

26 CFR 601.204: Changes in accounting periods and methods of accounting
(Also Part I, §§ 263A, 446, 481; 1.263A-4, 1.446-1)

Rev. Proc. 2013-20

SECTION 1. PURPOSE

This revenue procedure modifies Revenue Procedure 2011-14, 2011-4 I.R.B. 330, to provide procedures for a taxpayer to obtain the automatic consent of the Commissioner under § 446(e) of the Internal Revenue Code to change its method of accounting under § 263A for the production of one or more plants removed from the list of plants grown in commercial quantities in the United States having a preproductive period in excess of two years based on the nationwide weighted average preproductive period for such plant.

SECTION 2. BACKGROUND

.01 Section 263A requires generally that the direct costs and an allocable share of indirect costs of real or tangible personal property produced by a taxpayer be capitalized. Under § 263A, taxpayers generally are required to capitalize the costs of producing property in a farming business (including animals and plants without regard to the length of their preproductive period).

.02 Sections 263A(d) and (e) set forth special rules for property produced in the

trade or business of farming. Under § 263A(d)(1) and § 1.263A-4(a)(2), taxpayers that are not required by § 447 to use an accrual method of accounting and are not tax shelters prohibited by § 448(a)(3) from using the cash receipts and disbursements method of accounting (“qualified taxpayers”) are not required to capitalize (1) the costs of producing animals in a farming business, or (2) the costs of producing plants with a preproductive period of 2 years or less. In addition, under § 263A(d)(3) and § 1.263A-4(d), a qualified taxpayer may elect to have § 263A not apply to the cost of producing plants in a farming business (other than citrus or almond trees). Thus, unless an election is made to have § 263A not apply in accordance with § 263A(d)(3), qualified taxpayers generally are required to capitalize the costs of producing plants that have a preproductive period in excess of 2 years.

.03 Section 263A(e)(3)(B) and § 1.263A-4(b)(2)(i)(B) provide that, for purposes of determining whether a plant has a preproductive period in excess of 2 years, the preproductive period of plants grown in commercial quantities in the United States must be based on the nationwide weighted average preproductive period for such plants. The legislative history of § 263A explains that Congress expected the Treasury Department to periodically publish a list of the preproductive periods of various plants based on the nationwide weighted averages for such plants. See H.R. Rep. No. 426, 99th Cong., 1st Sess. 628 (1985), 1986-3 (Vol. 2) C.B. 628. A proposed list was included in the preamble of the proposed § 1.263A-4 regulations (REG-208151-91, 1997-2 C.B. 35 [62 Fed. Reg. 44542]). The Internal Revenue Service (Service) and Treasury Department received and considered comments on the proposed list in

preparing Notice 2000-45.

.04 In Notice 2000-45, 2000-2 C.B. 256, the Service and the Treasury Department published a nonexclusive list of plants having a nationwide weighted average preproductive period in excess of 2 years.

.05. Concurrently with the issuance of this revenue procedure, the Service and the Treasury Department are issuing Notice 2013-18 (2013-14 I.R.B. ___), modifying and superseding Notice 2000-45. Notice 2013-18 removes blackberry, raspberry, and papaya plants from the list of plants that produce crops or yields that have a nationwide weighted average preproductive period in excess of 2 years.

.06 Not applying § 263A to the production of a plant pursuant to § 263A(d)(1) and § 1.263A-4(a)(2) is a method of accounting under § 446. Therefore, a taxpayer that currently applies § 263A to the costs of producing plants with a preproductive period of 2 years or less must obtain the consent of the Commissioner to not apply § 263A to such costs.

.07 The election pursuant to § 263A(d)(3) and § 1.263A-4(d) to not have the rules of § 263A(d) apply to all plants produced in a farming business conducted by the electing taxpayer is a method of accounting under § 446, and once an election is made, it is revocable only with consent of the Commissioner.

.08 Section 1.446-1(e)(3)(ii) authorizes the Commissioner to prescribe administrative procedures setting forth the limitations, terms, and conditions necessary to permit a taxpayer to obtain consent to change a method of accounting. Revenue Procedure 2011-14 provides the procedures by which a taxpayer may obtain automatic

consent from the Commissioner to change to a method of accounting described in the APPENDIX of Rev. Proc. 2011-14.

SECTION 3. MODIFICATION TO REV. PROC. 2011-14

Revenue Procedure 2011-14 is modified to add new section 11.08 of the APPENDIX to read as follows:

.08 Change to not apply § 263A to one or more plants removed from the list of plants that have a preproductive period in excess of 2 years.

(1) Description of change. This change applies to a taxpayer that is not a corporation, partnership, or tax shelter required to use an accrual method of accounting under § 447 or § 448(a)(3), and either (a) wishes to obtain the consent of the Commissioner to not apply § 263A, pursuant to § 263A(d)(1) and § 1.263A-4(a)(2), to the production of one or more plants that the Service and the Treasury Department have removed from the list of plants that have a nationwide weighted average preproductive period in excess of 2 years, or (b) properly elected, pursuant to § 263A(d)(3) and § 1.263A-4(d), to not apply § 263A to the production of a plant or plants that have been removed from the list of plants that have a nationwide weighted average preproductive period in excess of 2 years, and wishes to revoke its § 263A(d)(3) election with respect to those plants. See Notice 2013-18, or its successor.

(2) Certain scope limitations temporarily inapplicable. The scope limitations in sections 4.02(1) through (4) and (7) of this revenue procedure do not apply to a taxpayer that wants to make the change for its first or second taxable year ending after

February 15, 2013.

(3) Audit protection. If a taxpayer currently does not apply § 263A to its blackberry, raspberry, or papaya plants in a manner that complies with the requirements of § 263A(d)(1) and § 1.263A-4(a)(2), such method of accounting will not be raised as an issue by the Service in a taxable year that ends on or before February 15, 2013. Also, if the use of such a method of accounting by a taxpayer is an issue under consideration (within the meaning of section 3.08 of this revenue procedure) for taxable years in examination, before an Appeals office, or before the U.S. Tax Court in a taxable year that ends on or before February 15, 2013, that issue will not be pursued further by the Service.

(4) Manner of making change. A change under this section 11.08 is made with any necessary adjustments under section 481(a). For example, the revocation of an election under section 263A(d)(3) results in a section 481(a) adjustment that must take into account the change in depreciation from the alternative depreciation system to the general depreciation system included within such revocation.

(5) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under section 11.08 of this APPENDIX is "181." See section 6.02(4) of this revenue procedure.

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

SECTION 4. EFFECT ON OTHER DOCUMENTS

Rev. Proc. 2011-14 is modified.

SECTION 5. EFFECTIVE DATE

This revenue procedure is effective for taxable years ending after February 15, 2013, the date this revenue procedure was announced by news release.

SECTION 6. DRAFTING INFORMATION

The principal author of this revenue procedure is Patrick M. Clinton of the Office of Associate Chief Counsel (Income Tax & Accounting). For further information regarding this revenue procedure contact Patrick M. Clinton at 202-622-4950 (not a toll free call).