

(i) In general. SECTION 8.02(1) (no audit protection for taxpayers under examination) does not apply to a change in method of accounting for an item when the present method is not before the director. The present method is not before the director when it is:

(A) a change from a clearly permissible method of accounting; or

(B) a change from an impermissible method of accounting and the impermissible method was adopted subsequent to the taxable year(s) under examination on the date the taxpayer files the Form 3115.

The question of whether the present method of accounting is a clearly permissible method of accounting or was adopted subsequent to the taxable year(s) under examination may be referred to the national office as a request for technical advice under the provisions of Rev. Proc. 2014-2 (or successor).

(ii) Statement required. The Form 3115 must include a statement that the Form 3115 is filed under SECTION 8.02(1)(c) of Rev. Proc. 2015-13.

(d) New member of a consolidated group in CAP.

(i) In general. SECTION 8.02(1) (no audit protection for taxpayers under examination) does not apply to a change in method of accounting for an item requested by the common parent of a consolidated group that is participating in the Compliance Assurance Process (CAP) on behalf of a new member of the consolidated group for the taxable year the new member became a member of the consolidated group, if, as of the date the common parent of the consolidated group files the Form 3115:

(A) the new member is under examination solely because it became a member of the consolidated group during a taxable year in which the consolidated group participates in the CAP, and

(B) if the method of accounting for the item the new member is requesting to change is not an issue under consideration as described in SECTION 3.08 as of the date the taxpayer files the Form 3115.

(ii) Statement required. The Form 3115 must include: (A) a statement that the Form 3115 is filed under the provisions of SECTION 8.02(1)(d) of Rev. Proc. 2015-13, and (B) a statement providing the date that the new member became a member of the consolidated group.

(e) Change resulting in a negative § 481(a) adjustment.

(i) In general. SECTION 8.02(1) (no audit protection for taxpayers under examination) does not apply to a change in method of accounting for an item that:

(A) results in a negative § 481(a) adjustment for that item for the year of change; and

(B) would have resulted in a negative § 481(a) adjustment in each taxable year under examination if the change in method of accounting for that item had been made in the taxable year(s) under examination.

(ii) Example. A taxpayer placed Properties A and B in service in its 2010 taxable year. In its 2010 through 2013 taxable years, the taxpayer depreciated Property A using a 7-year recovery period instead of its correct 5-year recovery period and depreciated Property B using a 5-year recovery period instead of its correct 7-year recovery period. The taxpayer is under examination for its 2012 taxable year. The taxpayer filed a Form 3115 under this revenue procedure to request a change in method of accounting for its 2014 taxable year to change its methods of accounting for depreciation for Properties A and B. Under SECTION 8.02(1), the taxpayer generally does not receive audit protection for a change in method of accounting filed for its 2014 taxable year. However, under this SECTION 8.02(1)(e), the taxpayer may receive audit protection for the change in method of accounting for depreciation for Property A because the § 481(a) adjustment for that item required in its 2014 taxable year, and that would have been required in its 2012 taxable year, is negative. However, the taxpayer does not receive audit protection for the change in method of accounting for depreciation for Property B because the § 481(a) adjustment for that item required in its 2014 taxable year, and that would have been required in its 2012 taxable year, is positive.

(iii) Statement required. The Form 3115 must include a statement that the Form 3115 is filed under the provisions of SECTION 8.02(1)(e) of Rev. Proc. 2015-13.

(f) No examination-imposed change and item not under consideration.

(i) In general. Except as provided in SECTION 8.02(1)(f)(ii), for a taxpayer that is under examination for one or more taxable years on the date the taxpayer files a Form 3115, SECTION 8.02(1) (no audit protection for taxpayers under examination) ceases to apply to the change in method of accounting for that item as of the date immediately following the earliest date that any of those examinations ends for the taxable year(s) subsequent to that taxable year and prior to the year of change to which the Form 3115 applies, if by the earliest date that any of those examinations ends:

(A) the examining agent(s) does not propose an adjustment for the same item that is the subject of the Form 3115 for the taxable year(s) under examination; and

(B) the method of accounting for that same item is not an issue under consideration within the meaning of SECTION 3.08.

(ii) Certain foreign corporations.

(A) In general. For a taxpayer that is a CFC or 10/50 corporation that is under examination for one or more taxable years on the date the CFC or 10/50 corporation files a Form 3115, SECTION 8.02(1) (no audit protection for taxpayers under examination) ceases to apply to the change in method of accounting for that item as of the date after the earliest date that any of those examinations ends (the first

ending examination) if all of the conditions in SECTION 8.02(1)(f)(ii)(B) are met, in which case this SECTION 8.02(1)(f)(ii) applies for the taxable year(s) subsequent to that taxable year and prior to the year of change to which the Form 3115 applies.

(B) Conditions for SECTION 8.02(1)(f)(ii)(A) to apply. SECTION 8.02(1)(f)(ii)(A) applies as of the date all of the following conditions are met:

(1) after the date that the first ending examination ends, all controlling domestic shareholders that are under examination for one or more taxable years on the date the first ending examination ends submit to their examining agents a signed copy of the Form 3115 to which this SECTION 8.02(1)(f) applies on which "90-day notice under SECTION 8.02(1)(f) of Rev. Proc. 2015-13" is typed or written on the top of the first page; and

(2) as of the 90th calendar day after all controlling domestic shareholders submitted the signed copy of the Form 3115 as required by SECTION 8.02(1)(f)(ii)(B)(1):

(a) the examining agent(s) does not propose an adjustment for the same item that is the subject of the Form 3115 for the taxable year(s) currently under examination; or

(b) the method of accounting for that same item is not an issue under consideration within the meaning of SECTION 3.08(1), 3.08(2), or 3.08(3).

(iii) Examples.

Example 1. A taxpayer is under examination for 2011 and 2012 as of December 19, 2014, the date the taxpayer files a Form 3115 to request a change in method of accounting for 2014 to change its method of accounting for costs subject to § 263A under this revenue procedure. Under SECTION 8.02(1), the taxpayer generally does not receive audit protection for a change in method of accounting for which consent is

requested while under examination. The 2011 examination ends July 1, 2015, while the 2012 examination is still ongoing. Under SECTION 8.02(1)(f), the taxpayer receives audit protection for the change in method of accounting for costs subject to § 263A as of July 2, 2015, the day immediately following the date the 2011 examination ends, if by that date the examining agents do not propose an adjustment for costs subject to § 263A and the method of accounting for costs subject to § 263A is not an issue under consideration as described in SECTION 3.08, as long as no other provision of SECTIONS 8.02(2) through 8.02(7) applies to the taxpayer.

Example 2. A taxpayer that is a CFC has two controlling domestic shareholders (Shareholder A and Shareholder B) under examination for 2011 as of December 19, 2014, the date the taxpayer files a Form 3115 for 2014 to request a change in its method of accounting under this revenue procedure for costs subject to § 263A for purposes of determining its earnings and profits. Under SECTION 8.02(1), the taxpayer generally does not receive audit protection for a change in method of accounting for which consent is requested while under examination. The 2011 examination of Shareholder A ends July 1, 2015, while the 2011 examination of Shareholder B is still ongoing. On August 1, 2015, Shareholder B submits to its examining agent a signed copy of the Form 3115 with "90-day notice under SECTION 8.02(1)(f) of Rev. Proc. 2015-13" written on top of the first page. Under SECTION 8.02(1)(f)(ii), the taxpayer receives audit protection for the change in method of accounting for costs subject to § 263A for purposes of determining its earnings and profits as of October 30, 2015, 90 calendar days after Shareholder B submitted a signed copy of the Form 3115 to its examining agent, if by that date the examining agents do not propose an adjustment for costs subject to § 263A and the method of accounting for costs subject to § 263A is not an issue under consideration as described in SECTION 3.08(1), 3.08(2), or 3.08(3), as long as no other provision of SECTIONS 8.02(2) through 8.02(7) applies to the taxpayer.

(2) Change lacking audit protection. The IRS may change a taxpayer's method of accounting for the same item that is the subject of a Form 3115 filed under this revenue procedure for taxable years prior to the requested year of change if the description of the change in the List of Automatic Changes, or other guidance published in the IRB, provides that the change is not subject to the audit protection provisions of SECTION 8.01.

(3) Change not made or made improperly. The IRS may change a taxpayer's method of accounting for the same item that is the subject of a Form 3115 filed under

this revenue procedure for taxable years prior to the requested year of change if: (a) the taxpayer withdraws or does not perfect its request (for example, by not providing requested supplemental information), (b) the national office denies the taxpayer's request for consent to make a change in method of accounting, (c) the taxpayer does not timely implement the change in method of accounting consistent with all the applicable provisions, (d) the taxpayer timely implements the change but does not otherwise comply with all the applicable provisions, or (e) the national office modifies or revokes the Commissioner's consent for the change in method of accounting retroactively because the taxpayer misstated or omitted material facts. See SECTION 10.03.

(4) Change in sub-method of accounting. The IRS may change a taxpayer's method of accounting for the same item that is the subject of a Form 3115 filed under this revenue procedure for taxable years prior to the requested year of change if the taxpayer is changing a sub-method of accounting within the method of accounting. For example, an examining agent may propose to terminate the taxpayer's use of the LIFO inventory method of accounting during a prior taxable year even though the taxpayer changes its method of valuing increments in the current year. In addition, a taxpayer 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 this SECTION 8.01.

(5) CFC or 10/50 corporation. In the case of a change in method of accounting made on behalf of a CFC or 10/50 corporation, the IRS may change the method of accounting for the same item that is the subject of a Form 3115 filed under this revenue procedure for taxable years prior to the requested year of change in which

any of the CFC or 10/50 corporation's domestic corporate shareholders computed an amount of foreign taxes deemed paid under §§ 902 and 960 with respect to the CFC or 10/50 corporation that exceeds 150 percent of the average amount of foreign taxes deemed paid under §§ 902 and 960 by the domestic corporate shareholder with respect to the CFC or 10/50 corporation in the shareholder's three prior taxable years.

(6) Criminal investigation. The IRS may change a taxpayer's method of accounting for the same item that is the subject of a Form 3115 filed under this revenue procedure for taxable years prior to the requested year of change if there is any pending or future criminal investigation or proceeding concerning (i) directly or indirectly, any issue relating to the taxpayer's federal tax liability for any taxable year prior to the year of change, or (ii) 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.

(7) Issue under consideration. The IRS may change a taxpayer's method of accounting for the same item that is the subject of a Form 3115 filed under this revenue procedure for taxable years prior to the requested year of change if the taxpayer's method of accounting for the same item is an issue under consideration pursuant to SECTION 3.08 as of the date the taxpayer filed the Form 3115. However, for a CFC or 10/50 corporation, the preceding sentence does not apply to an item to which SECTION 8.02(1) (no audit protection for taxpayers under examination) ceases to apply pursuant to SECTION 8.02(1)(f)(ii) or that is the subject of a Form 3115 filed in a three-month window pursuant to SECTION 8.02(1)(a)(iii).

(8) Prior year IRS-initiated change. The IRS 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 change in method of accounting imposed by the IRS for a prior taxable year pursuant to Rev. Proc. 2002-18 (or successor).

SECTION 9. GRANT OF CONSENT FOR AN AUTOMATIC CHANGE

Pursuant to § 1.446-1(e)(2)(i), the consent of the Commissioner is hereby granted to any taxpayer that is eligible to make an automatic change. This 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 Form 3115. See SECTION 6.02(2). Further, such consent is granted only if the taxpayer complies with all the applicable provisions and implements the change in method of accounting on its federal income tax return for the requested year of change to which the original Form 3115 is attached pursuant to SECTION 6.03. In the case of an entity that is not required to file a federal income tax return (for example, a CFC or 10/50 corporation), consent is granted only if the entity complies with all the applicable provisions and the change in method of accounting is reflected on the timely filed (including any extension) federal income tax return(s) on which the entity's affected item(s) is included for the year with or within which ends the entity's requested year of change.

SECTION 10. EFFECT OF CONSENT

.01 In general. A taxpayer ordinarily may rely on the grant of consent in SECTION 9 (in the case of an automatic change) or in a letter ruling issued to the taxpayer (in the case of a non-automatic change) subject to the provisions of SECTIONS 7, 8, 10, 11, and 12 and section 11 of Rev. Proc. 2014-1 (or successor).

.02 Required change or modification of method of accounting. A taxpayer that changes to a method of accounting under this revenue procedure may be required to change or modify that method of accounting for any of 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 guidance published in the IRB;
- (5) the issuance of written notice to the taxpayer that the change in method of accounting was granted in error or is not in accord with the current views of the IRS; or
- (6) a change in the material facts on which the consent was based.

.03 Revoked or modified if found to be in error. The national office may revoke or modify a letter ruling issued under the non-automatic change procedures or the grant of consent in SECTION 9 for an automatic change by letter to the taxpayer giving notice of revocation or modification, if the national office determines, as a result of the director's review under SECTION 12 or otherwise, that the letter ruling or grant of consent was issued in error or is not in accord with the current views of the IRS.

Except in rare or unusual circumstances, if a taxpayer that changes its method of accounting under this revenue procedure is subsequently required under this SECTION 10.03 to change (in the case of a revocation) 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;
- (2) the taxpayer neither misstated nor omitted any material facts;

(3) the material facts on which the consent was based have not changed;

(4) the applicable law has not changed; and

(5) the taxpayer to whom consent was granted acted in good faith in relying on the consent, and applying the change in method of accounting or modification retroactively would be to the taxpayer's detriment.

.04 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 11. REVIEW BY NATIONAL OFFICE

.01 Incomplete Form 3115.

(1) Requests for additional information. If the national office determines that a Form 3115 filed under this revenue procedure is not properly completed (see SECTION 6.02), 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 21 calendar days (in the case of a non-automatic change) or 30 calendar days (in the case of an automatic change) from the date of the notification to furnish the information. The national office may impose shorter reply periods for any subsequent requests for additional information. See also section 9.08 of Rev. Proc. 2014-1 (or successor).

(2) Extension of time to provide additional information. The national office may grant a taxpayer an extension of the 21-day or 30-day reply period to furnish information, not to exceed 15 calendar days (in the case of a non-automatic change) or 30 calendar days (in the case of an automatic change). A taxpayer must request any

extension of the reply period in writing and submit it to the national office person who requested the additional information within the initial reply period. If the national office denies an extension request, there is no right of appeal. See section 9.08(2) of Rev. Proc. 2014-1 (or successor).

(3) Failure to provide additional information. If the national office determines that the taxpayer failed to provide additional information on a timely basis, the national office will notify the taxpayer that the Form 3115 will no longer be considered (in the case of a non-automatic change) or consent to make the change in method of accounting is not granted (in the case of an automatic change).

.02 National office discretion to deny a request. The national office will deny any Form 3115 requesting consent to make a change in method of accounting in any situation in which the national office determines that permitting the requested change in method of accounting would not clearly reflect income or would otherwise not be in the interest of sound tax administration. As part of this determination, the national office will consider whether the change in method of accounting would clearly and directly frustrate compliance efforts of the IRS in administering the income tax laws. The national office will consider all the facts and circumstances and exercise discretion under §§ 446(e) and 481(c) in a manner that generally minimizes distortions of income across taxable years, as well as on an annual basis.

(1) Final year of a trade or business. The national office will not grant consent to a taxpayer to change its method of accounting or the method of accounting for a trade or business under the non-automatic change procedures for the taxable year the taxpayer ceases to engage in that trade or business unless the taxpayer demonstrates

compelling circumstances for the need to change its method of accounting or that the change in method of accounting is in the interest of sound tax administration. A change in method of accounting to facilitate a planned or pending business acquisition or other change in ownership in the year of change where the acquiring taxpayer or new owner(s) is not required to use the taxpayer's method of accounting, other than as described in SECTION 3.04(3), 3.04(4), or 3.04(5), is an example of circumstances that the national office ordinarily will not consider compelling.

(2) National office consideration of prior (requested) changes for the same item.

(a) Prior change in method of accounting implemented.

(i) In general. If within the five taxable years ending with the requested year of change, the taxpayer changed its method of accounting for the same item, the national office will consider the taxpayer's explanation for requesting consent to again change its method of accounting for that same item in determining whether to grant consent for the current request to change the taxpayer's method of accounting.

(ii) Limitation on LIFO inventory method of accounting change. If within the five taxable years ending with the requested year of change, the taxpayer previously changed from the LIFO inventory method of accounting, the national office will not consent to the taxpayer readopting the LIFO inventory method of accounting unless the taxpayer demonstrates unusual and compelling circumstances as part of its Form 3115 requesting a change to the LIFO inventory method of accounting.

(b) Prior method of accounting requests. If within the five taxable years ending with the requested year of change, the taxpayer withdrew or failed to perfect, or

the Commissioner denied, a prior request for consent for a change in method of accounting, the taxpayer did not return a signed Consent Agreement copy of a letter ruling, or the taxpayer did not implement a change in method of accounting for which the Commissioner granted consent, and the taxpayer files a Form 3115 under the non-automatic change procedures requesting consent to change the same item, the national office will consider the taxpayer's explanation for withdrawing or not perfecting the previous request(s), not returning the Consent Agreement, or not implementing the approved change in determining whether to grant consent for the current request for consent to change the taxpayer's method of accounting.

.03 National office determination.

(1) Conference in the national office. If the national office tentatively determines that the taxpayer's request for change in method of accounting filed under the automatic change procedure does not comply with all the applicable provisions for an automatic change (for example, the taxpayer changed to a method of accounting that varies from the applicable accounting method described in the List of Automatic Changes or the taxpayer is not eligible to use the automatic change procedures for the requested change) or that a request to change a method of accounting filed under the non-automatic change procedures may be denied, 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 a taxpayer other than an exempt organization, see section 10 of Rev. Proc. 2014-1 (or successor). For conference procedures for an exempt organization, see section 12 of Rev. Proc. 2014-4, 2014-1 I.R.B. 125 (or successor).

(2) Letter ruling and Consent Agreement.

(a) In general. Unless otherwise specifically provided, for a Form 3115 filed under the non-automatic change procedures, the national office will set forth the Commissioner's grant or denial of the taxpayer's request for the Commissioner's consent in a letter ruling. If the letter ruling grants the Commissioner's consent, it will identify the item or items being changed, the terms and conditions under which the taxpayer must implement the change, and the § 481(a) adjustment (if any). See §§ 1.446-1(e)(3) and 1.481-4. If the taxpayer agrees to the terms and conditions in the letter ruling, the taxpayer must sign and date a copy of the letter ruling (Consent Agreement copy). The signed Consent Agreement copy is an agreement (Consent Agreement) within the meaning of § 1.481-4(b). The taxpayer must return the Consent Agreement to the address provided in the letter ruling within 45 calendar days of the date of the letter ruling. In addition, the taxpayer must attach a copy of the Consent Agreement to the taxpayer's federal income tax return for the year of change, unless SECTION 11.03(2)(e) (letter ruling received after implementing change) applies. If SECTION 11.03(2)(e) applies, the taxpayer must comply with section 7.04(2) of Rev. Proc. 2014-1 (or successor) and attach a copy of the pending Form 3115 or permitted statement to the taxpayer's federal income tax return for the year of change. See also, SECTIONS 6.03(3)(b) and 6.03(3)(c) for certain foreign corporations and foreign partnerships. See generally section 9.17 of Rev. Proc. 2014-1 (or successor).

(b) Signature requirements. The Consent Agreement must be signed by, or on behalf of, the taxpayer making the request. The individual(s) signing the Consent

Agreement must have the authority to bind the taxpayer in such matters and the Consent Agreement may not be signed by the taxpayer's representative.

(c) Consent Agreement copy not signed or change not timely or properly implemented. The letter ruling granting consent to the taxpayer for a change in method of accounting is null and void without IRS notification to the taxpayer, except where notification is specifically provided in this SECTION 11.03(2)(c), if:

(i) The taxpayer does not sign and return the Consent Agreement copy within 45 calendar days of the date of the letter ruling (or other date as extended in SECTION 11.03(2)(d) or by the national office). In this situation, the national office will notify the taxpayer that the letter ruling granting consent to the taxpayer to change its method of accounting is null and void; or

(ii) The taxpayer timely returns the Consent Agreement but does not implement the change in method of accounting for which consent is granted in the letter ruling for the year of change specified in the letter ruling on the taxpayer's timely filed (including any extension) original federal income tax return for the year of change specified in the letter ruling, or on the taxpayer's amended federal income tax return for the year of change specified in the letter ruling by the later of:

(A) the due date of the taxpayer's timely filed (including any extension) original federal income tax return for the taxable year succeeding the year of change specified in the letter ruling; or

(B) one year from the date of the letter ruling granting consent for the change. However, when the period of limitations on the assessment of tax under § 6501 (statute of limitations under § 6501) for the year of change specified in the letter

ruling will expire within one year of the date of issuance of the letter ruling, the applicable date for this SECTION 11.03(2)(c)(ii)(B) is the date that the statute of limitations under § 6501 for the specified year of change expires.

The national office will grant additional time to implement the change in method of accounting for the year of change only if, and to the extent, the taxpayer demonstrates, in writing, that additional time is necessary, as long as the national office does not determine that granting additional time would be contrary to the interest of sound tax administration.

(d) Disagreement with terms and conditions. If the taxpayer disagrees with the terms and conditions in the letter ruling, within 45 calendar days from the date of the letter ruling, the taxpayer must notify the national office, in writing to the address in the letter ruling, of the disagreement and include an explanation of the reason(s). The national office will consider the reason(s) for the disagreement and notify the taxpayer whether the original letter ruling will be modified. If the national office does not modify the letter ruling, it will so notify the taxpayer and give the taxpayer 15 calendar days from the date of the notification to accept the original letter ruling by signing and returning the Consent Agreement copy. In applying the preceding sentence, the provisions of SECTIONS 11.03(2)(a) through (c) apply, except 15 calendar days is substituted for 45 calendar days in SECTIONS 11.03(2)(a) and 11.03(2)(c)(i).

(e) Letter ruling received after implementing change. A taxpayer that timely files a Form 3115 under the non-automatic change procedures and takes the requested change in method of accounting into account in its federal income tax return for the year of change (and any subsequent taxable year) prior to receiving a letter

ruling granting consent for that change has made a change in method of accounting without obtaining the consent of the Commissioner as required by § 446(e) (an “unauthorized change”). As provided in SECTION 12.02, the Director may determine when a change is not made in compliance with all the applicable provisions and may deny the unauthorized change. However, the Commissioner’s consent, issued subsequent to the requested year of change, applies back to the year of change (and any subsequent taxable year) as of the date of a letter ruling granting consent for that change if the taxpayer timely signs and returns the Consent Agreement copy and implements the change in accordance with all the applicable provisions and section 11 of Rev. Proc. 2014-1 (or successor). If the Commissioner does not grant consent under this revenue procedure for the change in method of accounting taken into account by the taxpayer, the taxpayer is subject to any interest, penalties, or other adjustments resulting from improper implementation of the change. See § 446(f).

(3) Consent not granted for an automatic change.

(a) In general. Except as provided in SECTIONS 11.03(1) and 11.03(3)(b), if the national office determines that a taxpayer filed a Form 3115 requesting consent to make an automatic change without complying with all the applicable provisions for an automatic change, the national office will notify the taxpayer that consent to make the change in method of accounting is not granted. In no event will a Form 3115 filed under the automatic change procedures be treated as a Form 3115 filed under the non-automatic change procedures.

(b) Exception. If the national office determines that a taxpayer filed a Form 3115 requesting consent to make an automatic change without complying with all

the applicable provisions for an automatic change, the national office, in its discretion, may allow the taxpayer to (a) make appropriate adjustments to conform its Form 3115 to comply with all the applicable provisions, and (b) make conforming amendments to any federal income tax returns filed for the year of change and subsequent taxable years. Any Form 3115 changed under this SECTION 11.03(3)(b) is subject to review by the director as provided in SECTION 12.

SECTION 12. REVIEW BY DIRECTOR

.01 In general. The director may determine whether the taxpayer complied with all the applicable provisions for the change in method of accounting, including, but not limited to:

(1) the facts and representations provided by the taxpayer on which the consent for the change in method of accounting is based reflect a complete and accurate statement of the material facts;

(2) the taxpayer properly determined the amount of the § 481(a) adjustment;

(3) the taxpayer implemented the change in method of accounting in compliance with all the applicable provisions;

(4) whether, during the period the taxpayer used the method of accounting for which consent was granted, there has been any change in the material facts on which consent for the change was based; and

(5) whether, during the period the taxpayer used the method of accounting for which consent was granted, there has been any change in the applicable law affecting the propriety of the taxpayer's use of the method of accounting for which consent was granted.

Except as provided in SECTION 12.02, the director must apply a change made in compliance with all the applicable provisions in determining the taxpayer's federal income tax liability, unless the director recommends that the change should be modified or revoked (see SECTION 10.03).

.02 Change not made in compliance with all applicable provisions.

(1) In general. If the director determines that the taxpayer did not comply with all the applicable provisions for the change in method of accounting, including the requirement to timely return the Consent Agreement (see SECTION 11.03(2)), or did not implement the change in method of accounting in compliance with all the applicable provisions, the director may:

(a) make any adjustments (including the amount of any § 481(a) adjustment) that are necessary to bring the change in method of accounting into compliance with all the applicable provisions;

(b) deny the change in method of accounting and place the taxpayer on a proper method of accounting (see Rev. Proc. 2002-18 (or any successor)); or

(c) deny the change in method of accounting and require the taxpayer to continue to use the prior method of accounting (see Rev. Proc. 2002-18 (or any successor)).

(2) Improperly determined § 481(a) adjustment. Notwithstanding SECTIONS 12.01 and 12.02(1), the director may make any necessary correction to the amount of any § 481(a) adjustment pursuant to SECTION 12.02(1)(a) and may make any other adjustment(s) that are necessary to properly implement the change in method of accounting for which consent is granted. If the director makes such a necessary

correction to the amount of the § 481(a) adjustment, the director may take the entire amount necessary to correct the § 481(a) adjustment into account in computing the taxpayer's taxable income for the earliest taxable year in the § 481(a) adjustment period that is under examination, regardless of whether the statute of limitations under § 6501 has expired for one or more taxable years in the § 481(a) adjustment period.

Example. A taxpayer obtained consent to change its method of accounting under this revenue procedure with a Year 1 year of change. The taxpayer determined that the § 481(a) adjustment for this change in method of accounting is a positive adjustment of \$75,000, to be taken into account ratably over four taxable years, pursuant to SECTION 7.03(1). The taxpayer is under examination for Year 2. The statute of limitations under § 6501 has expired for Year 1. As part of the examination of Year 2, the examining agent determines that the correct § 481(a) adjustment for this change in method of accounting is a positive adjustment of \$100,000. The examining agent may take the entire amount of the \$25,000 correction to the § 481(a) adjustment into account in the taxpayer's taxable income for Year 2.

(3) Penalties and additions to tax. If the director denies the change in method of accounting pursuant to SECTION 12.02(1) or corrects the § 481(a) adjustment under SECTIONS 12.02(1)(a) and 12.02(2), the director may impose any otherwise applicable penalty, addition to tax, or additional amount on the understatement of tax attributable to the denial of the change in method of accounting or the net amount of any necessary correction(s) to the § 481(a) adjustment.

(4) Referral to the national office. If the director recommends that a change made in compliance with all the applicable provisions should be modified or revoked, the director will forward the matter to the national office for consideration before taking any further action, unless the modification relates solely to the amount of the § 481(a) adjustment. The referral to the national office is a request for technical advice and the provisions of Rev. Proc. 2014-2 (or successor) apply.

SECTION 13. REQUEST TO REVISE THE YEAR OF CHANGE FOR A NON-AUTOMATIC CHANGE

.01 In general. The taxpayer may request, and the national office ordinarily will allow, the taxpayer to revise the year of change for a Form 3115 for a non-automatic change to a subsequent taxable year, but no later than the taxpayer's current taxable year (with no additional user fee), in lieu of submitting a new Form 3115 for the subsequent taxable year, under the following conditions:

(1) Timely written request.

(a) In general. The taxpayer must submit a written request pursuant to SECTION 13.03 to revise the year of change for a Form 3115 on or after, but not before, the first day of the fourth month following the month in which the taxpayer's federal income tax return is due (excluding any extension) for the original year of change requested on the Form 3115. For example, a calendar year corporation that files a Form 3115 on December 16, 2014, for a 2014 year of change may submit a written request to revise the year of change to 2015 on or after, but not before, July 1, 2015.

(b) Form 3115 filed on or before the last day of the sixth month of the year of change. If the taxpayer filed its Form 3115 on or before the last day of the sixth month of the year of change, the taxpayer may submit a written request pursuant to SECTION 13.03 to revise the year of change on or after, but not before, the first day of the taxable year following the original year of change requested on the Form 3115. For example, a calendar year taxpayer that files a Form 3115 on June 28, 2014, for a 2014 year of change may submit a written request to revise the year of change to 2015 on or

after, but not before, January 1, 2015. This SECTION 13.01(1)(b) does not apply to a taxpayer filing a Form 3115 for a year of change that is a short taxable year.

(2) Pending Form 3115. The Form 3115 is pending in the national office (for example, the national office has not issued a letter ruling) on the date of the request.

(3) Acceleration and revision of § 481(a) adjustment. Unless the Commissioner has determined that the requested change in method of accounting will be made using a cut-off method or a modified cut-off method:

(a) The taxpayer must agree, in writing, to accelerate into the revised year of change the percentage of any positive § 481(a) adjustment the taxpayer would have taken into account for each prior taxable year under SECTION 7.03(1) had the taxpayer not revised the year of change, in an amount limited to seventy-five percent of the § 481(a) adjustment. However, the seventy-five percent limitation in this SECTION 13.01(3)(a) for the revised year of change will not apply if the taxpayer requests to revise the year of change to a taxable year for which a provision of this revenue procedure, the Code, or other guidance published in the IRB, requires a § 481(a) adjustment period of two years or less (see, for example, SECTIONS 7.03(3)(b) and 7.03(4)(a)); and

(b) The taxpayer must agree to provide, in a submission of additional information, the § 481(a) adjustment (positive or negative) for the revised year of change within 21 calendar days (or a longer period if agreed to by the national office) after the national office first notifies the taxpayer that its request to revise the year of change is approved.

(4) Examples.

Example 1. A taxpayer requested to revise the year of change for a Form 3115 for a non-automatic change that is pending in the national office to the first succeeding taxable year. The taxpayer must agree to take into account one-half of any positive § 481(a) adjustment in the revised year of change and one-fourth in each of its next two taxable years.

Example 2. A taxpayer requested to revise the year of change for a Form 3115 for a non-automatic change that is pending in the national office to the third succeeding taxable year. The taxpayer must agree to take into account three-fourths of any positive § 481(a) adjustment in the revised year of change and the remaining one-fourth in the next taxable year.

(5) Multiple applicants on one Form 3115. If the Form 3115 is for an identical change in method of accounting for more than one applicant, the taxpayer must request to revise the year of change for all applicants to which the Form 3115 relates.

.02 Compelling circumstances. In the case of a taxpayer that does not meet the applicable condition in SECTION 13.01(1)(a), a taxpayer with compelling circumstances may request to revise the year of change for the Form 3115, in lieu of submitting a new Form 3115 for the proposed revised year of change. The taxpayer must demonstrate those compelling circumstances in its written request.

Example. On October 31, 2014, a calendar year partnership with 50 individual partners timely files a Form 3115 for a non-automatic change under this revenue procedure for its 2014 taxable year. The partnership's Form 1065, U.S. Return of Partnership Income, and Schedules K-1, Partner's Share of Income, Deductions, Credits etc., and the partners' Forms 1040, U.S. Individual Income Tax Return, for the requested year of change are all due April 15, 2015. The partnership is not extending this due date. On March 17, 2015, the partnership submits a request to revise the year of change for its pending Form 3115 to its 2015 taxable year. Because the Form 3115 is pending in the national office 30 calendar days prior to the due date of the partners' Forms 1040, the partnership will be unable to provide timely Schedules K-1 that take into account the proposed accounting method change before the partners prepare and file their 2014 Forms 1040 to take into account the partnership's requested change in method of accounting for the 2014 taxable year. Under these compelling circumstances, the national office will ordinarily allow the partnership to revise the year of change for its Form 3115 to its 2015 taxable year. If the accounting method change is approved for the partnership's 2015 taxable year, in lieu of taking into account any positive § 481(a) adjustment over four taxable years, the partnership must take into

account one-half of any positive § 481(a) adjustment in its 2015 taxable year and one-fourth in each of its next two taxable years.

.03 Submitting a request for a revised year of change. A request to revise the year of change for a Form 3115 pending in the national office must include:

(1) The name of the Form 3115 filer and, if applicable, each applicant, on the Form 3115;

(2) The national office reference number (for example, CAM-123456-14);

(3) The name of the national office contact person for the Form 3115 (if known);

(4) The due date (excluding any extension) for the Form 3115 filer's federal income tax return for the year of change;

(5) Whether in the proposed revised year of change the taxpayer will cease to engage in the trade or business to which the change in method of accounting relates (see SECTION 3.04);

(6) A statement agreeing to the applicable conditions in SECTION 13.01(3);

(7) If the request is being submitted pursuant to SECTION 13.02, the compelling circumstances on which the request is based;

(8) The information required in section 9.09 of Rev. Proc. 2014-1 (or successor), as applicable;

(9) The penalties of perjury statement in section 9.08(3) of Rev. Proc. 2014-1 (or successor); and

(10) If applicable, a completed Form 2848, Power of Attorney and Declaration of Representative, for the revised year of change.

The request must be either submitted to the applicable address in section 9.08(6) of Rev. Proc. 2014-1 (or successor) or faxed to a fax number provided by the national office contact person for the pending Form 3115. If faxed, a copy of the request and an original signed penalties of perjury statement must also be mailed or delivered to the applicable address in section 9.08(6) of Rev. Proc. 2014-1 (or successor).

.04 Notification of approval or denial. The national office will notify the taxpayer of the approval or denial of the taxpayer's request to revise the year of change for a pending 3115.

.05 National office's discretion to deny a request. The national office may deny a taxpayer's request for a revised year of change for a pending Form 3115 if the national office determines it would not be in the interest of sound tax administration to allow the taxpayer to revise the year of change. A taxpayer is not entitled to a conference with the national office if the request to revise the year of change for a pending Form 3115 is denied.

SECTION 14. APPLICABILITY OF REV. PROC. 2014-1 AND REV. PROC. 2014-4

Rev. Proc. 2014-1 and Rev. Proc. 2014-4 (or successors) apply to a Form 3115 filed under this revenue procedure, except as specifically provided by this revenue procedure or other guidance published in the IRB.

SECTION 15. EFFECTIVE DATE

.01 In general. Except as provided in SECTION 15.02, this revenue procedure is effective for Forms 3115 filed on or after January 16, 2015, for a year of change ending on or after May 31, 2014.

.02 Transition rules.

(1) Additional time to file Forms 3115 under either Rev. Proc. 97-27 or this revenue procedure for taxable years ending on or after November 30, 2014, and ending on or before January 16, 2015. Notwithstanding § 1.446-1(e)(3)(i), a taxpayer may file a Form 3115 to request the Commissioner's consent to change a method of accounting under the procedures of Rev. Proc. 97-27 or this revenue procedure for a taxable year ending on or after November 30, 2014, and on or before January 16, 2015, until March 2, 2015. A taxpayer applying this transition rule in SECTION 15.02(1) must: (a) write on the top of page 1 of the Form 3115: "Filed under this SECTION 15.02(1) of Rev. Proc. 2015-13", and (b) include a statement with the Form 3115 indicating whether the Form 3115 is filed under the procedures of Rev. Proc. 97-27 or Rev. Proc. 2015-13.

After March 2, 2015, a taxpayer may not request the Commissioner's consent to change a method of accounting under the procedures of Rev. Proc. 97-27.

(2) Limited time to convert a Form 3115 filed under Rev. Proc. 97-27. Unless the national office determines that it would not be in the interest of sound tax administration, a taxpayer may convert a Form 3115 filed under Rev. Proc. 97-27 to a request for consent under this revenue procedure for the same requested change in method of accounting and year of change if the taxpayer is otherwise eligible to use this revenue procedure and:

(a) the Form 3115 was filed before January 16, 2015, and the Form 3115 is pending with the national office on January 16, 2015, or

(b) the Form 3115 was filed on or after January 16, 2015, and on or before March 2, 2015.

A taxpayer may convert a Form 3115 under this SECTION 15.02(2) to the non-automatic change procedures, if eligible, by notifying the national office contact person (if unknown, see section 9.08(6) of Rev. Proc. 2014-1 (or successor)) before the later of (a) March 31, 2015, or (b) the issuance of a letter ruling granting or denying consent for the change. The notification should indicate that the taxpayer chooses to convert the Form 3115 to conform to the non-automatic change procedures.

A taxpayer may convert a Form 3115 under this SECTION 15.02(2) to the automatic change procedures, if eligible, by notifying the national office contact person (if unknown, see section 9.08(6) of Rev. Proc. 2014-1 (or successor)) before the later of (a) March 31, 2015, or (b) the issuance of a letter ruling granting or denying consent for the change. The notification should indicate that the taxpayer chooses to convert the Form 3115 to conform to the automatic change procedures. If the taxpayer timely notifies the national office that it chooses to convert the Form 3115 under this SECTION 15.02(2) to the automatic change procedures, the national office will send a letter to the taxpayer acknowledging its request and will return the user fee submitted with the Form 3115.

A taxpayer converting a Form 3115 under this SECTION 15.02(2) to the automatic change procedures must resubmit a Form 3115 that conforms to the automatic change procedures, with a copy of the national office letter sent acknowledging the taxpayer's request under this SECTION 15.02(2) attached, to the IRS in Ogden, UT by the earlier of (a) the 30th calendar day after the date of the national office's letter acknowledging the taxpayer's request under this SECTION 15.02(2), or (b) the date the taxpayer is required to file the Ogden copy of the Form

3115 under SECTION 6.03(1)(a)(i)(B). See SECTION 6.03(3) regarding additional required copies of Form 3115.

For purposes of the eligibility rules in SECTION 5, the Ogden copy of the timely resubmitted Form 3115 under this SECTION 15.02(2) will be considered filed as of the date the taxpayer originally filed the converted Form 3115 under Rev. Proc. 97-27. This SECTION 15.02(2) does not extend the date the taxpayer must file the original (converted) Form 3115 under SECTION 6.03(1)(a)(i)(A).

A Form 3115 filed under Rev. Proc. 97-27 or Rev. Proc. 2011-14 before January 16, 2015, will be disregarded for purposes of the prior five year change rules in SECTIONS 5.04 and 5.05 if the taxpayer converts the Form 3115 pursuant to this SECTION 15.02(2).

(3) Early election of one-year § 481(a) adjustment period for certain Forms 3115 filed under Rev. Proc. 97-27 and Rev. Proc. 2011-14. If a taxpayer filed a Form 3115 under Rev. Proc. 97-27 or the national office or Ogden copy of a Form 3115 filed under Rev. Proc. 2011-14 for a taxable year ending on or after May 31, 2014, and has not filed its original federal income tax return for the year of change implementing the change in method of accounting, the taxpayer may:

(a) apply the de minimis election in SECTION 7.03(3)(c), which permits a one-year § 481(a) adjustment period (year of change) for a positive § 481(a) adjustment that is less than \$50,000 to that Form 3115. A taxpayer applying this SECTION 15.02(3)(a) must include a statement with its federal income tax return for the year of change indicating that the Form 3115 is filed under the provisions of SECTION 15.02(3)(a) of Rev. Proc. 2015-13.

(b) apply the eligible acquisition transaction election in SECTION 7.03(3)(d), which permits a one-year § 481(a) adjustment period (year of change) for a positive § 481(a) adjustment if, during the year of change or in the subsequent taxable year on or before the due date (including any extension), for filing the taxpayer's federal income tax return for the year of change, an eligible acquisition transaction, as defined in SECTION 7.03(3)(d)(iii), occurs. A taxpayer applying this SECTION 15.02(3)(b) must include a statement with its federal income tax return for the year of change indicating that the Form 3115 is filed under the provisions of SECTION 15.02(3)(b) of Rev. Proc. 2015-13.

(4) Request to revise the year of change for a Form 3115 filed under Rev. Proc. 97-27 on or before the last day of the 6th month of the year of change. A taxpayer with a Form 3115 filed under Rev. Proc. 97-27 pending with the national office on January 16, 2015, may request to revise the year of change under SECTION 13.01(1)(b), subject to the taxpayer satisfying the other conditions of SECTION 13.

(5) Open 90-day window period. If, on January 16, 2015, a taxpayer is within the 90-day window period provided in section 6.01(2) of Rev. Proc. 97-27 or section 6.03(2) of Rev. Proc. 2011-14, the taxpayer may file a Form 3115 under this revenue procedure during the remainder of that 90-day window period, if the taxpayer is otherwise eligible to file under both (a) section 6.01(2) of Rev. Proc. 97-27 or section 6.03(2) of Rev. Proc. 2011-14 and (b) this revenue procedure on the date the taxpayer files the Form 3115. All provisions of this revenue procedure, including the terms and conditions, will apply to a Form 3115 filed pursuant to this SECTION 15.02(5) on or after January 16, 2015, except as provided in SECTIONS 15.02(1) and 15.02(2). If the

taxpayer files a Form 3115 during the remainder of an open 90-day window period pursuant to this SECTION 15.02(5), the taxpayer should include a statement with its Form 3115 indicating that it is filed under the provisions of SECTION 15.02(5) of Rev. Proc. 2015-13.

SECTION 16. EFFECT ON OTHER DOCUMENTS

.01 This revenue procedure in conjunction with Rev. Proc. 2015-14 amplifies, clarifies, and modifies Rev. Proc. 2011-14. Rev. Proc. 2011-14 as amplified, clarified, and modified is superseded in part. The second sentences of sections 14.01 and 14.02, and sections 14.04, 14.05, 14.06, and 14.07 remain in effect. All other sections of Rev. Proc. 2011-14 are superseded.

.02 Rev. Proc. 97-27 is clarified and modified and, as clarified and modified, is superseded.

SECTION 17. PAPERWORK REDUCTION ACT

The collections of information contained in this revenue procedure have 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 1545-1541.

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, 7, 8, 11, 13, and 15. This information is required to determine whether the taxpayer's proposed method of accounting is permissible. This information will be used by the national office to determine whether to consent to a change in accounting method and

the appropriate terms and conditions for the change. The collections of information are required to obtain consent to the accounting method change. The likely respondents are the following: individuals, farms, business or other for-profit organizations, non-profit institutions, and small businesses or organizations.

The estimated total annual reporting burden is 18,554 hours.

The estimated annual burden per respondent varies from 1/4 of an hour to 5 hours, depending on individual circumstances, with an estimated average of approximately 1 2/3 hours. The estimated number of respondents is 11,443.5.

The estimated annual frequency of responses is occasional.

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

SECTION 18. SIGNIFICANT CHANGES

.01 Changes affecting both Rev. Proc. 2011-14 and Rev. Proc. 97-27.

(1) SECTION 3.04(2)(f) clarifies that a sale or exchange of 50 percent or more of the total interest in partnership capital and profits under § 708(b)(1)(B) is a transaction that constitutes the cessation of a partnership's trade or business for purposes of this revenue procedure.

(2) SECTION 3.08 clarifies and modifies the rules for when a method of accounting for an item is under consideration to provide that an issue is under consideration as of the date of the operative written notification to the taxpayer.

(3) SECTION 3.08(1) clarifies that an item ceases to be an issue under consideration after an examination ends unless the examining agent provides the

taxpayer with written notification that the item is an issue placed in suspense.

SECTION 3.08(1) also clarifies that a corporation that is or was formerly a member of a consolidated group has an issue under consideration before Examination if the same item is an issue under consideration before Examination for any member of that consolidated group for the taxable year(s) that the corporation was a member of the consolidated group. SECTION 3.08(1) also clarifies that an entity (including a limited liability company) treated as a partnership or an S corporation for federal income tax purposes also has an issue under consideration before Examination if the same item is an issue under consideration in an examination of a partner, member, or shareholder's federal income tax return.

(4) SECTIONS 3.08(2) and 3.08(3) clarify that, for an entity treated as a partnership or S corporation, a method of accounting is an issue under consideration before an Appeals office or a federal court if it is an issue under consideration by an Appeals office or a federal court for a partner, member, or shareholder's federal income tax return.

(5) SECTION 3.08(3) also clarifies that a corporation that is or was formerly a member of a consolidated group is before a federal court during the period of time the consolidated group is before a federal court for the taxable year(s) it was a member of the consolidated group.

(6) SECTION 3.17(2) clarifies the term "taxpayer" in the context of a member of a consolidated group. In the case of a consolidated group, except as otherwise provided in this revenue procedure, "taxpayer" refers to the individual member of the consolidated group for which the change in method of accounting is requested or the

common parent of the group acting on behalf of that member. For example, to determine eligibility for a window period in SECTION 8.02(1)(a) or 8.02(1)(b) the length of time a member of a consolidated group has been under examination is calculated at the member level, which may be different from the length of time, if any, the member's current common parent has been under examination.

(7) SECTION 3.18(5) clarifies the rule that a taxpayer continues to be under examination when Examination reports the taxable year(s) under examination to the Joint Committee on Taxation.

(8) SECTION 5.01 modifies the rules for when a taxpayer under examination may file a Form 3115 by replacing "issue pending" and "consent of director" in Rev. Proc. 97-27 and Rev. Proc. 2011-14 with broad eligibility rules that allow taxpayers under examination to request changes in method of accounting. However, see SECTIONS 7.03(3)(b) and 8.02(1).

(9) SECTIONS 6.03(1)(a)(ii), 6.03(1)(a)(iii), 6.03(3)(b), and 6.03(3)(c) clarify the rules for how foreign corporations and foreign partnerships that are not required to file a federal income tax return file a Form 3115 and their controlling domestic shareholders and partners comply with the filing and other requirements regarding Forms 3115 and Consent Agreements.

(10) SECTION 7.03(2)(c) modifies the rules for the treatment of a § 481(a) adjustment regarding a § 381(a) transaction within a consolidated group in which the method of accounting that gave rise to a § 481(a) adjustment is carried over and used by the acquiring corporation. In that case, the portion of the § 481(a) adjustment attributable to the short taxable year of the transferor ending on the date of the § 381(a)

transaction is treated as an intercompany item as defined in § 1.1502-13(b)(2) and taken into account under the § 1.1502-13 rules.

(11) SECTION 7.03(3)(b) modifies the § 481(a) adjustment period for taxpayers under examination with positive § 481(a) adjustments. In that case, the § 481(a) adjustment period is two taxable years, unless the Form 3115 is filed in a three-month or 120-day window, the present method is not before the director, or the applicant is a new member of a consolidated group in CAP.

(12) SECTION 7.03(3)(c) modifies the de minimis election for a one-year adjustment period for a positive § 481(a) adjustment to make it available for a positive § 481(a) adjustment that is less than \$50,000.

(13) SECTION 7.03(3)(d) provides an optional election for a one-year adjustment period for a positive § 481(a) adjustment for taxpayers with an eligible acquisition transaction. Also, SECTION 6.03(4)(b) provides that a taxpayer is not eligible to make a late election except in unusual and compelling circumstances.

(14) SECTION 7.06 provides, consistent with existing practice, a term and condition that requires a taxpayer to maintain accounting records for the year of change and subsequent taxable years to support the method of accounting for which consent is granted to the taxpayer.

(15) SECTIONS 7.07, 7.08, and 7.09 provide, consistent with existing practice, additional terms and conditions specific to (a) certain foreign corporations, (b) trades or businesses of a domestic corporation, domestic partnership, or other United States person that affect the amount of foreign source taxable income, and (c) foreign partnerships.

(16) SECTION 8.02(1)(a) modifies the rules for when a taxpayer under examination filing a Form 3115 may receive audit protection by replacing the 90-day window that began on the first day of the taxpayer's taxable year in Rev. Proc. 97-27 and Rev. Proc. 2011-14 with a three-month window that applies to taxpayers that have been under examination for at least 12 consecutive months as of the first day of the three-month window. In general, the three-month window begins on the fifteenth day of the seventh month of the taxable year and ends on the fifteenth day of the tenth month of the taxable year, to correspond to the extended due date of a taxpayer's federal income tax return. In addition, a CFC or 10/50 corporation that has had an issue under consideration within the meaning of SECTION 3.08(4) for at least 24 consecutive months and all of its controlling domestic shareholders that are under examination have been under examination for at least 24 consecutive months is eligible to change its method of accounting during the three-month window if the method of accounting is not an issue under consideration within the meaning of SECTION 3.08(1) or an item placed in suspense.

(17) SECTION 8.02(1)(b) is modified to make a CFC or 10/50 corporation ineligible for the 120-day window.

(18) SECTIONS 8.02(1)(c), 8.02(1)(e), and 8.02(1)(f) modify the rules for when a taxpayer under examination filing a Form 3115 may receive audit protection outside of a window period. These rules replace the previous requirement that the taxpayer acquire the director's statement consenting to the filing of the Form 3115 prior to filing the Form 3115.

(19) SECTION 8.02(1)(d) modifies the rules for when a taxpayer under examination filing a Form 3115 may receive audit protection by permitting the parent of a consolidated group to request a change in method of accounting on behalf of a consolidated group member that is under examination solely because it joined the consolidated group in a taxable year for which the group is participating in the CAP. However, the member's method of accounting to be changed must not be an issue under consideration. SECTION 6.03(2)(a)(ii) provides a limited time frame after the member joins the consolidated group for the parent to file the Form 3115 for a year of change that is the taxable year the corporation became a member of the consolidated group, which in some cases permits the common parent of the consolidated group to file the Form 3115 up to 30 calendar days after the end of the taxable year.

(20) SECTION 8.02(5) modifies the rules for audit protection to provide that the IRS may require a CFC or 10/50 corporation to change its method of accounting for a taxable year preceding the requested year of change if any of the controlling domestic shareholders computed an amount of foreign taxes deemed paid with respect to the CFC or 10/50 corporation that exceeds 150 percent of the average amount of foreign taxes deemed paid by the shareholder with respect to the CFC or 10/50 corporation for the three preceding taxable years.

(21) SECTION 12.02(2) clarifies the rules for a § 481(a) adjustment to provide that if the director makes a correction to the amount of the § 481(a) adjustment, ordinarily the director will take the entire amount of the correction into account for the earliest taxable year in the § 481(a) adjustment period that is under examination,

regardless of whether the statute of limitations on the assessment of tax under § 6501 has not expired for one or more taxable years in the adjustment period.

.02 Other changes affecting Rev. Proc. 2011-14.

(1) SECTIONS 5.01 and 8.02(1) clarify, consistent with the IRS's longstanding interpretation of Rev. Proc. 2011-14, that waiver of a scope limitation under Rev. Proc. 2011-14 or an eligibility requirement under this revenue procedure does not affect whether the taxpayer receives audit protection for the change in method of accounting.

(2) SECTIONS 5.04(2) and 5.05(2) clarify that a taxpayer may file a Form 3115 under the automatic change procedures notwithstanding the fact that the taxpayer previously filed a Form 3115 under the non-automatic change procedures for the same change in method of accounting and for the same year of change, in limited specified circumstances.

(3) SECTION 6.01 modifies section 6.02(1) of Rev. Proc. 2011-14 to require taxpayers to file a Form 3115 in all cases when requesting consent under the automatic change procedures. However, when permitted in the applicable section of the List of Automatic Changes, a taxpayer may file a short Form 3115. See SECTION 3.07(2).

(4) SECTION 6.03(1)(a)(i)(B) modifies section 6.02(3)(a)(ii) of Rev. Proc. 2011-14 to require taxpayers to file a copy of the Form 3115 with the IRS in Ogden, UT for all changes in method of accounting requested under the automatic change procedures.

(5) SECTION 6.03(1)(e) clarifies how taxpayers submit additional correspondence regarding a Form 3115 filed under the automatic change procedures to Ogden, UT.

(6) The list of automatic changes in method of accounting, formerly in the APPENDIX of Rev. Proc. 2011-14, is now in Rev. Proc. 2015-14 (List of Automatic Changes).

.03 Other changes affecting Rev. Proc. 97-27.

(1) SECTIONS 5.03 and 11.02(1) provide, consistent with the IRS's longstanding practice, that ordinarily the IRS will not consent to a taxpayer changing a method of accounting in the year it ceases to engage in a trade or business to which the change would relate.

(2) SECTION 11.03(2)(c) modifies section 8.11 of Rev. Proc. 97-27 to generally invalidate a Consent Agreement if the taxpayer does not implement the change in method of accounting by the later of either the due date of the taxpayer's federal income tax return for the taxable year succeeding the year of change or one year from the date of issuance of the letter ruling.

(3) SECTION 13.01(1)(b) modifies the rules for revising the year of change to provide that, if a taxpayer files its Form 3115 on or before the last day of the sixth month of the year of change, it may submit a written request to revise the year of change on or after, but not before, the first day of the taxable year following the original year of change.

(4) SECTION 13.01(3) modifies the § 481(a) acceleration requirement for a revised year of change to generally require that no more than seventy-five percent of a positive § 481(a) adjustment be taken into account in the revised year of change.

DRAFTING INFORMATION

The principal author of this revenue procedure is Christopher W. Call of the Office of Associate Chief Counsel (Income Tax and Accounting). For further information regarding this revenue procedure, contact Mr. Call at (202) 317-7007 (not a toll-free call).