

# INTERNAL REVENUE BULLETIN



## HIGHLIGHTS OF THIS ISSUE

These synopses are intended only as aids to the reader in identifying the subject matter covered. They may not be relied upon as authoritative interpretations.

**Bulletin No. 2022-7**  
**February 14, 2022**

### ADMINISTRATIVE

#### **Rev. Proc. 2022-12, page 494.**

This revenue procedure provides simplified electronic and paper filing procedures for individuals not otherwise required to file 2021 Federal income tax returns to facilitate their ability to claim the child tax credit, 2021 recovery rebate credit, and earned income credit. In addition, this revenue procedure provides a special electronic filing procedure for individuals with zero adjusted gross income that permits them to file complete 2021 Federal income tax returns electronically.

### EMPLOYEE PLANS

#### **Notice 2022-8, page 491.**

The notice sets forth the 2022 Cumulative List of Changes in Section 403(b) Requirements for Section 403(b) Pre-approved Plans (2022 Cumulative List). The 2022 Cumulative List will assist providers of section 403(b) pre-approved plans applying to the IRS for opinion letters for the second remedial amendment cycle (Cycle 2) under the IRS's section 403(b) pre-approved plan program. The 2022 Cumulative List identifies changes in the requirements of section 403(b) that will be taken into account by the IRS with respect to a plan document submitted to the IRS for Cycle 2 and that were not taken into account during the first remedial amendment cycle.

### INCOME TAX

#### **REG-118250-20, page 753.**

This document contains proposed regulations regarding the treatment of domestic partnerships and

S corporations that own stock of passive foreign investment companies and their domestic partners and shareholders. These proposed regulations also provide guidance regarding the determination of the controlling domestic shareholders of foreign corporations, the owner of a controlled foreign corporation or qualified electing fund that makes an election under section 1411, the treatment of S corporations with accumulated earnings and profits under subpart F of part III of subchapter N of chapter 1 of the Internal Revenue Code, and the determination and inclusion of related person insurance income under section 953(c). These proposed regulations affect United States persons that own, directly or indirectly, stock in certain foreign corporations.

#### **Rev. Proc. 2022-14, page 502.**

This revenue procedure provides the List of Automatic Changes to which the automatic change procedures in Rev. Proc. 2015-13, 2015-5 I.R.B. 419, as clarified and modified, apply.

#### **T.D. 9960, page 481.**

This document contains final regulations under section 958 regarding the treatment of domestic partnerships for purposes of determining amounts included in the gross income of their partners with respect to foreign corporations. The final regulations affect United States persons that own stock of foreign corporations through domestic partnerships and domestic partnerships that are United States shareholders of foreign corporations.

# The IRS Mission

Provide America's taxpayers top-quality service by helping them understand and meet their tax responsibilities and enforce the law with integrity and fairness to all.

## Introduction

The Internal Revenue Bulletin is the authoritative instrument of the Commissioner of Internal Revenue for announcing official rulings and procedures of the Internal Revenue Service and for publishing Treasury Decisions, Executive Orders, Tax Conventions, legislation, court decisions, and other items of general interest. It is published weekly.

It is the policy of the Service to publish in the Bulletin all substantive rulings necessary to promote a uniform application of the tax laws, including all rulings that supersede, revoke, modify, or amend any of those previously published in the Bulletin. All published rulings apply retroactively unless otherwise indicated. Procedures relating solely to matters of internal management are not published; however, statements of internal practices and procedures that affect the rights and duties of taxpayers are published.

Revenue rulings represent the conclusions of the Service on the application of the law to the pivotal facts stated in the revenue ruling. In those based on positions taken in rulings to taxpayers or technical advice to Service field offices, identifying details and information of a confidential nature are deleted to prevent unwarranted invasions of privacy and to comply with statutory requirements.

Rulings and procedures reported in the Bulletin do not have the force and effect of Treasury Department Regulations, but they may be used as precedents. Unpublished rulings will not be relied on, used, or cited as precedents by Service personnel in the disposition of other cases. In applying published rulings and procedures, the effect of subsequent legislation, regulations, court decisions, rulings, and procedures must be considered, and Service personnel and others concerned are cautioned

against reaching the same conclusions in other cases unless the facts and circumstances are substantially the same.

The Bulletin is divided into four parts as follows:

### **Part I.—1986 Code.**

This part includes rulings and decisions based on provisions of the Internal Revenue Code of 1986.

### **Part II.—Treaties and Tax Legislation.**

This part is divided into two subparts as follows: Subpart A, Tax Conventions and Other Related Items, and Subpart B, Legislation and Related Committee Reports.

### **Part III.—Administrative, Procedural, and Miscellaneous.**

To the extent practicable, pertinent cross references to these subjects are contained in the other Parts and Subparts. Also included in this part are Bank Secrecy Act Administrative Rulings. Bank Secrecy Act Administrative Rulings are issued by the Department of the Treasury's Office of the Assistant Secretary (Enforcement).

### **Part IV.—Items of General Interest.**

This part includes notices of proposed rulemakings, disbarment and suspension lists, and announcements.

The last Bulletin for each month includes a cumulative index for the matters published during the preceding months. These monthly indexes are cumulated on a semiannual basis, and are published in the last Bulletin of each semiannual period.

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# Part I

26 CFR 1.958-1: Direct and indirect ownership of stock

## T.D. 9960

### DEPARTMENT OF THE TREASURY Internal Revenue Service 26 CFR Part 1

#### Guidance under Section 958 on Determining Stock Ownership

**AGENCY:** Internal Revenue Service (IRS), Treasury.

**ACTION:** Final regulations.

**SUMMARY:** This document contains final regulations regarding the treatment of domestic partnerships for purposes of determining amounts included in the gross income of their partners with respect to foreign corporations. The final regulations affect United States persons that own stock of foreign corporations through domestic partnerships and domestic partnerships that are United States shareholders of foreign corporations.

**DATES:** *Effective date:* These regulations are effective on January 25, 2022.

*Applicability dates:* For dates of applicability, see §§1.956-1(g)(4) and 1.958-1(d)(4).

**FOR FURTHER INFORMATION CONTACT:** Edward J. Tracy at (202) 317-6934 (not a toll-free number).

#### SUPPLEMENTARY INFORMATION:

##### Background

On October 10, 2018, the Department of the Treasury (“Treasury Department”) and the IRS published proposed regulations (REG-104390-18) under sections 951, 951A, 1502, and 6038 in the **Federal Register** (83 FR 51072) that included

guidance with respect to the treatment of domestic partnerships that own stock in controlled foreign corporations, as defined in section 957 (“CFCs”), for purposes of section 951A (the “2018 proposed regulations”). The 2018 proposed regulations set forth a “hybrid approach” that generally treated a domestic partnership that is a United States shareholder, as defined in section 951(b) (“U.S. shareholder”), with respect to a CFC (“U.S. shareholder partnership”) as an entity with respect to its partners that are not U.S. shareholders (“non-U.S. shareholder partners”) but as an aggregate of its partners with respect to its partners that are U.S. shareholders (“U.S. shareholder partners”).

On June 21, 2019, the Treasury Department and the IRS published final regulations (TD 9866) in the **Federal Register** (84 FR 29288, as corrected at 84 FR 44223, 84 FR 44693, and 84 FR 53052) under sections 951, 951A, 1502, and 6038 that include guidance with respect to the treatment of domestic partnerships that own stock in CFCs for purposes of section 951A (the “final section 951A regulations”). Instead of the “hybrid approach” described in the 2018 proposed regulations, the final section 951A regulations generally treat a domestic partnership as an aggregate of all of its partners for purposes of computing income inclusions under section 951A (and other provisions that apply by reference to section 951A). §1.951A-1(e)(1). That is, under the final section 951A regulations, partners do not take into account a distributive share of the partnership’s section 951A inclusion with respect to the partnership-owned CFCs but instead are treated as proportionately owning the stock of the partnership-owned CFCs. *See id.* Thus, as in the case of foreign partnerships, income inclusions under section 951A are determined directly by U.S. shareholder partners of a domestic partnership that owns CFCs. The final section 951A regulations apply to taxable years of foreign corporations beginning after December 31, 2017, and to taxable years of U.S. shareholders in which or with which those taxable years of foreign corporations end. §1.951A-7.

Concurrent with the issuance of the final section 951A regulations, the Treas-

ury Department and the IRS published proposed regulations (REG-101828-19) under sections 951, 951A, 954, 956, 958, and 1502 in the **Federal Register** (84 FR 29114, as corrected at 84 FR 37807) (the “2019 proposed regulations”). Consistent with the approach adopted in the final section 951A regulations, the 2019 proposed regulations generally extended the treatment of domestic partnerships as aggregates of their partners for purposes of determining income inclusions under section 951 and for purposes of provisions that apply by reference to section 951. Proposed §1.958-1(d).

On August 22, 2019, the Treasury Department and the IRS published Notice 2019-46, 2019-37 I.R.B. 695, which announced the intent to issue regulations that would permit, in certain cases, the “hybrid approach” described in the 2018 proposed regulations to be applied to domestic partnerships or S corporations for taxable years ending before June 22, 2019.

On July 23, 2020, the Treasury Department and the IRS published final regulations (TD 9902) in the **Federal Register** (85 FR 44620, as corrected at 85 FR 64040 and 85 FR 79853) related to the portion of the 2019 proposed regulations under sections 951A and 954 addressing the treatment of income subject to a high rate of foreign tax.

A notice of proposed rulemaking published in the Proposed Rules section of this issue of the **Federal Register** (REG-118250-20) provides guidance on the treatment of domestic partnerships and S corporations that own passive foreign investment companies (as defined in section 1297(a)) (“PFICs”) and their domestic partners and shareholders, as well as on other PFIC and CFC-related issues (the “2022 proposed PFIC regulations”).

This rulemaking finalizes the portion of the 2019 proposed regulations that generally treat domestic partnerships as aggregates of their partners for purposes of determining income inclusions under section 951 and for purposes of provisions that apply specifically by reference to section 951 (the “final regulations”).

In the 2019 proposed regulations, the Treasury Department and the IRS requested comments on the other provisions in

the Internal Revenue Code (“Code”) that apply by reference to ownership within the meaning of section 958(a) for which aggregate treatment for domestic partnerships would be appropriate. The 2019 proposed regulations also requested comments on the aggregate treatment of domestic partnerships in specific areas, including for purposes of determining the controlling domestic shareholders of a CFC and for purposes of applying the PFIC regime. The Treasury Department and the IRS received three comments in response to the 2019 proposed regulations, each of which were considered in these final regulations. No public hearing on the 2019 proposed regulations was held because there were no requests to speak.

### **Summary of Comments and Explanation of Revisions**

Comments outside the scope of this rulemaking are generally not addressed but may be considered in connection with future guidance projects. All written comments received in response to the proposed regulations that are being finalized in this rulemaking are available at [www.regulations.gov](http://www.regulations.gov) or upon request.

#### *I. Application of Section 956*

Subject to certain exceptions, the 2019 proposed regulations treated domestic partnerships as aggregates of their partners for purposes of sections 951 and 951A and for purposes of any other provision that applies by reference to section 951 or section 951A. Proposed §1.958-1(d)(1) and (2). Although section 951(a)(1)(B) requires a U.S. shareholder of a CFC to include in gross income the amount determined under section 956 with respect to the U.S. shareholder (to the extent not excluded from gross income under section 959(a)(2)), section 956 itself does not specifically apply by reference to section 951 (or section 951A). Accordingly, the final regulations clarify that aggregate treatment of domestic partnerships applies for purposes of section 956(a) and any provisions that specifically apply by reference to section 956(a) (such as §1.956-1(a)(2)) to ensure that a U.S. shareholder partner determines a section 956 amount with respect to CFCs owned through a domestic

partnership as part of the U.S. shareholder partner’s section 951(a) inclusion. §1.958-1(d)(1) and (d)(3)(iii). Aggregate treatment does not apply, however, for purposes of section 956(c) or (d) (or provisions that apply by reference to these sections) because treating a domestic partnership as an entity separate from its partners is more appropriate to carry out the purposes of these provisions. *See, e.g.*, §1.956-4(e) (providing rules concerning the application of section 956 to, for example, obligations of partnerships). As discussed in the preamble to the 2019 proposed regulations, the treatment of a partnership as an entity or an aggregate is determined in part based on the policies underlying the specific provision at issue. *See* 84 FR 29115-29116.

To avoid similar confusion regarding the scope of §1.958-1(d), the final regulations replace the language “any other provision that applies by reference” to section 951 or section 951A in proposed §1.958-1(d)(1) with “any provision that specifically applies by reference” to section 951, section 951A, or section 956(a). The addition of the word “specifically” is intended to clarify that the rule in §1.958-1(d) applies only to the particular provision within a Code section or regulation that applies specifically by reference to section 951, section 951A, or section 956(a) rather than the section or regulation in its entirety. Additionally, the final regulations clarify that the rule in §1.958-1(d)(1) applies for purposes of any provision that specifically applies by reference to regulations issued under or relating to the sections identified in §1.958-1(d)(1). Corresponding revisions are made to the cross references to §1.958-1(d) provided in §§1.951-1(a)(4) and 1.951A-1(e).

Certain existing final regulations treat domestic partnerships as entities separate from their partners for purposes of section 956. §1.956-1(a)(2)(i) and (iii) and (a)(3)(iv). Because this treatment is inconsistent with the aggregate approach, the 2019 proposed regulations modified the applicability date of these provisions so they would cease to apply once the 2019 proposed regulations were finalized. Proposed §1.956-1(g)(4). Rather than modifying the applicability dates as was done in the 2019 proposed regulations, how-

ever, the final regulations simply remove these provisions. Accordingly, because those provisions are being removed as part of the final regulations, the proposed applicability date provisions under section 956 are no longer relevant and are not being finalized.

#### *II. Passive Foreign Investment Companies*

The preamble to the 2019 proposed regulations requested comments with respect to the application of the PFIC regime to domestic partnerships that directly or indirectly own PFIC stock, particularly with respect to whether elections and income inclusions are more appropriate at the level of the domestic partnership or at the level of its partners. 84 FR 29120. Comments were received regarding PFIC elections and inclusions, the CFC overlap rule in section 1297(d), and other PFIC-related issues involving domestic partnerships. These comments are addressed in the 2022 proposed PFIC regulations in order to provide taxpayers additional opportunity to comment.

#### *III. Related Person Insurance Income*

Section 952(a) provides that subpart F income includes insurance income, as defined in section 953. Under section 953(c)(2), related person insurance income (“RPII”) is any insurance income (as defined in section 953(a)) attributable to a policy of insurance or reinsurance that directly or indirectly insures a United States shareholder (as defined in section 953(c)(1)(A)) of the controlled foreign corporation (as defined in section 953(c)(1)(B)), or a person related to the United States shareholder.

A comment requested that aggregate treatment be applied for purposes of determining RPII such that there would only be RPII to the extent of the domestic partnership’s domestic partners, which is the same result as for foreign partnerships. The Treasury Department and the IRS agree that aggregate principles should apply for purposes of section 953(c). However, in order to provide taxpayers an additional opportunity to comment, this comment is addressed in the 2022 proposed PFIC regulations.



#### IV. Controlling Domestic Shareholders

The “controlling domestic shareholders” of a CFC make certain elections with respect to the CFC, such as electing the method of calculating the CFC’s earnings and profits under section 964(a) and electing to exclude tentative gross tested income items from gross tested income under section 951A(c)(2)(A)(i)(III). *See* §§1.964-1(c)(3) and 1.951A-2(c)(7)(viii). Under §1.964-1(c)(5)(i), the controlling domestic shareholders of a CFC are the U.S. shareholders that, in the aggregate, own (within the meaning of section 958(a)) more than 50 percent of the total combined voting power of all classes of stock of the CFC entitled to vote and that undertake to act on the CFC’s behalf. If the ownership requirement is not satisfied, the controlling domestic shareholders of the CFC are all of the U.S. shareholders that own (within the meaning of section 958(a)) stock of the CFC. *Id.*

With respect to U.S. shareholder partnerships, the 2019 proposed regulations did not apply aggregate treatment for purposes of determining a CFC’s controlling domestic shareholders, and a domestic partnership could qualify as a controlling domestic shareholder of the CFC. Proposed §1.958-1(d)(2). The preamble to the 2019 proposed regulations requested comments on whether aggregate treatment should apply in this context so that some or all of the U.S. shareholder partners, rather than the partnership, would make elections applicable to the CFC for purposes of sections 951 and 951A. 84 FR 29119. One comment was received that recommended, on balance, that aggregate treatment should not apply for purposes of determining the controlling domestic shareholders of CFCs under §1.964-1(c)(5)(i).

The final regulations do not extend aggregate treatment for determining the controlling domestic shareholders of a CFC under §1.964-1(c)(5)(i). However, the Treasury Department and the IRS believe that aggregate treatment should apply to domestic partnerships for purposes of determining the controlling domestic shareholders of a CFC under §1.964-1(c)(5). Thus, the 2022 proposed PFIC regulations revise §1.958-1(d)(2) to provide that aggregate treatment applies for purposes

of determining the controlling domestic shareholders of a CFC. This change is included in the 2022 proposed PFIC regulations to give taxpayers an additional opportunity to comment.

#### V. Previously Taxed Earnings and Profits and Basis Adjustments

The preamble to the 2019 proposed regulations noted that, historically, domestic partnerships had been treated as owning stock within the meaning of section 958(a) for purposes of determining their section 951 inclusions, and, thus, previously taxed earnings and profits (“PTEP”) accounts under section 959 were maintained, and related basis adjustments under section 961 were made, at the partnership level. 84 FR 29119. As a result, comments were requested on appropriate rules, such as necessary adjustments to PTEP and related basis amounts, for the transition to the aggregate approach to domestic partnerships described in the 2019 proposed regulations once those regulations were finalized. 84 FR 29119-20. These issues, and the comments received, are beyond the scope of this rulemaking and therefore are not addressed herein; however, the Treasury Department and the IRS intend to address these comments in a separate guidance project involving PTEP (the “proposed PTEP regulations”). The proposed PTEP regulations will provide guidance on a broad range of issues, such as the maintenance of PTEP accounts under section 959, the treatment of PTEP distributions, and basis adjustments under section 961, including with respect to CFCs held by partnerships.

#### VI. Application of Section 1248

The preamble to the 2019 proposed regulations stated that, subject to certain exceptions, aggregate treatment of domestic partnerships applied only with respect to sections 951 and 951A, and any provision that applies by reference to sections 951 and 951A, and, therefore, did not apply for any other purpose of the Code, including section 1248. 84 FR 29119. Comments were received regarding section 1248, including with respect to dispositions by domestic partnerships of CFC stock, dispositions of interests in domestic

partnerships that own CFC stock, and the interaction between section 1248 and section 751.

The final regulations do not address these comments, which are beyond the scope of this rulemaking. The Treasury Department and the IRS recognize, however, that section 1248 applies in part by reference to section 951 and section 951A (in the latter case, as a result of section 951A(f)(1)(A)). *See* section 1248(b)(1)(A) and (d)(1). Therefore, the final regulations clarify that the aggregate approach set forth in §1.958-1(d)(1) does not apply for purposes of section 1248, which is consistent with the intended scope of the rules as described in the preamble to the 2019 proposed regulations. §1.958-1(d)(2)(iv). The final regulations do not affect the application of §1.1248-1(a)(4). Future guidance, including the proposed PTEP regulations, may address the application of section 1248(b)(1)(A) and (d)(1) to transactions involving a domestic partnership’s sale of a CFC, such as the transaction described in Rev. Rul. 69-124, 1969-1 C.B. 203.

#### VII. Non-Grantor Trusts and Estates

The preamble to the 2019 proposed regulations requested comments on whether aggregate treatment should be extended to other pass-through entities such as certain trusts or estates. In response to this request, one comment recommended that aggregate treatment not be extended to domestic non-grantor trusts and domestic estates, noting that there is no corollary authority to section 7701(a)(4) (authorizing the treatment of domestic partnerships as not domestic when the context requires) which would permit the Treasury Department and the IRS to treat domestic non-grantor trusts and domestic estates as not domestic. The comment further noted that if the domestic non-grantor trust or domestic estate had a section 951(a) or section 951A inclusion but did not distribute the income to its beneficiaries, the trust or estate itself would be liable for tax on that income (unlike a partnership); thus, two separate taxing regimes could be necessary if an aggregate approach were limited to distributed income. Finally, the comment suggested that identifying U.S. shareholders of a CFC the stock of which

is owned by a domestic non-grantor trust or a domestic estate would be complex if the trust or estate had discretionary beneficiaries.

Although aggregate treatment of domestic partnerships for purposes of sections 951 and 951A (and provisions that specifically apply by reference to those sections) is not based on the grant of authority under section 7701(a)(4), the Treasury Department and the IRS nevertheless agree, for the other reasons stated in the comment, that aggregate treatment should not be extended to domestic non-grantor trusts and domestic estates.

### VIII. Other Changes

The final section 951A regulations generally adopted aggregate treatment of domestic partnerships for purposes of section 951A. §1.951A-1(e). The preamble to the 2019 proposed regulations noted that once those regulations were finalized, §1.951A-1(e) would be unnecessary because that rule would be subsumed by §1.958-1(d). 84 FR 29119. The preamble to the 2019 proposed regulations further noted that §1.951-1(h), which treated certain controlled domestic partnerships as foreign partnerships for purposes of determining the stock of a CFC owned (within the meaning of section 958(a)) by a U.S. person, would similarly be unnecessary. *Id.* No comments addressed those proposed regulations. As a result, §1.951A-1(e) is amended to remove paragraphs (e)(1) through (3) and include a general cross-reference to §1.958-1(d) in §1.951A-1(e) for the treatment of domestic partnerships for purposes of section 951A. The final regulations also remove paragraph (h) of §1.951-1.

### IX. Applicability Dates

#### A. Application before finalization date

Proposed §1.958-1(d)(4) provided that the regulations under section 958 would apply to taxable years of foreign corporations beginning on or after the date the final regulations are published in the **Federal Register** (the “finalization date”) and to taxable years of U.S. persons in which or with which such taxable years of the foreign corporations end (the “general

applicability rule”). However, domestic partnerships could apply the regulations, when finalized, to taxable years of a foreign corporation beginning after December 31, 2017, and to taxable years of the domestic partnership in which or with which such taxable years of the foreign corporation end, subject to the requirement that the partnership, its U.S. shareholder partners, and other related domestic partnerships and their U.S. shareholder partners consistently apply the regulations with respect to all foreign corporations the partnerships own (within the meaning of section 958(a), determined without regard to proposed §1.958-1(d)(1)) (the “pre-finalization applicability option”). Proposed §1.958-1(d)(4). The 2019 proposed regulations also permitted domestic partnerships, their U.S. shareholder partners, and related domestic partnerships and their U.S. shareholder partners to rely on proposed §1.958-1(d)(4), subject to the same consistency requirement (the “reliance option”). *See* 84 FR 29119.

One comment made several recommendations with respect to the applicability date of proposed §1.958-1(d). First, the comment suggested that the reference to a “domestic partnership” in the pre-finalization applicability option was inconsistent with the reference to “U.S. persons” in the general applicability rule and recommended that the final regulations be revised to reference “U.S. person” in both places. With respect to the consistency requirements (including consistency between years), the comment suggested that U.S. persons owning stock of a foreign corporation through a domestic partnership be allowed to take individual positions as to whether to apply the pre-finalization applicability option, subject to all related partners taking the same position. The comment noted that an individualized approach would allow non-U.S. shareholder partners to decide whether to be subject to section 951 inclusions or potentially to be subject to the PFIC regime during the period before the finalization date and would not materially impact U.S. shareholder partners.

The reference to “domestic partnerships” and their U.S. shareholder partners in the pre-finalization applicability option was intentional. Although the general applicability rule applies to all affected U.S.

persons, certain persons may choose to apply the regulations before the finalization date. By limiting this group of persons to domestic partnerships and their U.S. shareholder partners (and related domestic partnerships), the rule aims to strike a balance between identifying a small group of persons who may be able to coordinate with respect to the decision to apply the pre-finalization applicability option versus all persons that may be affected by that decision. Accordingly, the suggested revision to reference “U.S. persons” in the pre-finalization applicability option is not adopted.

In addition, the suggested revision would allow partners to take individualized positions with respect to the pre-finalization applicability option and could cause significant administrative, partnership accounting, and reporting difficulties. For example, if each partner were allowed to take an individual position on the applicability date of the regulations, partners following the general applicability rule (regardless of the extent of their ownership) might receive a distributive share of the partnership’s section 951 inclusions while U.S. shareholder partners applying the pre-finalization applicability option have direct section 951 inclusions. The Treasury Department and the IRS believe that consistency among all affected parties in applying the pre-finalization applicability option is important for proper administration of the regulations. As a result, the Treasury Department and the IRS have determined that the difficulty posed by an individualized approach outweighs the potential benefit the approach would provide to a partner, and this comment is not adopted. The Treasury Department and the IRS are aware that, given the potential scope of the consistency requirement, it may be difficult to meet in more widely held partnership structures, and thus application of the pre-finalization applicability option may be limited.

The comment recommended that if the individualized approach is not adopted, the final regulations should require a formal election in order to apply the pre-finalization applicability option instead of the consistency requirement. The election would be made only by a domestic partnership and all related domestic partnerships and would be binding on all

domestic partners. The comment asserted that this approach would clarify the application of the pre-finalization applicability option by avoiding potential uncertainty as to whether all U.S. shareholder partners took a consistent position. The comment further suggested that a partnership-only election to apply the pre-finalization applicability option would prevent U.S. shareholder partners from refusing, without justification, to act in accordance with the partnership's election.

The Treasury Department and the IRS have determined that, although the consistency requirement among all related domestic partnerships and their U.S. shareholder partners may be difficult to meet in certain cases, requiring consistency among all persons required to apply the pre-finalization applicability option is important for proper administration of the rules. Absent this requirement, U.S. shareholder partners could choose not to amend their returns, and therefore continue to report under the entity approach, even though the partnership and other partners amended their returns and reported under the aggregate approach pursuant to the pre-finalization applicability option.<sup>1</sup> In addition, maintaining the U.S. shareholder consistency requirement minimizes administrative, partnership accounting, and reporting difficulties (for example, in connection with PTEP accounts) that could arise if a partnership-only election were adopted and one or more U.S. shareholder partners chose not to amend their returns in accordance with the partnership's election. The consistency requirement is also expected to enhance compliance and administration at the U.S. shareholder partner-level with respect to amended returns (or administrative adjustment requests) because it requires more coordination between the partnership and its partners than a partnership-only election would require. Under either approach, if a partnership chooses the pre-finalization applicability option on an amended return (or by initiating an administrative adjustment request), any U.S. shareholder partner would receive updated information that it no longer has a distributive share of the partnership's section 951 inclusions but would

still need to take into account section 951 inclusions directly under the aggregate approach. Further, the Treasury Department and the IRS are concerned that the lack of coordination involved in a partnership-only election, as opposed to the consistency requirement, may create uncertainty at the U.S. shareholder partner level as to whether the partner merely accounts for the reduction in the distributive share from the partnership or must also directly take into account income inclusions. Accordingly, this comment is not adopted.

The comment also requested that the final regulations clarify whether the pre-finalization applicability option is available if all required parties file amended returns. The Treasury Department and the IRS confirm that, subject to the consistency requirement, a domestic partnership may apply the regulations on an amended return or through initiating an administrative adjustment request under section 6227. In instances where a domestic partnership files an amended return (that is, in the case of partnerships not subject to sections 6221 through 6241), its partners (both U.S. shareholder partners and non-U.S. shareholder partners) will likely need to also file amended returns in order to satisfy the consistency requirement.

Finally, the comment expressed concern for cases in which a domestic partnership filed its income tax return for calendar year 2018 before the issuance of the 2019 proposed regulations reporting section 951 inclusions by the partnership in accordance with then current law (including issuing Schedules K-1 to its partners) but subsequently filed a superseding original or amended return for such taxable year relying on the 2019 proposed regulations. In that case, the comment recommended that the ability to rely on the 2019 proposed regulations should not be contingent upon all U.S. shareholder partners filing superseding or amended returns on the same basis and that all partners should be permitted to decide separately whether to file a superseding or amended return to rely on the proposed regulations. The comment further recommended that, if a non-U.S. shareholder partner decides to rely on the proposed regulations and

the foreign corporation is also a PFIC, the mechanism for the non-U.S. shareholder partner to make a QEF or mark-to-market election under section 1295 or section 1296, respectively, should be simplified and that purging elections should not be required solely due to the status of the CFC/PFIC during the period before the general applicability rule applies. The comment analogized these recommendations to relief provided in Notice 2019-46, which permitted domestic partnerships and partners to file returns for 2018 applying the hybrid approach in the 2018 proposed regulations rather than the aggregate approach adopted by the final section 951A regulations.

The Treasury Department and the IRS believe that, in all cases, proper administration of the regulations before the general applicability rule requires the satisfaction of the consistency requirement in §1.958-1(d)(4)(i) and precludes the ability of non-U.S. shareholder partners to unilaterally apply the regulations. Therefore, the final regulations do not adopt more permissive rules because a domestic partnership filed a tax return and issued Schedule K-1s to its partners before the issuance of the 2019 proposed regulations. Furthermore, the Treasury Department and the IRS find this situation sufficiently different from the relief provided in Notice 2019-46 for domestic partnerships that had already reported a different position on a Schedule K-1 based on the 2018 proposed regulations. Although the final section 951A regulations applied retroactively and superseded the 2018 proposed regulations, the notice provided flexibility to apply the 2018 proposed regulations due to the compliance burdens associated with the change from the hybrid approach in the 2018 proposed regulations to the aggregate approach in the final section 951A regulations and the relatively short period until the extended filing deadline for calendar-year partnerships. This same concern does not exist here because, before the prospective application of the regulations under the general applicability rule, taxpayers were permitted to rely on the 2019 proposed regulations (in accordance with proposed §1.958-1(d)(4)) or to

<sup>1</sup> A U.S. shareholder partner's liability could differ under an aggregate or entity approach if, for example, the partner is a U.S. shareholder partner with respect to some, but not all, of the CFCs that are owned by the domestic partnership.



continue to apply prior law. Accordingly, the final regulations do not adopt these comments.

### *B. Different taxable years of the partnership, partners, and CFC*

Proposed §1.958-1(d)(4) provided that §1.958-1(d), when finalized, would apply to taxable years of foreign corporations beginning on or after the finalization date and to taxable years of U.S. persons in which or with which the taxable years of the foreign corporations end. A comment noted that, under this rule, in certain circumstances where a fiscal year U.S. shareholder partnership with U.S. shareholder partners has a different taxable year than its CFC and U.S. shareholder partners, the applicability date could cause the U.S. shareholder partners to have two years of section 951 inclusions in the same taxable year with respect to the same CFC – that is, a distributive share of the partnership’s section 951 inclusion from the CFC’s last taxable year before the application of the final regulations, and a direct section 951 inclusion with respect to the first taxable tax year of the CFC subject to the final regulations. For example, if a U.S. shareholder partnership has a June 30 taxable year and both the CFC it owns and its U.S. shareholder partners have a calendar taxable year, the final regulations would, under the general applicability rule, first apply to the CFC’s taxable year ending December 31, 2023. Accordingly, for their taxable year ending December 31, 2023, the U.S. shareholder partners would have a distributive share of the partnership’s section 951 inclusion for the CFC’s taxable year ending December 31, 2022 (for the U.S. shareholder partnership’s taxable year ending June 30, 2023) and would also have a direct section 951 inclusion for the CFC’s taxable year ending December 31, 2023. The comment suggested that if the result in the example is intended, the Treasury Department and the IRS should consider treating the transition to aggregate treatment as a change in method of

accounting with an accompanying spread in reporting the second inclusion under section 481.

The result described by the comment (the possibility of a U.S. shareholder partner having, in one of its taxable years, a distributive share of a partnership’s section 951(a) inclusion with respect to a CFC for one taxable year of the CFC as well as the U.S. shareholder partner’s own section 951(a) inclusion with respect to the CFC for the CFC’s subsequent taxable year) is intended. In situations where a partnership and a partner have different taxable years, the partner can generally achieve deferral on its share of the partnership’s income to the extent of the difference between its taxable year and the partnership’s required taxable year. However, under the final regulations, because a domestic partnership is not treated as owning stock of a CFC within the meaning of section 958(a) for purposes of computing income inclusions with respect to a CFC under section 951 and section 951A, the applicable taxable year for income inclusions arising as a result of a domestic partnership’s ownership of the CFC is the U.S. shareholder partner’s taxable year, not the partnership’s taxable year. As a result, the final regulations eliminate any deferral of income inclusions under section 951 and section 951A for a U.S. shareholder partner with respect to any CFC owned by the U.S. shareholder partnership. This elimination of a U.S. shareholder partner’s deferral with respect to income of any CFC owned by the U.S. shareholder partnership, combined with the partner’s existing deferral of section 951 income inclusions before the application of the final regulations, causes the U.S. shareholder partner to recognize two years of section 951 income inclusions with respect to any CFC owned by the U.S. shareholder partnership in this transition taxable year.

The Treasury Department and the IRS considered whether the adoption of the aggregate approach should be viewed as a change in method of accounting under section 446 and, if so, whether an adjust-

ment should be imposed under section 481. The Treasury Department and the IRS determined that the adoption of the aggregate approach is not a change in method of accounting. Accordingly, no adjustment under section 481 should be imposed.

Further, even if the adoption of the aggregate approach were considered to be a change in accounting method, the Treasury Department and the IRS do not believe imposing an adjustment under section 481 would be appropriate as part of such change. Section 481(a) adjustments are intended to prevent the permanent duplication or omission of income or expense that would otherwise arise as a result of a change in accounting method. However, the change to the aggregate approach under section 958 does not give rise to an omission or duplication of any item of income or expense. Under the prior entity approach, the domestic partnership would be treated as the foreign corporation’s owner under section 958(a) and would take into account its applicable section 951 inclusion in its taxable year in which or with which such foreign corporation’s taxable year ends. The partnership’s section 951 inclusion would, in turn, be included in each partner’s distributive share and would be recognized by each partner in the partner’s taxable year in which or with which the partnership’s taxable year ends.

By contrast, under the new aggregate approach, each U.S. shareholder partner of the partnership will be treated as an owner of the foreign corporation under section 958(a). As a result, each partner will have its own section 951 inclusion for the foreign corporation’s taxable years beginning on or after January 25, 2022 and will recognize the section 951 inclusion in its taxable year in which or with which the foreign corporation’s taxable year ends.<sup>2</sup> Therefore, the partners would not have a permanent duplication or omission of income or expense that would otherwise arise as a result of a change in accounting method and require a section 481(a) adjustment.

<sup>2</sup> In the first taxable year to which the aggregate approach applies, the U.S. shareholder partner could in certain cases have two section 951 inclusions: (1) its distributive share of the partnership’s section 951 inclusion for the CFC’s last taxable year that begins before January 25, 2022, and (2) its own section 951 inclusion for the CFC’s first taxable year beginning on or after January 25, 2022. However, these inclusions represent subpart F income with respect to two different taxable years of the CFC. Therefore, there is no duplication or omission of the CFC’s subpart F income to the U.S. shareholder partner.



## Special Analyses

### *I. Regulatory Planning and Review – Economic Analysis*

These regulations are not subject to review under section 6(b) of Executive Order 12866 pursuant to the Memorandum of Agreement (April 11, 2018) between the Treasury Department and the Office of Management and Budget regarding review of tax regulations.

### *II. Paperwork Reduction Act*

The Paperwork Reduction Act of 1995 (44 U.S.C. 3501–3520) (“PRA”) generally requires that a federal agency obtain the approval of the OMB before collecting information from the public, whether such collection of information is mandatory, voluntary, or required to obtain or retain a benefit.

There are no information collection requirements associated with these final regulations.

### *III. Regulatory Flexibility Act*

It is hereby certified that these final regulations will not have a significant economic impact on a substantial number of small entities within the meaning of section 601(6) of the Regulatory Flexibility Act (5 U.S.C. chapter 6).

The final regulations may affect a substantial number of small entities, but the economic impact is not likely to be significant. These regulations treat domestic partnerships as an aggregate of their partners for purposes of section 951, which reduces the burden on taxpayer partners that are not U.S. shareholders of a CFC owned by a partnership because these partners are no longer subject to section 951 inclusions with respect to CFCs held by the partnership. The regulations may also reduce burden on domestic partnerships that hold CFCs because these partnerships are no longer required to calculate their partners’ distributive share of the partnerships’ section 951 inclusions, which will likely

lower their compliance costs. In addition, the regulations do not impose a collection of information burden on any person, including small entities.

The Treasury Department and the IRS estimate that approximately 7,500 U.S. partnerships that own CFCs e-filed at least one Form 5471 as Category 4 or 5 filers in 2018.<sup>3</sup> These partnerships had approximately 1.75 million domestic and foreign partners. To estimate the impact of the final regulations related to domestic partnerships on small entities, the Treasury Department and the IRS reviewed the percentage of filers that own CFCs by class size based on gross receipts. For 2018, the smaller size classes constituted a relatively small fraction of filers that own CFCs, suggesting that many domestic small business entities would be unaffected by these regulations. Further, domestic partnerships should only constitute a portion of the smaller size classes of filers that own CFCs.

Consequently, the Treasury Department and the IRS have determined that the final regulations will not have a significant economic impact on a substantial number of small entities. Accordingly, it is hereby certified that these regulations will not have a significant economic impact on a substantial number of small entities.

### *IV. Section 7805(f)*

Pursuant to section 7805(f), the proposed regulations preceding the final regulations (the 2019 proposed regulations) were submitted to the Chief Counsel for Advocacy of the Small Business Administration for comment on their impact on small business. No comments were received.

### *V. Unfunded Mandates Reform Act*

Section 202 of the Unfunded Mandates Reform Act of 1995 requires that agencies assess anticipated costs and benefits and take certain other actions before issuing a final rule that includes any Federal mandate that may result in expenditures in any

one year by a state, local, or tribal government, in the aggregate, or by the private sector, of \$100 million in 1995 dollars, updated annually for inflation. These regulations do not include any Federal mandate that may result in expenditures by state, local, or tribal governments, or by the private sector in excess of that threshold.

### *VI. Executive Order 13132: Federalism*

Executive Order 13132 (entitled “Federalism”) prohibits an agency from publishing any rule that has federalism implications if the rule either imposes substantial, direct compliance costs on state and local governments, and is not required by statute, or preempts state law, unless the agency meets the consultation and funding requirements of section 6 of the Executive order. These regulations do not have federalism implications and do not impose substantial direct compliance costs on state and local governments or preempt state law within the meaning of the Executive order.

### **Drafting Information**

The principal author of these regulations is Edward J. Tracy of the Office of Associate Chief Counsel (International). However, other personnel from the Treasury Department and the IRS participated in their development.

### **Statement of Availability of IRS Documents**

IRS Revenue Procedures, Revenue Rulings, Notices, and other guidance cited in this document are published in the Internal Revenue Bulletin and are available from the Superintendent of Documents, U.S. Government Publishing Office, Washington, DC 20402, or by visiting the IRS website at <https://www.irs.gov>.

### **List of Subjects in 26 CFR Part 1**

Income taxes, Reporting and record-keeping requirements.

<sup>3</sup>Data are from IRS’s Research, Applied Analytics, and Statistics division based on data available in the Compliance Data Warehouse. Category 4 filer includes a U.S. person who had control of a foreign corporation during the annual accounting period of the foreign corporation. Category 5 includes a U.S. shareholder who owns stock in a foreign corporation that is a CFC and who owned that stock on the last day in the tax year of the foreign corporation in that year in which it was a CFC. For full definitions, see <https://www.irs.gov/pub/irs-pdf/i5471.pdf>.

## Adoption of Amendments to the Regulations

Accordingly, 26 CFR part 1 is amended as follows:

### PART 1—INCOME TAXES

Paragraph 1. The authority citation for part 1 continues to read in part as follows:  
Authority: 26 U.S.C. 7805.

\*\*\*\*\*

Par. 2. Section 1.951-1 is amended by:

1. Adding paragraph (a)(4);
2. Removing paragraph (h);
3. Redesignating paragraph (i) as paragraph (h); and
4. Removing the last sentence of newly redesignated paragraph (h).

The addition reads as follows:

*§1.951-1 Amounts included in gross income of United States shareholders.*

(a) \*\*\*

(4) See §1.958-1(d) for rules regarding the ownership of stock of a foreign corporation through a domestic partnership for purposes of section 951 and for purposes of any provision that specifically applies by reference to section 951 or the regulations in this part under section 951.

\*\*\*\*\*

Par. 3. Section 1.951A-1 is amended by revising paragraph (e) to read as follows:

*§1.951A-1 General provisions.*

\*\*\*\*\*

(e) *Stock owned through domestic partnerships.* See §1.958-1(d) for rules regarding the ownership of stock of a foreign corporation through a domestic partnership for purposes of section 951A and for purposes of any provision that specifically applies by reference to section 951A or the section 951A regulations.

\*\*\*\*\*

Par. 4. Section 1.956-1 is amended by:

1. Adding a sentence at the end of paragraph (a)(1);
2. Removing the last sentence of paragraph (a)(2)(i);
3. Removing paragraphs (a)(2)(iii) and (a)(3)(iv);

4. Redesignating paragraph (a)(3)(v) as paragraph (a)(3)(iv);

5. Revising the newly redesignated paragraph (a)(3)(iv) heading; and

6. Adding a sentence at the end of paragraph (g)(4).

The additions and revision read as follows:

*§1.956-1 Shareholder's pro rata share of the average of the amounts of United States property held by a controlled foreign corporation.*

(a) \*\*\* (1) \*\*\* See §1.958-1(d) for rules regarding the ownership of stock of a foreign corporation through a domestic partnership for purposes of section 956(a) and for purposes of any provision that specifically applies by reference to section 956(a) or the regulations in this part under section 956 that relate to section 956(a).

\*\*\*\*\*

(3) \*\*\*

(iv) *Example 4.* \*\*\*

\*\*\*\*\*

(g) \*\*\*

(4) \*\*\* For taxable years of controlled foreign corporations beginning before January 25, 2022, and taxable years of United States shareholders in which or with which such taxable years of foreign corporations end, see §1.956-1(a)(2)(i) and (iii) and (a)(3)(iv) as in effect and contained in 26 CFR part 1, as revised April 1, 2021.

\*\*\*\*\*

Par. 5. Section 1.958-1 is amended by:

1. Redesignating paragraph (d) as paragraph (f); and
2. Adding a new paragraph (d) and reserved paragraph (e).

The additions read as follows:

*§1.958-1 Direct and indirect ownership of stock.*

\*\*\*\*\*

(d) *Stock of foreign corporations owned through domestic partnerships—*  
(1) *In general.* Except as otherwise provided in paragraph (d)(2) of this section, for purposes of sections 951, 951A, and 956(a), and for purposes of any provision that specifically applies by reference to

any of such sections or the regulations in this part under section 951, 951A, or 956 (but only as the regulations in this part under section 956 relate to section 956(a)), a domestic partnership is not treated as owning stock of a foreign corporation within the meaning of section 958(a). For purposes of determining the persons that own stock of the foreign corporation within the meaning of section 958(a) when the preceding sentence applies, stock of a foreign corporation owned by a domestic partnership is treated in the same manner as stock of a foreign corporation owned by a foreign partnership under section 958(a)(2) and paragraph (b) of this section.

(2) *Non-application for certain purposes.* Paragraph (d)(1) of this section does not apply for purposes of—

(i) Determining whether any United States person is a United States shareholder (as defined in section 951(b));

(ii) Determining whether any foreign corporation is a controlled foreign corporation (CFC) (as defined in section 957(a));

(iii) Applying section 956(c) and (d);

(iv) Applying section 1248; or

(v) Determining whether any United States shareholder is a controlling domestic shareholder (as defined in §1.964-1(c)(5)).

(3) *Examples.* The following examples illustrate the application of this paragraph (d).

(i) *Example 1—(A) Facts.* USP, a domestic corporation, and Individual A, a United States citizen unrelated to USP, own 95% and 5%, respectively, of PRS, a domestic partnership. PRS owns 100% of the single class of stock of FC, a foreign corporation.

(B) *Analysis—(1) United States shareholder and CFC determinations.* Under paragraphs (d)(2)(i) and (ii) of this section, respectively, the determination of whether PRS, USP, and Individual A (each a United States person) are United States shareholders of FC, and whether FC is a controlled foreign corporation, is made without regard to paragraph (d)(1) of this section. PRS, a United States person, owns 100% of the total combined voting power or value of the FC stock within the meaning of section 958(a). Accordingly, PRS is a United States shareholder under section 951(b), and FC is a controlled foreign corporation under section 957(a). USP is also a United States shareholder of FC because it owns 95% of the total combined voting power or value of the FC stock under sections 958(b) and 318(a)(2)(A). Individual A, however, is not a United States shareholder of FC because Individual A owns only 5% of the total combined vot-

ing power or value of the FC stock under sections 958(b) and 318(a)(2)(A).

(2) *Application of sections 951 and 951A.* Under paragraph (d)(1) of this section, for purposes of sections 951 and 951A, PRS is not treated as owning (within the meaning of section 958(a)) the FC stock; instead, for purposes of determining the persons that own the FC stock within the meaning of section 958(a), the FC stock is treated as if it were owned by a foreign partnership under paragraph (b) of this section. Therefore, for purposes of sections 951 and 951A, USP is treated as owning 95% of the FC stock under section 958(a), and Individual A is treated as owning 5% of the FC stock under section 958(a). USP is a United States shareholder of FC, and therefore USP determines its income inclusions under sections 951 and 951A directly with respect to FC based on its ownership of FC stock under section 958(a). However, because Individual A is not a United States shareholder of FC, Individual A does not have an income inclusion under section 951 with respect to FC or a pro rata share of any amount of FC for purposes of section 951A. This is the case even though PRS is a United States shareholder of FC.

(ii) *Example 2—(A) Facts.* USP, a domestic corporation, and Individual A, a United States citizen, own 90% and 10%, respectively, of PRS1, a domestic partnership. PRS1 and Individual B, a nonresident alien individual, own 90% and 10%, respectively, of PRS2, a domestic partnership. PRS2 owns 100% of the single class of stock of FC, a foreign corporation. USP, Individual A, and Individual B are unrelated to each other.

(B) *Analysis—(1) United States shareholder and CFC determinations.* Under paragraphs (d) (2)(i) and (ii) of this section, the determination of whether PRS1, PRS2, USP, and Individual A (each a United States person) are United States shareholders of FC, and whether FC is a controlled foreign corporation, is made without regard to paragraph (d)(1) of this section. PRS2 owns 100% of the total combined voting power or value of the FC stock within the meaning of section 958(a). Accordingly, PRS2 is a United States shareholder under section 951(b), and FC is a controlled foreign corporation under section 957(a). Under sections 958(b) and 318(a)(2)(A), PRS1 is treated as owning 90% of the FC stock owned by PRS2. Accordingly, PRS1 is also a United States shareholder under section 951(b). Further, under section 958(b)(2), PRS1 is treated as owning 100% of the FC stock for purposes of determining the FC stock treated as owned by USP and Individual A under section 318(a)(2)(A). Therefore, USP is treated as owning 90% of the FC stock under section 958(b) (100% x 100% x 90%), and Individual A is treated as owning 10% of the FC stock under section 958(b) (100% x 100% x 10%). Accordingly, both USP and Individual A are also United States shareholders of FC under section 951(b).

(2) *Application of sections 951 and 951A.* Under paragraph (d)(1) of this section, for purposes of sections 951 and 951A, PRS1 and PRS2 are not treated as owning (within the meaning of section 958(a)) the FC stock; instead, for purposes of determining the persons that own the

FC stock within the meaning of section 958(a), as the FC stock is treated as if it were owned by foreign partnerships under paragraph (b) of this section. Therefore, for purposes of determining the amount included in gross income under sections 951 and 951A, under section 958(a) USP is treated as owning 81% (100% x 90% x 90%) of the FC stock, and Individual A is treated as owning 9% (100% x 90% x 10%) of the FC stock. Because USP and Individual A are both United States shareholders of FC, USP and Individual A determine their respective inclusions under sections 951 and 951A directly with respect to FC based on their ownership of FC stock under section 958(a). This is the case even though PRS2 is a United States shareholder of FC.

(iii) *Example 3—(A) Facts.* Individual A, a United States citizen, Individual B, a United States citizen unrelated to Individual A, and Individual C, a foreign person unrelated to both Individuals A and B, own 10%, 5%, and 85%, respectively, of PRS, a domestic partnership. PRS owns 100% of the single class of stock of FC, a foreign corporation. FC holds an account receivable from PRS that constitutes an obligation of a United States person within the meaning of section 956(c)(1)(C) and §1.956-2(a)(1)(iii).

(B) *Analysis—(1) United States shareholder and CFC determinations.* Under paragraphs (d)(2) (i) and (ii) of this section, respectively, the determination of whether PRS, Individual A, and Individual B (each a United States person) are United States shareholders of FC, and whether FC is a controlled foreign corporation, is made without regard to paragraph (d)(1) of this section. PRS, a United States person, owns 100% of the total combined voting power or value of the FC stock within the meaning of section 958(a). Accordingly, PRS is a United States shareholder under section 951(b), and FC is a controlled foreign corporation under section 957(a). Individual A is also a United States shareholder of FC because it owns 10% of the total combined voting power or value of the FC stock under sections 958(b) and 318(a)(2)(A). Individual B, however, is not a United States shareholder of FC because Individual B owns only 5% of the total combined voting power or value of the FC stock under sections 958(b) and 318(a)(2)(A).

(2) *Application of section 956(a).* Under paragraph (d)(1) of this section, for purposes of section 956(a), PRS is not treated as owning (within the meaning of section 958(a)) the FC stock; instead, for purposes of determining the persons that own the FC stock within the meaning of section 958(a), as the FC stock is treated as if it were owned by a foreign partnership under paragraph (b) of this section. Therefore, for purposes of section 956(a), under section 958(a) Individual A is treated as owning 10% of the FC stock, and Individual B is treated as owning 5% of the FC stock. Individual A is a United States shareholder of FC, and therefore Individual A determines the amount it must include in gross income under section 951(a)(1)(B) by reason of the PRS obligation held by FC based on its ownership of FC stock under section 958(a) as determined under paragraph (d)(1) of this section. However, because Individual B is not a United States

shareholder of FC, Individual B does not have an amount to include in income under sections 956(a) and 951(a)(1)(B).

(3) *Application of section 956(c) and (d).* Under paragraph (d)(2)(iii) of this section, for purposes of section 956(c) and (d), the determination of whether FC holds United States property is made without regard to paragraph (d)(1) of this section. Therefore, PRS is treated as owning stock of FC within the meaning of section 958(a) for purposes of determining the amount of United States property held by FC arising from its account receivable from PRS.

(4) *Applicability dates—(i) Paragraphs (d)(1) through (3) of this section.* Paragraphs (d)(1) through (3) of this section apply to taxable years of foreign corporations beginning on or after January 25, 2022, and to taxable years of United States persons in which or with which such taxable years of foreign corporations end. For taxable years of a foreign corporation that precede the taxable years described in the preceding sentence, a domestic partnership may apply paragraphs (d)(1) through (3) of this section in their entirety to taxable years of a foreign corporation beginning after December 31, 2017, and to taxable years of the domestic partnership in which or with which such taxable years of the foreign corporation end, provided that the partnership, its partners that are United States shareholders of the foreign corporation, and other domestic partnerships that bear relationships described in section 267(b) or 707(b) to the partnership (and their United States shareholder partners) consistently apply paragraphs (d)(1) through (3) of this section with respect to all foreign corporations whose stock the domestic partnerships own within the meaning of section 958(a) (determined without regard to paragraph (d) (1) of this section).

(ii) *Rules applicable before January 25, 2022.* For taxable years of foreign corporations beginning before January 25, 2022, and to taxable years of United States persons in which or with which such taxable years of foreign corporations end, see §§1.951-1(h) and 1.951A-1(e) as in effect and contained in 26 CFR part 1, as revised April 1, 2021.

(e) [Reserved]  
\*\*\*\*\*

Par. 6. Section 1.1502-51 is amended by revising the last sentence in paragraph (b) to read as follows:

*§1.1502-51 Consolidated section 951A.*

\*\*\*\*\*

(b) \*\*\* In addition, see §1.951A-1(e) (cross-referencing §1.958-1(d)).  
\*\*\*\*\*

Douglas W. O'Donnell,  
*Deputy Commissioner for Services  
and Enforcement.*

Approved: December 8, 2021.

Lily Batchelder,  
*Assistant Secretary of the Treasury  
(Tax Policy).*

(Filed by the Office of the Federal Register on January 24, 2021, 8:45 a.m., and published in the issue of the Federal Register for January 25, 2022, 87 F.R. 3648)



# Part III

## 2022 Cumulative List of Changes in Section 403(b) Requirements for Section 403(b) Pre-approved Plans

### Notice 2022-8

#### I. PURPOSE

This notice sets forth the 2022 Cumulative List of Changes in Section 403(b) Requirements for Section 403(b) Pre-approved Plans (2022 Cumulative List). The 2022 Cumulative List will assist providers of section 403(b) pre-approved plans applying to the Internal Revenue Service (IRS) for opinion letters for the second remedial amendment cycle (Cycle 2) under the IRS's section 403(b) pre-approved plan program. Cycle 2 began on July 1, 2020. The 2022 Cumulative List identifies changes in the requirements of section 403(b) of the Internal Revenue Code (Code) that will be taken into account by the IRS with respect to a plan document submitted to the IRS for Cycle 2 and that were not taken into account during the first remedial amendment cycle (Cycle 1). Section 403(b) plans may be submitted for approval during the Cycle 2 on-cycle submission period, which begins May 2, 2022, and ends May 1, 2023.

The list of changes in section IV of this notice does not extend the deadline by which a section 403(b) pre-approved plan must be amended to comply with any change in the section 403(b) requirements (which are requirements of section 403(b), including requirements provided in the Code, regulations, and other guidance published in the Internal Revenue Bulletin). The general deadline for timely adoption of an interim or discretionary amendment is provided in section 12 of Rev. Proc. 2019-39, 2019-42 IRB 945, as modified by section 4 of Rev. Proc. 2020-40, 2020-38 IRB 575, and section 22 of Rev. Proc. 2021-37, 2021-38 IRB 385.

#### II. BACKGROUND

Rev. Proc. 2021-37 sets forth procedures for issuing opinion letters for section 403(b) pre-approved plans for Cycle 2. In section 13.02 of Rev. Proc. 2021-37, the IRS announced its intention to publish a cumulative list for each remedial amendment cycle to identify changes in the section 403(b) requirements that will be taken into account with respect to a plan document submitted to the IRS for that remedial amendment cycle and that were not taken into account by the IRS in its review during any prior remedial amendment cycle. A change in the section 403(b) requirements includes a statutory change or a change in the requirements provided in regulations or other guidance published in the Internal Revenue Bulletin.

To assist eligible employers in achieving operational compliance, the IRS intends to provide an Operational Compliance List periodically to identify changes in section 403(b) requirements that are effective during a calendar year. For the current Operational Compliance List, see <https://www.irs.gov/retirement-plans/operational-compliance-list>.

#### III. APPLICATION OF THE 2022 CUMULATIVE LIST

The 2022 Cumulative List set forth in section IV of this notice lists specific items the IRS has identified for review in determining whether the plan document for a section 403(b) pre-approved plan that has been submitted to the IRS for a Cycle 2 opinion letter has been properly updated.<sup>1</sup>

Except as provided in section IV of this notice, the IRS will not consider any of the following items in its review of any opinion letter application for Cycle 2:

1. Guidance (regulations and other guidance published in the Internal Revenue Bulletin) issued after November 1, 2021.

2. Statutes enacted after November 1, 2021.

3. Statutes, regardless of when they are enacted, that are first effective in 2022 or later for which there is no guidance identified in this notice.

4. Section 403(b) requirements that are first effective in 2023 or later, regardless of when the section 403(b) requirements are enacted or issued.

The 2022 Cumulative List sets forth only changes in section 403(b) requirements that were not taken into account during Cycle 1. However, in order to satisfy section 403(b) of the Code, a plan must comply with all relevant section 403(b) requirements, not only those on the 2022 Cumulative List.

#### IV. 2022 CUMULATIVE LIST OF CHANGES IN SECTION 403(b) REQUIREMENTS FOR SECTION 403(b) PRE-APPROVED PLANS

The 2022 Cumulative List sets forth items that were enacted or issued after October 1, 2012. However, if a plan was not reviewed during Cycle 1, the IRS will review the plan taking into account items on the 2022 Cumulative List, as well as the section 403(b) requirements that were reviewed during Cycle 1. The section 403(b) requirements reviewed during Cycle 1 included the final regulations under section 403(b) and any applicable requirements of the 2012 Cumulative List of Changes in Plan Qualification Requirements set forth in Notice 2012-76, 2012-52 IRB 775.

##### 1. **Section 401(m):**

###### a. *Safe Harbor Plans*

- Final regulations under section 401(k) and (m) that were published on November 15, 2013 (TD 9641, 78 FR 68735), (1) provide guidance on permitted mid-year reductions or suspensions of safe harbor nonelective contributions in certain circumstances for amendments adopted after May 18, 2009 and (2) revise the require-

<sup>1</sup> The 2022 Cumulative List includes items that are specific to section 403(b) plans, as well as items that, although not specific to section 403(b) plans, are applicable to section 403(b) plans. For example, because § 1.403(b)-6(d)(2) provides that a hardship distribution has the same meaning as a distribution on account of hardship under § 1.401(k)-1(d)(3) and is subject to the rules and restrictions set forth in § 1.401(k)-1(d)(3), the 2022 Cumulative List includes items that changed hardship distribution requirements under § 1.401(k)-1(d)(3).

ments for permitted mid-year reductions or suspensions of safe harbor matching contributions for plan years beginning on or after January 1, 2015.

- Notice 2016-16, 2016-7 IRB 318, permits mid-year changes to a section 401(k) safe harbor plan or section 401(m) safe harbor plan under certain circumstances and if certain conditions are satisfied.

- Notice 2020-52, 2020-29 IRB 79, clarifies the requirements that apply to a mid-year amendment to a safe harbor section 401(k) or 401(m) plan that reduces only contributions made on behalf of highly compensated employees. It also provides, in connection with the ongoing Coronavirus Disease 2019 pandemic, temporary relief (which requires plan language as a condition of obtaining the relief) from certain requirements that would otherwise apply to a mid-year amendment to a safe harbor section 401(k) or 401(m) plan adopted between March 13, 2020, and August 31, 2020, that reduces or suspends safe harbor contributions.

- Section 102 of the Setting Every Community Up for Retirement Enhancement Act of 2019 (SECURE Act), Pub. L. 116-94, 133 Stat. 2534, amends section 401(k)(13)(C)(iii) of the Code to increase the 10-percent cap for automatic enrollment safe harbor plans (including certain section 401(m) safe harbor plans).

- Section 103 of the SECURE Act amends section 401(k) of the Code to (1) eliminate certain safe harbor notice requirements for plans (including certain section 401(m) safe harbor plans) that provide for safe harbor nonelective contributions and (2) add new provisions for the retroactive adoption of safe harbor status for those plans.

- Notice 2020-86, 2020-53 IRB 1786, provides guidance with respect to sections 102 and 103 of the SECURE Act.

#### *b. Definition of Qualified Matching Contributions*

- Proposed regulations under section 401(k) and (m) of the Code that were published on January 18, 2017 (82 FR 5477), amend the definitions of qualified matching contributions (QMACs) and qualified nonelective contributions (QNECs) to provide that QMACs and QNECs must satisfy applicable nonfor-

feitability and distribution requirements at the time they are allocated to participants' accounts, but need not meet these requirements when they are contributed to the plan. The proposed regulations apply only to taxable years beginning on or after the publication of final regulations, but taxpayers may choose to rely on the proposed regulations upon publication and for prior periods.

- Final regulations under section 401(k) and (m) that were published on July 20, 2018 (TD 9835, 83 FR 34469), amend the definitions of QMACs and QNECs to provide that QMACs and QNECs must satisfy applicable nonforfeitability and distribution requirements at the time they are allocated to participants' accounts, but need not meet these requirements when they are contributed to the plan.

### **2. Section 403(b)(7) and (11):**

#### *a. In-Plan Roth Rollovers*

- Section 902 of the American Taxpayer Relief Act of 2012, Pub. L. 112-240, 126 Stat. 2313 (2013), adds section 402A(c)(4)(E) of the Code, which provides that rollovers from a plan account to the plan's designated Roth account may include a rollover of an otherwise nondistributable amount.

- Notice 2013-74, 2013-52 IRB 819, provides guidance regarding amounts transferred to a designated Roth account as described in section 402A(c)(4)(E) and also provides guidance that applies to all in-plan Roth rollovers under section 402A(c)(4).

#### *b. Hardship Distributions*

- Section 41113 of the Bipartisan Budget Act of 2018 (BBA), Pub. L. 115-123, 132 Stat. 64, in part, directs the Secretary of the Treasury to modify Treas. Reg. § 1.401(k)-1(d)(3)(iv)(E) to delete the 6-month prohibition on contributions after a hardship distribution and to make any other modifications necessary to carry out the purposes of section 401(k)(2)(B)(i)(IV) of the Code.

- Section 41114 of the BBA amends section 401(k) of the Code to modify the hardship distribution rules to expand the sources of hardship distributions to

include elective contributions, qualified nonelective contributions, qualified matching contributions, and earnings on those contributions. The rules relating to hardship distributions of elective contributions from a section 401(k) plan generally apply to section 403(b) plans. However, because section 403(b)(11) of the Code was not amended by section 41114 of the BBA, earnings attributable to section 403(b) elective deferrals continue to be ineligible for hardship distribution.

- Proposed regulations under section 401(k) of the Code that were published on November 14, 2018 (83 FR 56763), amend the rules relating to hardship distributions from section 401(k) plans to reflect statutory changes affecting section 401(k) plans, including changes made by the BBA. Under the proposed regulations, the changes to the hardship distribution rules made by the BBA generally apply to distributions made in plan years beginning after December 31, 2018. However, the prohibition on suspending an employee's elective contributions and employee contributions as a condition of obtaining a hardship distribution may be applied as of the first day of the first plan year beginning after December 31, 2018, even if the distribution was made in the prior plan year. In addition, the revised list of safe harbor expenses for which distributions are deemed to be made on account of an immediate and heavy financial need may be applied to distributions made on or after a date that is as early as January 1, 2018.

- Final regulations under section 401(k) that were published on September 23, 2019 (TD 9875, 84 FR 49651), amend the rules relating to hardship distributions from section 401(k) plans to reflect statutory changes affecting section 401(k) plans, including recent changes made by the BBA.

#### *c. Lifetime Income Investment Options*

- Section 109 of the SECURE Act provides that section 403(b) plans may permit certain transfers and distributions of lifetime income investment options in cases in which the investment options are no longer authorized to be held as investment options under the plan.

#### *d. Distribution of Individual Custodial Accounts Upon Plan Termination*

• Section 110 of the SECURE Act provides that the Secretary of the Treasury shall issue guidance providing that, if an employer terminates a plan under which amounts are contributed to a custodial account under section 403(b)(7) of the Code, the plan administrator or custodian may distribute an individual custodial account (ICA) in kind to a participant or beneficiary of the plan. It also provides that the distributed custodial account will be maintained by the custodian on a tax-deferred basis as a section 403(b)(7) custodial account, similar to the treatment of fully paid individual annuity contracts under Rev. Rul. 2011-7, until amounts are actually paid to the participant or beneficiary.

• Rev. Rul. 2020-23, 2020-47 IRB 1028, pursuant to section 110 of the SECURE Act, provides that, under the situations described in the revenue ruling, a section 403(b) plan may be terminated in accordance with the rules of § 1.403(b)-10(a) using a distribution of an ICA in kind to a participant or beneficiary, and such a distribution is not includible in gross income until amounts are actually paid to the participant or beneficiary out of the ICA, so long as the ICA maintains its status as a section 403(b)(7) custodial account.

#### *e. Qualified Birth or Adoption Distributions*

• Section 113 of the SECURE Act amends section 72(t)(2) of the Code to add a new exception to the 10-percent additional tax for any qualified birth or adoption distribution. An individual generally may recontribute a qualified birth or adoption distribution (not to exceed the aggregate amount of all qualified birth and adoption distributions made to the individual from the plan) to an applicable eligible retirement plan in which the individual is a beneficiary and to which a rollover may be made.

• Notice 2020-68, 2020-38 IRB 567, provides guidance with respect to the SECURE Act, including section 113 of the SECURE Act.

#### **3. Section 403(b)(8):**

• Section 306 of the Protecting Americans from Tax Hikes Act of 2015 (PATH Act), Pub. L. 114-113, 129 Stat. 2242, amends section 408(p)(1)(B) of the Code to permit rollovers from a section 403(b) plan to a SIMPLE IRA.

• Section 41104 of the BBA adds section 6343(f) of the Code to hold an individual harmless in the case of a wrongful levy upon an eligible retirement plan. The eligible retirement plan may permit the contribution of any property or money returned to the individual as a result of the wrongful levy, and such contribution will be treated as a rollover.

#### **4. Section 403(b)(9):**

• Section 111 of the SECURE Act amends section 403(b)(9) of the Code to clarify that an employee described in section 414(e)(3)(B) may be included in a section 403(b)(9) retirement income account.

#### **5. Section 403(b)(10):**

• Final regulations under section 401(a)(9) that were published on July 2, 2014 (TD 9673, 79 FR 37633), provide a limited modification of the required minimum distribution rules for section 403(b) plans holding qualifying longevity annuity contracts.

• Section 114 of the SECURE Act amends section 401(a)(9)(C)(i)(I) of the Code to increase the age with respect to which the required beginning date for required minimum distributions is determined from age 70½ to age 72.

• Section 401 of the SECURE Act amends section 401(a)(9) of the Code to provide new required minimum distribution rules for designated beneficiaries.

#### **6. Section 403(b)(12):**

• Notice 2018-95, 2018-52 IRB 1058, provides transition relief from the “once-in-always-in” condition for excluding part-time employees under § 1.403(b)-5(b)(4)(iii)(B), including relief regarding plan language for section 403(b) pre-approved plans.

#### **7. Section 415:**

• Section 116 of the SECURE Act amends section 415(c) of the Code to treat difficulty of care payments that are excluded from gross income as compensation for determining retirement contribution limitations.

• Notice 2020-68 provides guidance with respect to the SECURE Act, including section 116 of the SECURE Act.

#### **8. Definition of Spouse:**

• *United States v. Windsor*, 570 U.S. 744 (2013). The Supreme Court found that section 3 of the Defense of Marriage Act (DOMA), which provides that, in determining the meaning of any Act of Congress or of any ruling, regulation, or interpretation of the various administrative bureaus and agencies of the United States, the word “marriage” means only a legal union between one man and one woman as husband and wife, and the word “spouse” refers only to a person of the opposite sex who is a husband or a wife, is unconstitutional because it violates the principles of equal protection.

• Rev. Rul. 2013-17, 2013-38 IRB 201, provides that for Federal tax purposes, the terms “spouse,” “husband and wife,” “husband,” and “wife” include an individual married to a person of the same sex if the individuals are lawfully married under state law, and the term “marriage” includes such a marriage between individuals of the same sex, and the IRS adopts a general rule recognizing a marriage of same-sex individuals that was validly entered into in a state whose laws authorize the marriage of two individuals of the same sex even if the married couple is domiciled in a state that does not recognize the validity of same-sex marriages.

• Notice 2014-19, 2014-17 IRB 979, provides guidance on the application (including the retroactive application) of the decision in *United States v. Windsor*, and the holdings of Rev. Rul. 2013-17, to retirement plans qualified under section 401(a) of the Code.<sup>2</sup>

• Notice 2014-37, 2014-24 IRB 1100, provides guidance on a mid-year amend-

<sup>2</sup>For the application of Notice 2014-19 to section 403(b) plans, see Frequently Asked Question 5 <https://www.irs.gov/retirement-plans/application-of-the-windsor-decision-and-post-windsor-published-guidance-to-qualified-retirement-plans-faqs>.



ment to a section 401(k) safe harbor plan or section 401(m) safe harbor plan to reflect the outcome of *United States v. Windsor*, pursuant to Notice 2014-19.

- Final regulations under section 7701 that were published on September 2, 2016 (TD 9785, 81 FR 60609), define terms describing the marital status of taxpayers for federal tax purposes.

#### **9. Disaster-related Rules:**

- Section 502 of the Disaster Tax Relief and Airport and Airway Extension Act of 2017, Pub. L. 115-63, 131 Stat. 1168, as amended by section 20201 of the BBA, provides special disaster-related rules for use of retirement funds.

- Section 11028 of the Tax Cuts and Jobs Act of 2017 (TCJA), Pub. L. 115-97, 131 Stat. 2054, provides special disaster-related rules for use of retirement funds.

- Section 20101 of the BBA provides special disaster-related rules for use of retirement funds.

- Section 202 of the Taxpayer Certainty and Disaster Tax Relief Act of 2019, Pub. L. 116-94, 133 Stat. 2534, provides special disaster-related rules for use of retirement funds.

- Section 2202 of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), Pub. L. 116-136, 134 Stat. 281 (2020), provides special rules for coronavirus-related distributions and plan loans made to qualified individuals.

- Notice 2020-50, 2020-28 IRB 35, provides guidance relating to the application of section 2202 of the CARES Act for qualified individuals and eligible retirement plans.

- Section 302 of the Taxpayer Certainty and Disaster Tax Relief Act of 2020, Pub. L. 116-260, 134 Stat. 1182, provides special disaster-related rules for use of retirement funds.

#### **10. Church Plan Clarification:**

- Section 336 of the PATH Act amends section 414(c) of the Code to provide special rules for church plans for purposes of

determining controlled groups, automatic enrollment arrangements, certain plan transfers and mergers, and investments in collective trusts.

- Notice 2018-81, 2018-43 IRB 666, which provides guidance under section 336(a) of the PATH Act, describes the manner in which taxpayers notify the IRS of revocation of an election to aggregate or disaggregate certain church-related organizations from treatment as a single employer under section 414(c)(2)(C) and (D).

#### **V. DRAFTING INFORMATION**

The principal author of this notice is Patrick Gutierrez of the Office of Associate Chief Counsel (Employee Benefits, Exempt Organizations, and Employment Taxes). For further information regarding this notice, contact Employee Plans at (513) 975-6319 (not a toll-free number).

*26 CFR 1.6012-1: Individuals required to make returns of income.*

## **Rev. Proc. 2022-12**

### **SECTION 1. PURPOSE**

.01 This revenue procedure provides procedures for individuals who are not otherwise required to file Federal income tax returns for taxable year 2021 to claim the child tax credit under § 24, to claim the 2021 recovery rebate credit under § 6428B, and to claim the earned income credit under § 32.<sup>1</sup> Section 2 of this revenue procedure describes these Federal income tax benefits in further detail. Section 3 of this revenue procedure describes the scope of the procedures provided in this revenue procedure.

.02 Section 4 of this revenue procedure provides an electronic filing procedure for individuals who (i) are not required to file a Federal income tax return for taxable year 2021 and (ii) had zero adjusted gross income (AGI) for taxable year 2021. These individuals generally are not able to file Federal income tax returns electronically due to certain tax return preparation

software and return processing parameters. Because Federal income tax returns filed on paper do not pose this processing issue, section 4 of this revenue procedure does not apply to a Federal income tax return filed on paper, although the procedures provided by section 5 and section 6 of this revenue procedure do apply to paper-filed returns.

.03 Section 5 of this revenue procedure provides a simplified Federal income tax return filing procedure for individuals who (i) are not required to file a Federal income tax return for taxable year 2021, (ii) had gross income that was less than their applicable standard deduction amount for taxable year 2021, and (iii) are not eligible for the earned income credit for taxable year 2021 (for example, because they did not have earned income during taxable year 2021 for purposes of the earned income credit) or do not want to claim the credit.

.04 Section 6 of this revenue procedure provides a simplified Federal income tax return filing procedure for individuals who (i) are not required to file a Federal income tax return for taxable year 2021, (ii) had gross income that was less than their applicable standard deduction amount for taxable year 2021, and (iii) had earned income during taxable year 2021 for purposes of the earned income credit.

### **SECTION 2. BACKGROUND**

.01 *Child Tax Credit for Taxable Year 2021.*

(1) *Overview.* Section 9611(a), (b)(1), and (b)(2) of the American Rescue Plan Act of 2021 (American Rescue Plan), Public Law 117-2, 135 Stat. 4, 144-149 (March 11, 2021), added §§ 24(i), 24(j), and 7527A to the Code. Section 24(i) modifies the child tax credit rules set forth in § 24 for any taxable year beginning after December 31, 2020, and before January 1, 2022 (taxable year 2021).

(2) *Credit allowed.* Under § 24(a), a taxpayer may claim a child tax credit against the taxpayer's Federal income tax (as imposed by chapter 1 of subtitle A of the Code) for the taxable year with respect to each CTC qualifying child (as defined

<sup>1</sup> Unless otherwise specified, all "section" or "§" references are to sections of the Internal Revenue Code (Code).



in section 2.01(5) of this revenue procedure) of the taxpayer.

(3) *Credit fully refundable.* The child tax credit for taxable year 2021 is fully refundable for a taxpayer if the taxpayer (or spouse, if filing a joint return) has a principal place of abode in the United States (determined as provided in § 32) for more than one-half of taxable year 2021. *See* § 24(i)(1). Full refundability means that taxpayers can benefit from the maximum amount of the credit even if they do not have earned income or do not owe any Federal income tax for taxable year 2021.

(4) *Credit amounts.* Taxpayers claiming the child tax credit for taxable year 2021 may receive up to \$3,000 for each CTC qualifying child who is between the ages of 6 and 17 as of the end of taxable year 2021 and \$3,600 for each CTC qualifying child who is under the age of 6 as of the end of taxable year 2021. *See* § 24(i)(2) and (3).

(5) *CTC qualifying child.* A “CTC qualifying child” is a qualifying child of the taxpayer (as defined in § 152(c)) who has not attained age of 18 at the close of taxable year 2021. *See* § 24(i)(2)(A). No child tax credit is allowed for a qualifying child unless the social security number (SSN) of the child, which must be valid for employment and be issued by the Social Security Administration before the due date of the taxpayer’s taxable year Federal income tax return (including extensions), is provided on the return. *See* § 24(h)(7). If the taxpayer’s child was a U.S. citizen when the child received the SSN, the SSN is valid for employment.

(6) *Nonresident aliens.* Only certain nonresident aliens who are U.S. nationals; residents of Canada, Mexico, or South Korea; or students and business apprentices from India who qualify for benefits under Article 21(2) of the income tax treaty with India may claim the child tax credit or credit for other dependents (described in section 2.03 of this revenue procedure).

(7) *Reconciliation requirement regarding credit and advance payments.*

(a) *Overview of reconciliation requirement.* Taxpayers who received advance child tax credit payments (described in section 2.02(1) of this revenue procedure) during calendar year 2021 must reduce (but not below zero) the amount of the child tax credit claimed for taxable year

2021 by the total amount of those advance child tax credit payments. *See* § 24(j)(1). If the amount of a taxpayer’s advance child tax credit payments received in calendar year 2021 exceeds the taxpayer’s allowable child tax credit for taxable year 2021, the taxpayer’s Federal income tax imposed for taxable year 2021 will be increased by the excess. *See* § 24(j)(2)(A).

(b) *Safe harbor based on modified AGI.* The amount by which a taxpayer’s Federal income tax for taxable year 2021 is increased by operation of § 24(j)(2)(A) may be reduced or eliminated if the taxpayer qualifies for the statutory safe harbor set forth in § 24(j)(2)(B). Under § 24(j)(2)(B), a taxpayer’s increase in tax is reduced by the “safe harbor amount.” The safe harbor amount is equal to a maximum of \$2,000 multiplied by the difference in the number of CTC qualifying children the Internal Revenue Service (IRS) included when estimating the taxpayer’s advance child tax credit payments disbursed in calendar year 2021 and the number of CTC qualifying children properly taken into account in determining the allowed child tax credit amount (excess qualifying child). *See* § 24(j)(2)(B)(iv). The safe harbor amount reduces to zero as a taxpayer’s modified AGI exceeds certain income thresholds. *See* § 24(j)(2)(B)(ii). Because the income thresholds of this revenue procedure are lower than those of the safe harbor, an individual within the scope of this revenue procedure will qualify for the full safe harbor and will not have to repay any increase in tax if the increase in tax is attributable to the individual’s excess qualifying children. The increase in tax will be attributable to the individual’s excess qualifying children if the individual’s main home was in the United States for more than half of taxable year 2021.

.02 *Advance Child Tax Credit Payments for Calendar Year 2021.*

(1) *In general.* Section 7527A(a) requires the Secretary of the Treasury or her delegate (Secretary) to establish a program for making periodic advance child tax credit payments to taxpayers the total of which, during any calendar year, equals the “annual advance amount” (as defined in § 7527A(b)(1)) determined with respect to that taxpayer for that calendar year. These advance child tax credit payments were required to be made between July 1,

2021, and December 31, 2021, and generally were disbursed in equal amounts. *See* §§ 7527A(a), (b)(3), and (f).

(2) *Definition of annual advance amount.* Section 7527A(b)(1) defines the term “annual advance amount” to mean, with respect to any taxpayer for any calendar year, the amount (if any) that the Secretary estimates as being equal to 50 percent of the refundable child tax credit amount that would be treated as allowed by reason of § 24(i)(1) for the taxpayer’s taxable year beginning in that calendar year if:

(a) The U.S. principal place of abode status is determined with respect to the “reference taxable year,” as defined in § 7527A(b)(2);

(b) The taxpayer’s modified AGI for that taxable year is equal to the taxpayer’s modified AGI for the reference taxable year;

(c) The only children of the taxpayer for that taxable year are qualifying children properly claimed on the taxpayer’s return of tax for the reference taxable year; and

(d) The ages of those children (and the status of those children as CTC qualifying children) are determined for that taxable year by taking into account the passage of time since the reference taxable year.

.03 *Credit for Other Dependents.* For a taxable year beginning after December 31, 2017, and before January 1, 2026, a \$500 credit may be available for a dependent of the taxpayer (within the meaning of § 152) who is not a CTC qualifying child or who is a CTC qualifying child but does not have an SSN valid for employment. *See* § 24(h)(4). The credit for other dependents is not addressed by this revenue procedure because the credit cannot be claimed unless income tax is owed and therefore is not applicable to individuals within the scope of this revenue procedure.

.04 *Earned Income Credit.*

(1) *Overview.* The earned income credit is a refundable credit that low- to moderate-income individuals and families may claim. Section 32(a) provides that, in the case of an eligible individual, there is allowed as a credit against the tax imposed by subtitle A of the Code for the taxable year an amount equal to the credit percentage of so much of the taxpayer’s earned

income for the taxable year as does not exceed the earned income amount.

(2) *Amount of credit.*

(a) *Maximum amounts.* For taxable year 2021, the four maximum amounts of the earned income credit are the following:

(i) \$1,502, if the eligible individual does not have a “qualifying child,” as defined in § 32(c)(3) (EIC qualifying child), or if none of the eligible individual’s EIC qualifying children has a valid SSN;

(ii) \$3,618, if the eligible individual has one EIC qualifying child who has a valid SSN;

(iii) \$5,980, if the eligible individual has two EIC qualifying children who have valid SSNs; and

(iv) \$6,728, if the eligible individual has three or more EIC qualifying children who have valid SSNs.

(b) *Factors for determining credit amount.* The amount of the earned income credit that can be claimed by an eligible individual depends on the following factors:

(i) The individual’s “earned income amount,” which is the amount of earned income at or above which the maximum amount of the earned income credit is allowed.

(ii) The individual’s “applicable percentage,” which depends on the number of the individual’s EIC qualifying children, if any.

(iii) The individual’s applicable phase-out amount. With regard to that amount, each individual has a “threshold phaseout amount” and a “completed phaseout amount,” both of which depend on the individual’s income and filing status. The “threshold phaseout amount” is the amount of AGI (or, if greater, earned income) above which the maximum amount of the credit begins to phase out. The “completed phaseout amount” is the amount of AGI (or, if greater, earned income) at or above which no credit is allowed. *See generally* § 32(a), (b), and (n). *See also* Rev. Proc. 2021-23, 2021-19 I.R.B. 1153.

(3) *SSN requirement.* To claim the earned income credit for taxable year 2021, the eligible individual (and spouse, if filing a joint return) must have a valid SSN issued by the Social Security Administration by the due date of the individual’s Federal income tax return (including

extensions). The individual is not permitted to claim the earned income credit if the individual’s SSN is not valid for employment and was issued for purposes of receiving a federally funded benefit. *See generally* § 32(c)(1)(E) and (m).

(4) *Eligibility.*

(a) *In general.* Individuals who are eligible to claim the earned income credit include individuals who have an EIC qualifying child for taxable year 2021, as well as individuals who do not have an EIC qualifying child but satisfy the three following eligibility conditions for taxable year 2021. *See* § 32(c)(1)(A). First, the individual has a principal place of abode in the United States (determined as provided in § 32) for more than one-half of taxable year 2021. *See* § 32(c)(1)(A)(ii)(I). Second, the individual (or spouse, if filing a joint return) has attained age 19 (except for specified students who are eligible to claim the earned income credit if they have attained age 24, and qualified homeless youth or qualified former foster youth who are eligible to claim the earned income credit if they have attained age 18). *See* § 32(c)(1)(A)(ii)(II) and (n). Third, the individual is not a dependent for whom a deduction is allowable under § 151 to another taxpayer for taxable year 2021. *See* § 32(c)(1)(A)(ii)(III).

(b) *Eligibility restrictions.* An individual who elects for the taxable year to exclude foreign earned income and housing cost amount under § 911 is not an eligible individual for that taxable year. *See* § 32(c)(1)(C). In addition, an individual is not eligible for the earned income credit if he or she is a nonresident alien individual for any portion of taxable year 2021, unless the individual is treated as a resident of the United States for taxable year 2021 by reason of having made the election under § 6013(g) or § 6013(h). *See* § 32(c)(1)(D). Lastly, an individual who is the EIC qualifying child of a taxpayer for taxable year 2021 is not eligible to claim the earned income credit for taxable year 2021. *See* § 32(c)(1)(B).

.05 *2021 Recovery Rebate Credit and Third-Round Economic Impact Payments.*

(1) *2021 recovery rebate credit.* Section 9601(a) of the American Rescue Plan added § 6428B to the Code. Section 6428B(a) provides an eligible individual a refundable tax credit against the

eligible individual’s Federal income tax liability (as imposed by subtitle A of the Code) for the eligible individual’s taxable year 2021 (2021 recovery rebate credit).

(a) *Definition of eligible individual.* Section 6428B(c) defines the term “eligible individual” for purposes of § 6428B to mean any individual other than (i) a non-resident alien individual, (ii) an individual who is a dependent of another taxpayer (as defined in § 152) for the taxable year, or (iii) an estate or trust.

(b) *Amount of 2021 recovery rebate credit.*

(i) *In general.* Section 6428B(a) provides that the amount of the 2021 recovery rebate credit equals the sum of (i) \$1,400 per eligible individual (\$2,800 in the case of a joint return) and (ii) an amount equal to the product of \$1,400 multiplied by the number of the eligible individual’s dependents (within the meaning of § 152).

(ii) *Reductions in amount due to lack of SSN.* If an eligible individual does not have an SSN, or if two eligible individuals who do not have an SSN file a joint return, § 6428B(e)(2) does not allow the \$1,400 amount for the eligible individual or the \$2,800 amount for the joint return, but will allow an amount for dependents (as defined in § 152) with certain taxpayer identification numbers. Section 6428B(e)(2) reduces the \$2,800 amount for a joint return to \$1,400 if one spouse has an SSN, one spouse does not have an SSN, and neither spouse was a member of the Armed Forces of the United States at any time during the taxable year. Only a dependent with an SSN or an IRS adoption taxpayer identification number (ATIN) is counted for purposes of determining the amount of the 2021 recovery rebate credit. *See* § 6428B(e)(2)(C) and (D). For purposes of qualifying for the 2021 recovery rebate credit, any type of SSN is sufficient if it was issued by the Social Security Administration by the due date of the eligible individual’s 2021 Federal income tax return (including extensions). *See* § 6428B(e)(2)(D)(i).

(iii) *Reduction in amount due to AGI.* Section 6428B(d) provides phaseouts of the credit amount based on an eligible individual’s AGI.

(iv) *Reduction in amount due to receipt of advance payments.* Section 6428B(f) reduces the 2021 recovery rebate credit

amount that an eligible individual may claim by the aggregate refunds allowed to the eligible individual as an advance refund in calendar year 2021 (that is, through the receipt of one or more third-round economic impact payments).

(2) *Economic impact payments.* Section 6428B(g) addresses the payment of advanced refunds and credits during calendar year 2021. It authorized a third round of economic impact payments which followed two earlier rounds of advance refunds and credits for taxable year 2020. See §§ 6428(f) (regarding the first round of economic impact payments), 6428A(f) (regarding the second round of economic impact payments). All third-round economic impact payments under § 6428B(g) have been disbursed.

.06 *Revenue Procedure 2021-24.* Rev. Proc. 2021-24, 2021-29 I.R.B. 19, provided two procedures for individuals not otherwise required to file 2020 Federal income tax returns to file returns to receive certain tax benefits. The first procedure, set forth in section 4 of Rev. Proc. 2021-24, permitted these individuals to file simplified returns to (i) receive advance child tax credit payments during calendar year 2021, (ii) claim the 2020 recovery rebate credit, (iii) claim the additional 2020 recovery rebate credit, and (iv) receive the third-round economic impact payment. The second procedure, set forth in section 5 of Rev. Proc. 2021-24, enabled these individuals who have zero AGI to file complete returns electronically to receive (i) advance child tax credit payments during calendar year 2021 and (ii) the third-round economic impact payment.

### SECTION 3. SCOPE

.01 *Overview.* This revenue procedure allows individuals who are not required to file a Federal income tax return for taxable year 2021 to provide information to the IRS to claim the child tax credit, the 2021 recovery rebate credit, and the earned income credit, as well as for other purposes. Section 4 of this revenue procedure allows individuals described in that section to provide this information through an electronically filed return. The procedures set forth in section 5 and section 6 of this revenue procedure allow the

individuals described in those sections to provide this information in the form of a simplified return, whether filed on paper or electronically.

.02 *Purposes of Zero AGI Filing Procedure under Section 4.* The Department of the Treasury and the IRS are aware that individuals otherwise not required to file Federal income tax returns for taxable year 2021 may want to file Federal income tax returns electronically. These individuals may use tax return preparation software that does not permit them to file pursuant to a simplified procedure provided by section 5 or section 6 of this revenue procedure, or the individuals may need to file complete Federal income tax returns to receive certain State or local benefits. Many Federal income tax returns, however, cannot be filed electronically if the filer reports an AGI of zero (as opposed to an AGI of \$1 or more) and does not claim the 2021 recovery rebate credit, the child tax credit, or any amount as a refund. To facilitate the processing of electronic returns filed by individuals with zero AGI who are not otherwise required to file Federal income tax returns, section 4 of this revenue procedure provides a procedure for these individuals to file complete electronic Federal income tax returns.

.03 *Purpose of Simplified Filing Procedure under Section 5.* Section 5 of this revenue procedure provides a simplified filing procedure that permits individuals who are not required to file a Federal income tax return for taxable year 2021 to receive certain Federal income tax benefits. Specifically, individuals who file a Federal income tax return for taxable year 2021 in accordance with section 5 of this revenue procedure may provide necessary information to claim (i) the child tax credit for taxable year 2021 and (ii) the 2021 recovery rebate credit.

.04 *Purpose of Simplified Filing Procedure under Section 6.* Section 6 of this revenue procedure provides a simplified filing procedure that permits individuals who are not required to file a Federal income tax return for taxable year 2021, but who earned income during 2021 and are eligible to claim the earned income credit, to receive certain Federal income tax benefits. Specifically, eligible indi-

viduals who file a Federal income tax return for taxable year 2021 in accordance with section 6 of this revenue procedure may provide necessary information to claim (i) the earned income credit for taxable year 2021, (ii) the child tax credit for taxable year 2021, and (iii) the 2021 recovery rebate credit. This procedure also permits individuals to claim a refund of withheld Federal income tax for taxable year 2021.

.05 *U.S. Territory Residents Not Eligible.* The procedures provided by this revenue procedure do not apply to a resident of American Samoa, Guam, the Commonwealth of the Northern Mariana Islands, the Commonwealth of Puerto Rico (Puerto Rico), or the U.S. Virgin Islands (each, a U.S. territory). A resident of a U.S. territory should contact their local territory tax agency for additional information about the earned income credit, the child tax credit, and the 2021 recovery rebate credit. However, a resident of Puerto Rico should refer to Form 1040-PR, *Planilla para la Declaración de la Contribución Federal sobre el Trabajo por Cuenta Propia*, or Form 1040-SS, *U.S. Self-Employment Tax Return*, and their instructions, to claim the child tax credit for taxable year 2021.

.06 *Individuals Who Are Required to File a 2021 Federal Income Tax Return Not Eligible.* The procedures provided by this revenue procedure do not apply to individuals who are required to file Federal income tax returns for taxable year 2021 (for example, individuals reconciling advance payment of the premium tax credit under § 36B).

.07 *Individuals Who Previously Filed a 2021 Federal Income Tax Return Not Eligible.* The procedures provided by this revenue procedure do not apply to individuals who already filed a paper or electronic Federal income tax return for taxable year 2021. Such individuals do not need to file any additional forms or otherwise contact the IRS to claim (i) the earned income credit for themselves and each EIC qualifying child, (ii) the child tax credit for each CTC qualifying child, or (iii) a 2021 recovery rebate credit for themselves and each eligible dependent (as defined in § 152), if those credits were claimed on the previously filed return for taxable year 2021.



## SECTION 4. SPECIAL PROCEDURE FOR ZERO AGI FILERS

*.01 Federal Income Tax Return Filed Electronically.*

(1) *Electronic filing procedure.* Subject to section 4.01(2) of this revenue procedure, under the requirements in this section 4, a zero AGI filer may file electronically Form 1040, *U.S. Individual Income Tax Return*, Form 1040-SR, *U.S. Tax Return for Seniors*, or Form 1040-NR, *U.S. Nonresident Alien Income Tax Return*, for taxable year 2021.

(2) *Procedure does not apply to paper returns.* The special procedure in this section 4 applies only to an electronically filed return for a zero AGI filer and does not apply to a return filed on paper.

*.02 Definition of Zero AGI Filer.* For purposes of this section 4, a “zero AGI filer” is an individual—

(1) Who is not required to file a Federal income tax return for taxable year 2021;

(2) Who has gross income for taxable year 2021 that is less than their applicable standard deduction amount;

(3) Who has zero AGI for taxable year 2021 (that is, the individual has zero AGI for taxable year 2021 reportable on line 11 of Form 1040, Form 1040-SR, or Form 1040-NR);

(4) Who has not already filed a Federal income tax return for taxable year 2021;

(5) Who—  
(a) has a principal place of abode in the United States (determined as provided in § 32) for more than one-half of taxable year 2021, or

(b) files a joint return with an individual who satisfies the requirement described in section 4.02(5)(a) of this revenue procedure; and

(6) Who is not a resident of a U.S. territory.

*.03 Required Information.* In addition to all other information required to be entered on Form 1040, Form 1040-SR, or Form 1040-NR, a zero AGI filer must enter the following:

(1) \$1 as taxable interest on line 2b of the form;

(2) \$1 as total income on line 9 of the form; and

(3) \$1 as AGI on line 11 of the form.

*.04 Signature.* A zero AGI filer must sign the return under penalties of perjury,

including the filer’s identity protection personal identification number (that is, the filer’s IP PIN), if applicable, as part of the filer’s signature. In addition, a zero AGI filer may enter the identifying information of any third-party designee, if applicable, at the bottom of page 2 of Form 1040, Form 1040-SR, or Form 1040-NR. A zero AGI filer who has been assigned an IP PIN, but has misplaced it, may retrieve the IP PIN at <https://www.irs.gov/identity-theft-fraud-scams/retrieve-your-ip-pin>.

*.05 Accuracy of Return.* Individuals who report incorrect information regarding qualifying children or other dependents or otherwise provide incorrect information on their returns may be liable for civil or criminal penalties. However, the IRS will not challenge the accuracy of the items of income reported on a return that an individual files in accordance with this section 4 if the individual is eligible to use the procedure in this section 4 and the instructions in this section 4 direct that the items be so reported.

## SECTION 5. SPECIAL PROCEDURE FOR CTC/RRC FILERS

*.01 Federal Income Tax Return Filed on Paper or Electronically.* Under the simplified procedure set forth in this section 5, a simplified return may be filed, on paper or electronically, for taxable year 2021 on a Form 1040, Form 1040-SR, or Form 1040-NR. A Federal income tax return for taxable year 2021 filed under the simplified procedure in this section 5 will result in the following:

(1) The CTC/RRC filer may claim the child tax credit for taxable year 2021.

(2) The CTC/RRC filer may claim the 2021 recovery rebate credit for taxable year 2021. A nonresident alien is not eligible under § 6428B(c)(1) to claim the 2021 recovery rebate credit.

*.02 Definition of CTC/RRC Filer.* For purposes of this section 5, a “CTC/RRC filer” is an individual—

(1) Who is not required to file a Federal income tax return for taxable year 2021;

(2) Who has gross income for taxable year 2021 that is less than their applicable standard deduction amount;

(3) Who has not already filed a paper or electronic Federal income tax return for taxable year 2021;

(4) Who has an SSN or IRS individual taxpayer identification number (ITIN);

(5) Who—

(a) has a principal place of abode in the United States (determined as provided in § 32) for more than one-half of taxable year 2021, or

(b) files a joint return with an individual who satisfies the requirement described in section 5.02(5)(a) of this revenue procedure; and

(6) Who is not a resident of a U.S. territory.

*.03 Simplified Filing Method.*

(1) *Overview.* In the case of a CTC/RRC filer, the IRS will process the filer’s Form 1040, Form 1040-SR, or Form 1040-NR for taxable year 2021 to calculate the Federal income tax benefits described in section 5.01 of this revenue procedure if the form is prepared in the manner required by this section 5.03. The Form 1040, Form 1040-SR, or Form 1040-NR must include the information described in this section 5.03.

(2) *Write Rev. Proc. 2022-12 on form.* A CTC/RRC filer who files the Form 1040, Form 1040-SR, or Form 1040-NR on paper must indicate “Rev. Proc. 2022-12” above the printed material at the top of page 1.

(3) *Required general information.*

(a) *Filing status.* A CTC/RRC filer must select their filing status for taxable year 2021 at the top of Form 1040, Form 1040-SR, or Form 1040-NR.

(b) *Personal information.* A CTC/RRC filer must enter their name, mailing address, and SSN or ITIN, and the name and SSN or ITIN of their spouse if filing a joint return, on the appropriate lines of Form 1040, Form 1040-SR, or Form 1040-NR.

(4) *Individuals who could be claimed as dependents by other individuals.* A CTC/RRC filer must check the applicable boxes in the top line of the “Standard Deduction” section of the Form 1040, Form 1040-SR, or Form 1040-NR for each individual who can be claimed as a dependent by any other individual for taxable year 2021.

(5) *General information regarding dependents.*

(a) *In general.* A CTC/RRC filer should complete the appropriate lines in the “Dependents” section of Form 1040, Form 1040-SR, or Form 1040-NR regarding



each dependent for taxable year 2021 who has an SSN or an ATIN. For each individual claimed as a dependent, a CTC/RRC filer must provide the name, SSN or ATIN, and relationship to the individual.

(b) *CTC qualifying children.* A CTC/RRC filer should check the child tax credit box in Column (4) of the “Dependents” section for each dependent who is a CTC qualifying child for taxable year 2021 who has an SSN that is valid for employment.

(6) *Limited information to provide in lines 1 through 38.* A CTC/RRC filer must leave blank lines 1 through 38 of Form 1040, Form 1040-SR, or Form 1040-NR even if the values for these lines are in fact not zero, except as provided in this section 5.03(6):

(a) *Line 12 (standard deduction or itemized deductions).* A CTC/RRC filer must enter the applicable standard deduction amount for their filing status on line 12a (standard deduction or itemized deductions) and line 12c (sum of lines 12a and 12b). The filer must leave line 12b blank.

(b) *Line 14 (sum of lines 12c and 13).* A CTC/RRC filer must enter the amount entered on line 12c.

(c) *Line 15 (taxable income).* A CTC/RRC filer must enter \$0 on line 15.

(d) *Line 28 (2021 child tax credit entry).* A CTC/RRC filer may enter the amount of the filer’s child tax credit for taxable year 2021 on line 28. The credit amount may be computed using Schedule 8812 (Form 1040), available at <https://www.irs.gov/Schedule8812>, and information from the filer’s Letter 6419 or the filer’s IRS online account at <https://www.irs.gov/account>. must attach the Schedule 8812 to the filer’s Form 1040, Form 1040-SR, or Form 1040-NR. Providing the correct amount of the filer’s child tax credit for taxable year 2021 will allow for faster processing of the return and issuance of any tax refund. The IRS will correct any incorrect amount claimed on line 28, but the correction will delay processing of the return and the issuance of any tax refund.

(e) *Line 30 (2021 recovery rebate credit entry).* A CTC/RRC filer may enter the amount of the filer’s 2021 recovery rebate credit on line 30. The credit amount may be computed using the Recovery Rebate Credit Worksheet for line 30 in the 2021 Instructions for Form 1040 and Form

1040-SR, available at <https://www.irs.gov/Form1040>, and information from the filer’s Letter 6475 or the filer’s IRS online account at <https://www.irs.gov/account>. Providing the correct amount of the filer’s 2021 recovery rebate credit will allow for faster processing of the return and issuance of any tax refund. The IRS will correct any incorrect amount (other than \$0) claimed on line 30, but the correction will delay processing of the return and the issuance of any tax refund.

(f) *Lines 32 through 35a.* A CTC/RRC filer must enter the sum of lines 28 and 30 on lines 32 through 35a.

(g) *Line 35a checkbox (split direct deposit indicator).* A CTC/RRC filer may not check the box on line 35a.

(h) *Lines 35b through 35d (direct deposit information).* A CTC/RRC filer may request the direct deposit of their taxable year 2021 tax refund into an account at a bank or other financial institution by entering the information on lines 35b through 35d. The CTC/RRC filer must not request their taxable year 2021 tax refund be deposited into an account that is not in the name of that filer (for example, a CTC/RRC filer must not request a direct deposit of their taxable year 2021 tax refund into their tax return preparer’s account).

.04 *Signature.* A CTC/RRC filer must sign the return under penalties of perjury, including the filer’s identity protection personal identification number (that is, the filer’s IP PIN), if applicable, as part of the filer’s signature. In addition, the CTC/RRC filer may enter the identifying information of any third-party designee, if applicable, at the bottom of page 2 of Form 1040, Form 1040-SR, or Form 1040-NR. A CTC/RRC filer who has been assigned an IP PIN, but has misplaced it, may retrieve the IP PIN at <https://www.irs.gov/identity-theft-fraud-scams/retrieve-your-ip-pin>.

.05 *Simplified Return Is a Federal Income Tax Return.* A simplified return completed in accordance with the procedure described in section 5.03 of this revenue procedure is a taxable year 2021 Federal income tax return for all purposes, whether filed on paper or electronically.

.06 *Accuracy of Return.* Individuals who report incorrect information regarding qualifying children or other dependents or otherwise provide incorrect infor-

mation on simplified returns may be liable for civil or criminal penalties. However, the IRS will not challenge the omission of the items of income on a simplified return that an individual files in accordance with this section 5 if the individual is eligible to use the procedure in this section 5 and the instructions in this section 5 direct that the items be omitted.

## SECTION 6. SPECIAL PROCEDURE FOR EIC/CTC/RRC FILERS

.01 *Federal Income Tax Return Filed on Paper or Electronically.* Under the simplified procedure set forth in this section 6, a simplified return may be filed, on paper or electronically, on a Form 1040 or Form 1040-SR. A Federal income tax return for taxable year 2021 filed under the simplified procedure in this section 6 will result in the following:

(1) The EIC/CTC/RRC filer may claim the earned income credit for taxable year 2021.

(2) The EIC/CTC/RRC filer may claim the child tax credit for taxable year 2021.

(3) The EIC/CTC/RRC filer may claim the 2021 recovery rebate credit for taxable year 2021.

.02 *Definition of EIC/CTC/RRC Filer.* For purposes of this section 6, an “EIC/CTC/RRC filer” is an individual--

(1) Who is not required to file a Federal income tax return for taxable year 2021;

(2) Who has gross income for taxable year 2021 that is less than their applicable standard deduction amount;

(3) Who has earned income (as defined in § 32(c)(2)) for taxable year 2021, and has--

(a) no income other than such earned income required to be reported on line 1 of the Form 1040 or Form 1040-SR (Form W-2 earned income), or

(b) income in addition to Form W-2 earned income, but has gross income for taxable year 2021 that is less than their applicable earned income credit “threshold phaseout amount” (as provided in section 2.04(2)(b)(iii) of this revenue procedure);

(4) Who does not have an aggregate amount of disqualified income (as defined in § 32(i)(2)) in excess of \$10,000;

(5) Who has not already filed a paper or electronic Federal income tax return for taxable year 2021;

(6) Who has an SSN that is valid for the earned income credit, as described in section 2.04(3) of this revenue procedure;

(7) Who is a United States citizen or resident alien (or is treated as a United States resident alien in accordance with an election under § 6013(g) or (h));

(8) Who--

(a) has a principal place of abode in the United States (determined as provided in § 32) for more than one-half of taxable year 2021, or

(b) files a joint return with an individual who satisfies the requirement described in section 6.02(8)(a) of this revenue procedure; and

(9) Who is not a resident of a U.S. territory.

### .03 Simplified Filing Method.

(1) *Overview.* In the case of an EIC/CTC/RRC filer, the IRS will process the filer's Form 1040 or Form 1040-SR for taxable year 2021 to calculate the Federal income tax benefits described in section 6.01 of this revenue procedure if the form is prepared in the manner required by this section 6.03. The Form 1040 or Form 1040-SR must include the information described in this section 6.03.

(2) *Write Rev. Proc. 2022-12 on form.* An EIC/CTC/RRC filer who files the Form 1040 or Form 1040-SR on paper must indicate "Rev. Proc. 2022-12" above the printed material at the top of page 1.

(3) *Required general information.*

(a) *Filing status.* An EIC/CTC/RRC filer must select their filing status for taxable year 2021 at the top of Form 1040 or Form 1040-SR.

(b) *Personal information.* An EIC/CTC/RRC filer must enter their name, mailing address, and SSN, and the name and SSN of their spouse if filing a joint return, on the appropriate lines of Form 1040 or Form 1040-SR.

(4) *Individuals who could be claimed as dependents by other individuals.* An EIC/CTC/RRC filer must check the applicable boxes in the top line of the "Standard Deduction" section of the Form 1040 or Form 1040-SR for each individual who can be claimed as a dependent by any other individual for taxable year 2021.

(5) *General information regarding dependents.*

(a) *In general.* An EIC/CTC/RRC filer should complete the appropriate lines in

the "Dependents" section of Form 1040 or Form 1040-SR regarding each dependent for taxable year 2021 who has an SSN, ITIN, or an ATIN. For each individual claimed as a dependent, an EIC/CTC/RRC filer must provide the name, SSN, ITIN, or ATIN, and relationship to the individual.

(b) *CTC qualifying children.* An EIC/CTC/RRC filer should check the child tax credit box in Column (4) for each dependent who is a CTC qualifying child for taxable year 2021 who has an SSN that is valid for employment.

(6) *Limited information to provide in lines 1 through 38.* An EIC/CTC/RRC filer must complete lines 1 through 38 of Form 1040 or Form 1040-SR in accordance with this section 6.03(6). In each instance in which this section 6.03(6) requires the EIC/CTC/RRC filer to leave a line blank on Form 1040 or Form 1040-SR, such line must be left blank even if the value for such line is in fact not zero.

(a) *Line 1 (wages, salaries, tips, etc.).* An EIC/CTC/RRC filer must enter the total of the filer's total Form W-2 earned income for taxable year 2021.

(b) *Lines 2 through 8.* An EIC/CTC/RRC filer must leave lines 2a through 8 blank.

(c) *Line 9 (total income).* An EIC/CTC/RRC filer must enter the amount provided on line 1.

(d) *Line 10.* An EIC/CTC/RRC filer must leave line 10 blank.

(e) *Line 11 (adjusted gross income).* An EIC/CTC/RRC filer must enter the amount provided on line 1.

(f) *Line 12 (standard deduction or itemized deductions).* An EIC/CTC/RRC filer must enter the applicable standard deduction amount for their filing status on line 12a (standard deduction or itemized deductions) and line 12c (sum of lines 12a and 12b). The filer must leave line 12b blank.

(g) *Line 13.* An EIC/CTC/RRC filer must leave line 13 blank.

(h) *Line 14 (sum of lines 12c and 13).* An EIC/CTC/RRC filer must enter the amount entered on line 12c.

(i) *Line 15 (taxable income).* An EIC/CTC/RRC filer must enter \$0.

(j) *Lines 16 through 24.* An EIC/CTC/RRC filer must leave lines 16 through 24 blank.

(k) *Line 25 (federal tax withheld).* An EIC/CTC/RRC filer may—but is not required to—enter the total of the amounts shown as Federal income tax withheld on each Form W-2 of the EIC/CTC/RRC filer on lines 25a and 25d. If the EIC/CTC/RRC filer does not enter the total amounts withheld, the filer must leave lines 25a and 25d blank. The EIC/CTC/RRC filer must leave lines 25b and 25c blank.

(l) *Line 26.* An EIC/CTC/RRC filer must leave line 26 blank.

(m) *Line 27 (2021 earned income credit entries).*

(i) *Line 27a (2021 earned income credit entry).* An EIC/CTC/RRC filer may enter the amount of the filer's earned income credit for taxable year 2021 on line 27a. A filer claiming the earned income credit who has one or more EIC qualifying children must complete and attach Schedule EIC, available at <https://www.irs.gov/ScheduleEIC>. A filer who was born after January 1, 1998, and before January 2, 2004, must check the box on line 27a if the filer satisfies all the additional requirements for taxpayers who are at least age 18 to claim the earned income credit. The credit amount should be computed using the earned income credit instructions for line 27a in the 2021 Instructions for Form 1040 and 1040-SR, available at <https://www.irs.gov/Form1040>.

(ii) *Line 27b (nontaxable combat pay election).* An EIC/CTC/RRC filer must enter all of the filer's nontaxable combat pay if the filer elects to include that pay in the filer's earned income for purposes of the earned income credit.

(iii) *Line 27c (prior year (2019) earned income).* An EIC/CTC/RRC filer must leave line 27c blank because an EIT/CTC/RRC filer may not elect to use 2019 earned income to figure the 2021 earned income credit.

(n) *Line 28 (2021 child tax credit entry).* An EIC/CTC/RRC filer may enter the amount of the filer's child tax credit for taxable year 2021 on line 28. The credit amount may be computed using Schedule 8812 (Form 1040), available at <https://www.irs.gov/Schedule8812>, and information from the filer's Letter 6419 or the filer's IRS online account at <https://www.irs.gov/account>. The EIC/CTC/RRC filer claiming the child tax credit must attach the Schedule 8812 to

the filer's Form 1040 or Form 1040-SR. Providing the correct amount of the filer's child tax credit for taxable year 2021 will allow for faster processing of the return and issuance of any tax refund. The IRS will correct any incorrect amount claimed on line 28, but the correction will delay processing of the return and the issuance of any tax refund.

(o) *Line 29.* An EIC/CTC/RRC filer must leave line 29 blank.

(p) *Line 30 (2021 recovery rebate credit entry).* An EIC/CTC/RRC filer may enter the amount of the filer's 2021 recovery rebate credit on line 30. The credit amount may be computed using the Recovery Rebate Credit Worksheet for line 30 in the 2021 Instructions for Form 1040 and 1040-SR, available at <https://www.irs.gov/Form1040>, and information from the filer's Letter 6475 or the filer's IRS online account at <https://www.irs.gov/account>. Providing the correct amount of the filer's 2021 recovery rebate credit will allow for faster processing of the return and issuance of any tax refund. The IRS will correct any incorrect amount (other than \$0) claimed on line 30, but the correction will delay processing of the return.

(q) *Line 31.* An EIC/CTC/RRC filer must leave line 31 blank.

(r) *Line 32 (total other payments and refundable credits).* An EIC/CTC/RRC filer must enter the sum of lines 27a, 28, and 30 on line 32.

(s) *Lines 33 through 35a.* An EIC/CTC/RRC filer must enter the sum of lines 25d and 32 on lines 33 through 35a.

(t) *Line 35a checkbox (split direct deposit indicator).* An EIC/CTC/RRC filer may not check the box on line 35.

(u) *Lines 35b through 35d (direct deposit information).* An EIC/CTC/RRC filer may request the direct deposit of their taxable year 2021 tax refund into an account at a bank or other financial institution by entering the information on lines 35b through 35d. The EIC/CTC/RRC filer must not request their taxable year 2021 tax refund be deposited into an account that is not in the name of that filer (for example, an EIC/CTC/RRC filer must not

request a direct deposit of their taxable year 2021 tax refund into their tax return preparer's account).

(v) *Lines 36 through 38.* An EIC/CTC/RRC filer must leave lines 36 through 38 blank.

.04 *Signature.* An EIC/CTC/RRC filer must sign the return under penalties of perjury, including the filer's identity protection personal identification number (that is, the filer's IP PIN), if applicable, as part of the filer's signature. In addition, the EIC/CTC/RRC filer may enter the identifying information of any third-party designee, if applicable, at the bottom of page 2 of Form 1040 or Form 1040-SR. An EIC/CTC/RRC filer who has been assigned an IP PIN, but has misplaced it, may retrieve the IP PIN at <https://www.irs.gov/identity-theft-fraud-scams/retrieve-your-ip-pin>.

.05 *Simplified Return Is a Federal Income Tax Return.* A simplified return completed in accordance with the procedure described in section 6.03 of this revenue procedure is a taxable year 2021 Federal income tax return for all purposes, whether filed on paper or electronically.

.06 *Assembly of Simplified Return.* An EIC/CTC/RRC filer must attach all Forms W-2 to the filer's Form 1040 or Form 1040-SR (for a paper return) or input all the information listed on each Form W-2 in the appropriate manner (for an electronically filed return). If the EIC/CTC/RRC filer received a Form W-2c (a corrected Form W-2), the filer must attach all original Forms W-2 and any Forms W-2c.

.07 *Accuracy of Return.* Individuals who report incorrect information regarding qualifying children or other dependents or otherwise provide incorrect information on simplified returns may be liable for civil or criminal penalties. However, the IRS will not challenge the omission of the items of income on a simplified return that an individual files in accordance with this section 6 if the individual is eligible to use the procedure in this section 6 and the instructions in this section 6 direct that the items be omitted.

## SECTION 7. APPLICABILITY DATES

.01 *Special Procedure for Zero AGI Filers.* Section 4 of this revenue procedure applies to Federal income tax returns filed on or after [INSERT DATE RELEASED BY MEDIA RELATIONS].

.02 *Special Procedures for CTC/RRC Filers and EIC/CTC/RRC Filers.* Sections 5 and 6 of this revenue procedure apply to Federal income tax returns filed after April 18, 2022.

## SECTION 8. ADDITIONAL INFORMATION

.01 *2021 Recovery Rebate Credit; Third-Round Economic Impact Payments.* Individuals can obtain additional information regarding third-round economic impact payments and the 2021 recovery rebate credit through the IRS recovery rebate credit webpage at <https://www.irs.gov/rrc>.

.02 *Child Tax Credit; Advance Child Tax Credit Payments.* Individuals can obtain additional information regarding advance child tax credit payments and the child tax credit for taxable year 2021 through the IRS child tax credit and advance child tax credit payment webpage at <https://www.irs.gov/childtaxcredit2021>.

.03 *Earned Income Credit.* Individuals can obtain additional information regarding the earned income credit through the IRS earned income credit webpage at <https://www.irs.gov/eitc>.

.04 *Completing a Federal Income Tax Return.* Individuals can obtain additional information regarding how to complete their individual tax returns at <https://www.irs.gov/Form1040>.

## SECTION 9. DRAFTING INFORMATION

The principal author of this revenue procedure is the Office of the Associate Chief Counsel (Procedure and Administration).



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

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

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

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## LIST OF AUTOMATIC CHANGES

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### SECTION 1. GROSS INCOME (§ 61)

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

(1) *Description of change.* This change applies to a Utility that wants to change its method of accounting for Up-front Payments to the safe harbor method described in Rev. Proc. 2005-35, 2005-2 C.B. 76. In general, this change applies to a Utility that receives an Up-front Payment from a Generator to finance Network Upgrades to the Utility's Transmission System. For federal income tax purposes, if an Up-front Payment is made pursuant to an Interconnection Agreement that satisfies all of the conditions of section 5.02 of Rev. Proc. 2005-35, a Utility may treat that Up-front Payment as not being taxable income under § 61 when received (the safe harbor method). In addition, a Utility that uses the safe harbor method is not entitled to any deduction for its reimbursements of the Up-front Payment. To the extent that Federal Energy Regulatory Commission (FERC) interest is deductible, it must be properly allocated to the periods in which it accrues. A Utility using the safe harbor method must comply with all other applicable provisions of Rev. Proc. 2005-35. See Rev. Proc. 2005-35 for the definitions of certain terms for purposes of this change.

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

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

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

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#### *.01 Treating amounts received as loans.*

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

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



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

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

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

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

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

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

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

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

#### .02 *ISO 9000 costs.*

(1) *Description of change.* This change applies to a taxpayer that wants to change its method of accounting for costs incurred to obtain, maintain, and renew ISO 9000 certification to conform with Rev. Rul. 2000-4, 2000-1 C.B. 331, as modified by this revenue procedure.

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

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

#### .03 *Restaurant or tavern smallwares packages.*

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

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

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

.04 *Timber grower fertilization costs.*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(2) *Section 481(a) adjustment.*



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

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

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

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

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

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

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

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

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

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

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

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

(3) *Section 481(a) adjustment.*

(a) In general, a change to one or more of the changes in method of accounting described in section 3.11(1) of this revenue procedure requires an adjustment under § 481(a). The § 481(a)

adjustment shall not include any amount attributable to property for which the taxpayer elected to apply the repair allowance under § 1.167(a)-11(d)(2).

(b) *Itemized listing on Form 3115.* The taxpayer must include on Form 3115 (Rev. December 2018), Part IV, line 26, the total § 481(a) adjustment for all changes in methods of accounting being made. If the taxpayer is making more than one change in method of accounting under Rev. Proc. 2015-12, the taxpayer must include on an attachment to Form 3115:

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

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

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

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

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

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## SECTION 4. BAD DEBTS (§ 166)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(5) *Contact information.* For further information regarding a change under this section, contact K. Scott Brown at (202) 317-6945 (not a toll-free number).

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

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

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

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

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

Under the cut-off basis, for taxable bonds held at the beginning of the year of change, the taxpayer may not amortize any remaining bond premium on the bonds. Because the cut-off basis is prescribed for this change, the basis of any bond, adjusted for amounts previously amortized during the period of the election, is not affected by the revocation.

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

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

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

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

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

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

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

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

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

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

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



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

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

(1) *Description of change.*

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

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

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

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

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

(b) *Taxpayer has not adopted a method of accounting for the item of property.* If a taxpayer does not satisfy section 6.01(1)(a)(i) of this revenue procedure for an item of depreciable or amortizable property because this item of property is placed in service by the taxpayer in the taxable year immediately preceding the year of change ("1-year depreciable property"), the taxpayer may change from the impermissible method of determining depreciation to the permissible method of determining depreciation for the 1-year depreciable property by filing a Form 3115 for this change, provided the § 481(a) adjustment reported on the Form 3115 includes the amount of any adjustment that is attributable to all property (including the 1-year depreciable property) subject to the Form 3115. Alternatively, the taxpayer may change from the impermissible method of determining depreciation to the permissible method of determining depreciation for a 1-year depreciable property by filing an amended federal income tax return, or an administrative adjustment request under § 6227 (AAR), as applicable, for the property's placed-in-service year prior to the date the taxpayer files its federal income tax return for the taxable year succeeding the placed-in-service year.

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

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

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

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

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

(v) any § 1250 property that a taxpayer is reclassifying to an asset class of Rev. Proc. 87-56, 1987-2 C.B. 674 (as clarified and modified by Rev. Proc. 88-22, 1988-1 C.B. 785), or Rev. Proc. 83-35, 1983-1 C.B. 745, as appropriate, that does not explicitly include § 1250 property (for example, asset class 57.0, Distributive Trades and Services);

(vi) any property for which a taxpayer is revoking a timely valid election, or making a late election, under § 167, § 168, § 179, § 1400I, § 1400L(c), former § 168, § 13261(g)(2) or (3) of the Revenue Reconciliation Act of 1993 (1993 Act), 1993-3 C.B. 1, 128 (relating to amortizable § 197 intangibles), or any additional first year depreciation deduction provision of the Code (for example, § 168(k), § 168(l), § 1400L(b), or § 1400N(d)). A taxpayer may request consent to revoke or make the election by submitting a request for a letter ruling under Rev. Proc. 2022-1, 2022-1 I.R.B. 1 (or successor). However, if a taxpayer is revoking or making an election under § 179, see § 179(c) and § 1.179-5. See § 1.446-1(e)(2)(i)(d)(3)(iii);

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

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

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

(x) any change in method of accounting involving a change from deducting the cost or other basis of any property as an expense to capitalizing and depreciating the cost or other basis, or *vice*

*versa* (but see section 11.08 of this revenue procedure for making such a change in method of accounting under the final tangible property regulations);

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

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

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

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

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

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

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

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

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

(xvi) any property for which the taxpayer has claimed a federal income tax credit (e.g., the rehabilitation credit under § 47);

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

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

(xix) any change in method of accounting to which section 6.21 of this revenue procedure applies; or

(xx) the change in method of accounting specified in section 6.22 of this revenue procedure. However, an original Form 3115 for such change in method of accounting may be filed under this section 6.01 instead of section 6.22 of this revenue procedure if the duplicate copy was properly filed under this section 6.01 before May 11, 2021.

(2) *Certain eligibility rules inapplicable.* The eligibility rule in section 5.01(1)(d) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, does not apply to this change. If during any of the five taxable years ending with the year of change, a taxpayer requested or made a change in method of accounting from expensing to capitalizing, or *vice versa*, the cost or other basis of an asset, the eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13 is not applicable to a change under this section 6.01 for that same asset.

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

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

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

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

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

(iii) to the extent not provided elsewhere on the Form 3115, a statement of the facts and law supporting the proposed method of accounting, new classification of the item of property, and new asset class in, as appropriate, Rev. Proc. 87-56 or Rev. Proc. 83-35. If the taxpayer is the owner and lessor of the item of property at issue, the statement of the facts and law supporting the new



asset class also must describe the business or income-producing activity in which that item of property is primarily used by the lessee;

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

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

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

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

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

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

(vii) if the taxpayer is changing the classification of an item of property from § 1250 property to § 1245 property under § 168 or former § 168, a statement of the facts and law supporting the new § 1245 property classification, and a statement containing the following representation: "Each item of depreciable property that is the subject of the Form 3115 filed under section 6.01 of Rev. Proc. 2022-14 for the year of change beginning [*Insert the date*], and that is reclassified from [*Insert, as appropriate: nonresidential real property, residential rental property, qualified leasehold improvement property, qualified restaurant property, qualified retail improvement property, qualified improvement property as defined in § 168(e)(6) (as amended by § 13204 of the TCJA), 19-year real property, 18-year real property, or 15-year real property*] to an asset class of [*Insert, as appropriate, either: Rev. Proc. 87-56, 1987-2 C.B. 674, or Rev. Proc. 83-35, 1983-1 C.B. 745*] that does not explicitly include § 1250 property, is § 1245 property for depreciation purposes."

(4) *Reduced filing requirement for qualified small taxpayers.*

(a) *In general.* A qualified small taxpayer, as defined in section 6.01(4)(b) of this revenue procedure, is required to complete only the following information on Form 3115 (Rev. December 2018) to make this change:

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

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

(5) *Section 481(a) adjustment.* Because the adjusted basis of the property is changed as a result of a method change made under this section 6.01 (*see* section 6.01(6) of this revenue procedure), items are duplicated or omitted. Accordingly, this change is made with a § 481(a) adjustment. This adjustment may result in either a negative § 481(a) adjustment (a decrease in taxable income) or a positive § 481(a) adjustment (an increase in taxable income) and may be a different amount for regular tax, alternative minimum tax, and adjusted current earnings purposes. This § 481(a) adjustment equals the difference between the total amount of depreciation taken into account in computing taxable income for the property under the taxpayer’s present method of accounting (including the amount attributable to any property described in section 6.01(1)(b) of this revenue procedure that is included in the taxpayer’s Form 3115), and the total amount of depreciation allowable for the property under the taxpayer’s proposed method of accounting (as determined under section 6.01(7) of this revenue procedure, and including the amount attributable to any property described in section 6.01(1)(b) of this revenue procedure that is included in the taxpayer’s Form 3115), for open and closed years prior to the year of change. However, the amount of the § 481(a) adjustment must be adjusted to account for the proper amount of the depreciation allowable that is required to be capitalized under any provision of the Code (for example, § 263A) at the beginning of the year of change.

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

(7) *Meaning of depreciation allowable.*

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

(b) *Section 56(a)(1) property.* The depreciation allowable for any taxable year for property for which depreciation is determined under § 56(a)(1) is determined by using the depreciation method, recovery period, and convention provided for under § 56(a)(1) that applies for the property's placed-in-service date.

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

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

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

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

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

The depreciation allowable for any taxable year for property subject to § 167(f) (regarding certain property excluded from § 197) is determined by using the depreciation method and useful life prescribed in § 167(f). If computer software is depreciated under § 167(f)(1) and is qualified property (as defined in § 168(k)(2) as amended by the TCJA and § 1.168(k)-2), qualified property (as defined in § 168(k)(2) as in effect on the day before the date of enactment of the TCJA and § 1.168(k)-1), 50-percent bonus depreciation property (as defined in § 168(k)(4) (as in effect on the day before the date of enactment of the Economic Stimulus Act of 2008, Pub. L. No. 110-185, 122 Stat. 613 (February 13, 2008)) and § 1.168(k)-1), qualified disaster assistance property (as defined in § 168(n)(2) (as in effect on the day before the date of enactment of the Tax Technical Corrections Act of 2018, Pub. L. No. 115-141, Division U, 132 Stat. 1211 (March 23, 2018)), qualified New York Liberty Zone (Liberty Zone) property (as defined in § 1400L(b)(2) (as in effect on the day before the date of enactment of the Tax Technical Corrections Act of 2018) and § 1.1400L(b)-1), qualified Gulf Opportunity Zone (GO Zone) property (as defined in § 1400N(d)(2) (as in effect on the day before the date of enactment of the Tax Technical Corrections Act of 2018) and sections 2.02 and 2.03 of Notice 2006-77, 2006-2 C.B. 590, as clarified, modified, and amplified by Notice 2007-36, 2007-1 C.B. 1000), specified Gulf Opportunity Zone extension property (GO Zone extension property) (as defined in § 1400N(d)(6) (as in effect on the day before the date of enactment of the Tax Technical Corrections Act of 2018) and section 4 of Notice 2007-36), or qualified Recovery Assistance (RA) property (as defined in sections 2.02 and 2.03 of Notice 2008-67, 2008-32 I.R.B. 307), the depreciation allowable for that computer software under § 167(f)(1) is also determined by taking into account the additional first year depreciation deduction provided by § 168(k), § 168(n) (as in effect on the day before the date of enactment of the Tax Technical Corrections Act of 2018), § 1400L(b) (as in effect on the day before the date of enactment of the Tax Technical Corrections Act of 2018), or § 1400N(d) (as in effect on the day before the date of enactment of the Tax Technical Corrections Act of 2018), or by § 15345(a)(1) and (d)(1) of the Food, Conservation, and Energy Act of 2008, Pub. L. No. 110-246, 122 Stat. 1651 (June 18, 2008), as applicable, unless the taxpayer made a timely valid election not to deduct any additional first year depreciation for the computer software.

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

(i) by using either:

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

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

(ii) if the property is qualified property, 50-percent bonus depreciation property, qualified disaster assistance property, Liberty Zone property, GO Zone property, GO Zone extension property, or RA property, by also taking into account the additional first year depreciation deduction provided by § 168(k), § 168(n) (as in effect on the day before the date of enactment of the Tax Technical Corrections Act of 2018), § 1400L(b) (as in effect on the day before the date of enactment of the Tax Technical Corrections Act of 2018), or § 1400N(d) (as in effect on the day before the date of enactment of the Tax Technical Corrections Act of 2018), or by § 15345(a)(1) and (d)(1) of the Food, Conservation, and Energy Act of 2008, as applicable, unless the taxpayer made a timely valid election not to deduct the additional first year depreciation (or made a deemed election not to deduct the additional first year depreciation; for further guidance, see, for example, Rev. Proc. 2002-33, 2002-1 C.B. 963, Rev. Proc. 2003-50, 2003-2 C.B. 119, Notice 2006-77, Notice 2008-67, section 5 of Rev. Proc. 2011-26, 2011-16 I.R.B. 664, Rev. Proc. 2015-48, 2015-40 I.R.B. 469, or Rev. Proc. 2019-33, 2019-34 I.R.B. 662) for the class of property (as defined in § 1.168(k)-2(f)(1)(ii), § 1.168(k)-1(e)(2), § 1.1400L(b)-1(e)(2), or section 4.02 of Notice 2006-77, as applicable) in which that property is included;

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

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

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

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

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



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

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

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

(ii) if the taxpayer elected to amortize all of the qualified revitalization expenditures chargeable to a capital account with respect to the qualified revitalization building ratably over the 120-month period beginning with the month in which the building is placed in service, the depreciation allowable for the qualified revitalization expenditures is determined in accordance with this election and the depreciation allowable for the remaining depreciable basis of the qualified revitalization building is determined using the general depreciation system of § 168(a) or the alternative depreciation system of § 168(g), as applicable.

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

(8) *Concurrent automatic change.*

(a) A taxpayer making this change for more than one asset for the same year of change should file a single Form 3115 for all such assets and provide a single net § 481(a) adjustment for all the changes included in that Form 3115. If one or more of the changes in that single Form 3115 generate a negative § 481(a) adjustment and other changes in that same Form 3115 generate a positive § 481(a) adjustment, the taxpayer may provide a single negative § 481(a) adjustment for all the changes that are included in that Form 3115 generating such adjustment and a single positive § 481(a) adjustment for all the changes that are included in that Form 3115 generating such adjustment. For example, a taxpayer files a single Form 3115 to change the depreciation methods, recovery periods, and/or conventions under § 168(a) resulting from the reclassification of two computers from nonresidential real property to 5-year property, one office desk from nonresidential real property to 7-year property, and two office desks from 5-year property to 7-year property. On that Form 3115, the taxpayer must provide either (i) a single net § 481(a) adjustment that covers all the changes resulting from all of these reclassifications, or (ii) a single

negative § 481(a) adjustment that covers the changes resulting from the reclassifications of the two computers and one office desk from nonresidential real property to 5-year property and 7-year property, respectively, and a single positive § 481(a) adjustment that covers the changes resulting from the reclassifications of the two office desks from 5-year property to 7-year property.

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

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

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

*.02 Permissible to permissible method of accounting for depreciation.*

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

(2) *Applicability.*

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

(i) for which the present and proposed methods of accounting for depreciation specified in section 6.02(4) of this revenue procedure are permissible methods for the property under § 56(g)(4)(A)(iv) (as in effect on the day before the date of enactment of the TCJA) or § 167; and

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

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

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

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

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

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

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

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

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

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

(ix) any distributor commissions (as defined by section 2 of Rev. Proc. 2000-38, 2000-2 C.B. 310, as modified by Rev. Proc. 2007-16, 2007-1 C.B. 358) for which the taxpayer is changing the useful life under the distribution fee period method or the useful life method (both described in Rev. Proc. 2000-38). A change in this useful life is corrected by adjustments in the applicable taxable year provided under § 1.446-1(e)(2)(ii)(d)(5)(iv).

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

(6) *Reduced filing requirement for qualified small taxpayers.* A qualified small taxpayer, as defined in section 6.01(4)(b) of this revenue procedure, is required to complete only the following information on Form 3115 (Rev. December 2018) to make this change:

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

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

(8) *Concurrent automatic change.*

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

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

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

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

.03 *Sale, lease, or financing transactions.*

(1) *Description of change and scope.*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(1) *Description of change*.

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

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

(c) *Inapplicability.*

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

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

(2) *Certain eligibility rules inapplicable.*

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

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

(3) *Manner of making change.*

(a) The change is made on a modified cut-off basis (as defined in § 1.446-1(e)(2)(ii)(d)(5)(iii)) and, thus, the adjusted depreciable basis of the MACRS property as of the beginning of the year of change is recovered using the proposed method of accounting for general asset account treatment. Accordingly, a § 481(a) adjustment is neither permitted nor required. See § 1.168(i)-1(h)(2)(ii) and (iii) for more information regarding how to establish the general asset account when a change in the use of MACRS property occurs pursuant to § 1.168(i)-4(d).



(b) *Reduced filing requirement for qualified small taxpayers.* A qualified small taxpayer, as defined in section 6.01(4)(b) of this revenue procedure, is required to complete only the following information on Form 3115 (Rev. December 2018) to make this change:

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

(4) *Concurrent automatic change.*

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

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

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

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

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

(1) *Description of change.*

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

(b) *Taxpayer has not adopted a method of accounting for the item of property.* If a taxpayer does not satisfy section 6.05(1)(a)(i) of this revenue procedure for an item of MACRS property because a change in the use of this item of MACRS property occurred in the taxable year immediately

preceding the year of change (1-year change in use property), the taxpayer may change from the impermissible method of determining depreciation to the permissible method of determining depreciation provided in § 1.168(i)-4 for the 1-year change in use property by filing a Form 3115 for this change, provided the § 481(a) adjustment reported on the Form 3115 includes the amount of any adjustment that is attributable to all property (including the 1-year change in use property) subject to the Form 3115. Alternatively, the taxpayer may change from the impermissible method of determining depreciation to the permissible method of determining depreciation provided in § 1.168(i)-4 for a 1-year change in use property by filing an amended federal income tax return, or an administrative adjustment request under § 6227 (AAR), as applicable, for the year of change in the use of such property provided such filing occurs prior to the date the taxpayer files its federal income tax return for the taxable year succeeding the year of change in the use of such property.

(c) *Inapplicability.*

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

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

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

(2) *Certain eligibility rules inapplicable.*

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

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

(3) *Reduced filing requirement for qualified small taxpayers.* A qualified small taxpayer, as defined in section 6.01(4)(b) of this revenue procedure, is required to complete only the following information on Form 3115 (Rev. December 2018) to make this change:

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

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

(c) Part I;

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

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

(f) Schedule E, all lines except lines 1, 4c, 5, 6, 7b, and 7c.

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

(5) *Concurrent automatic change.*

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

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

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

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

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

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

(2) *Reduced filing requirement for qualified small taxpayers.* A qualified small taxpayer, as defined in section 6.01(4)(b) of this revenue procedure, is required to complete only the following information on Form 3115 (Rev. December 2018) to make this change:

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

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

(c) Part I;

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

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

(f) Schedule E.

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

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

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

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

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

(2) *Applicability.*

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

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



(ii) for which the taxpayer did not take into account any depreciation allowance, or did take into account some depreciation but less than the depreciation allowable (hereinafter, both are referred to as “claimed less than the depreciation allowable”), in the year of change (as defined in section 6.07(4) of this revenue procedure) or any prior taxable year.

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

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

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

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

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

(3) *Manner of making the change.*

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

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

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

(ii) the taxpayer's amended federal income tax return, or AAR, as applicable, for the year of change (as defined in section 6.07(4) of this revenue procedure) includes the adjustments to taxable income and any collateral adjustments to taxable income or tax liability (for example, adjustments to the amount or character of the gain or loss of the disposed depreciable or amortizable property) resulting from the change in method of accounting for depreciation made by the taxpayer under this section 6.07.

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

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

(6) *Filing requirements.*

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

(b) *Reduced filing requirement for qualified small taxpayers.* A qualified small taxpayer, as defined in section 6.01(4)(b) of this revenue procedure, is required to complete only the following information on Form 3115 (Rev. December 2018) to make this change:

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

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

(iii) Part I;

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

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

(vi) Schedule E.

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

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

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

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

.08 *Tenant construction allowances.*

(1) *Description of change and scope.*

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

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

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

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

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

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

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

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

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

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

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

(4) *Reduced filing requirement for qualified small taxpayers.* A qualified small taxpayer, as defined in section 6.01(4)(b) of this revenue procedure, is required to complete only the following information on Form 3115 (Rev. December 2018) to make this change in accordance with section 6.08(3)(a) of this revenue procedure:

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

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

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

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

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

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

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

(2) *Reduced filing requirement for qualified small taxpayers.* A qualified small taxpayer, as defined in section 6.01(4)(b) of this revenue procedure, is required to complete only the following information on Form 3115 (Rev. December 2018) to make this change:

- (a) The identification section of page 1 (above Part I);
- (b) The signature section at the bottom of page 1;



(c) Part I;

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

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

(f) Schedule E.

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

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

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

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

(1) *Description of change.*

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

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

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

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

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

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

(4) *Manner of making change.*

(a) A qualified small taxpayer, as defined in section 6.01(4)(b) of this revenue procedure, is required to complete only the following information on Form 3115 (Rev. December 2018) to make this change:

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

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

(iii) Part I;

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

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

(vi) Schedule E.

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

(i) Apply § 1.168(i)-8(h)(1) and (3) (accounting for asset disposed of);

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(3) *Manner of making change.*

(a) A qualified small taxpayer, as defined in section 6.01(4)(b) of this revenue procedure, is required to complete only the following information on Form 3115 (Rev. December 2018) to make this change:

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

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

(iii) Part I;

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

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

(vi) Schedule E.

(b) If any leasehold improvement is public utility property within the meaning of § 168(i)(10) or former § 167(l)(3)(A), a taxpayer (including a qualified small taxpayer) making this change must attach to its Form 3115 a statement providing that the taxpayer agrees to the following additional terms and conditions:

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

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

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

(4) *Concurrent automatic change.*

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

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



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

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

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

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

(1) *Description of change.*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(4) *Manner of making change.*

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

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

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

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

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

(c) Even though the changes in methods of accounting specified in section 6.12(3)(a)(iv), (v), (vii), and (viii) and section 6.12(3)(b)(iii), (iv), (vi), and (vii) of this revenue procedure are changes from one permissible method of accounting to another permissible method of accounting, these changes are made with a § 481(a) adjustment. However, see section 6.12(4)(f) of this revenue procedure for an exception. For the changes in methods of accounting specified in section 6.12(3)(b)(iii), (iv), (vi), and (vii) of this revenue procedure, the § 481(a) adjustment should be zero unless § 1.168(i)-1(e)(3) applies to the asset subject to the change.

(d) A qualified small taxpayer, as defined in section 6.01(4)(b) of this revenue procedure, is required to complete only the following information on Form 3115 (Rev. December 2018) to make this change:

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

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

(iii) Part I;

(iv) Part II, all lines except lines 13, 15b, 16, 17, and 19 if the qualified small taxpayer is not making a change in method of accounting specified in section 6.12(3)(a)(ix) and (x) and section 6.12(3)(b)(viii) of this revenue procedure;

(v) Part II, all lines except lines 13, 15b, 16c, 17, and 19 if the qualified small taxpayer is making a change in method of accounting specified in section 6.12(3)(a)(ix) or (x) or section 6.12(3)(b)(viii) of this revenue procedure;

(vi) Part IV; and

(vii) Schedule E.

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

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

(ii) As of the beginning of the year of change, the taxpayer will adjust its deferred tax reserve account or similar account in the taxpayer's regulatory books of account by the amount of the deferral of federal income tax liability associated with the § 481(a) adjustment applicable to a change in method of accounting specified in section 6.12(3)(a)(iv), (v), (vii), or (viii) or section 6.12(3)(b)(iii), (iv), (vi), or (vii) of this revenue procedure made for the public utility property subject to the change; and

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

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

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

(6) *Concurrent change.*

(a) A taxpayer making this change for more than one asset for the same year of change should file a single Form 3115 for all such assets. If the change for more than one asset included in that Form 3115 is specified in section 6.12(3)(a)(iv), (v), (vii), or (viii) or section 6.12(3)(b)(iii), (iv), (vi), or (vii) of this revenue procedure, the single Form 3115 also should provide a single net § 481(a) adjustment for all such changes. If one or more changes specified in section 6.12(3)(a)(iv), (v), (vii), or (viii) or section 6.12(3)(b)(iii), (iv), (vi), or (vii) of this revenue procedure in that single Form 3115 generate a negative § 481(a) adjustment and other changes specified in



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

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

- (i) A change under section 6.01 of this revenue procedure;
- (ii) A change under section 6.13 of this revenue procedure;
- (iii) A change under section 6.14 of this revenue procedure;
- (iv) A change under section 6.15 of this revenue procedure; and
- (v) A change under section 11.07(3)(c) of this revenue procedure.

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

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

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

(1) *Description of change.*

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

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

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

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

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

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

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

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

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

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

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

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

(d) If the taxpayer's present method of accounting for its buildings (including their structural components), condominium units (including their structural components), cooperative units

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

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

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

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

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

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

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

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

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

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

(b) *Example 2.* Y, a calendar year taxpayer, acquired and placed in service a building and its structural components in 1990. Y depreciates this building and its structural components under § 168. In 2000, a tornado damaged the roof and, as a result, Y replaced the entire roof of the building. Y did not recognize a loss on the retirement of the original roof and continues to depreciate the original roof. Y also capitalized the cost of the replacement roof and has been depreciating this roof under § 168 since 2000. Because the original roof was disposed of as a result of a casualty event described in § 165, a change by Y from depreciating the original roof to recognizing a loss upon its retirement is a covered change described in section 6.13(3)(e) of this revenue procedure solely for purposes of § 1.168(i)-8.

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

(5) *Manner of making change.*

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

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

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

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

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

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

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

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

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

(b) A qualified small taxpayer, as defined in section 6.01(4)(b) of this revenue procedure, is required to complete only the following information on Form 3115 (Rev. December 2018) to make this change:

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

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

(iii) Part I;

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

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

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

(vii) Schedule E.

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



(7) *Section 481(a) adjustment.*

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

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

(8) *Section 481(a) adjustment period.*

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

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

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

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

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

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

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

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

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

(10) *Concurrent automatic change.*

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

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

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

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

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

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

(1) *Description of change.*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(4) *Manner of making change.*

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

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

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

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

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

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

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

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



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

(b) A qualified small taxpayer, as defined in section 6.01(4)(b) of this revenue procedure, is required to complete only the following information on Form 3115 (Rev. December 2018) to make this change:

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

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

(iii) Part I;

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

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

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

(vii) Schedule E.

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

(6) *Section 481(a) adjustment.*

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

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

(7) *Section 481(a) adjustment period.*

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

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

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

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

(8) *No audit protection.* A taxpayer calculating a § 481(a) adjustment under section 6.14(6)(b) of this revenue procedure that takes into account only dispositions in taxable years beginning on or after January 1, 2014, does not receive audit protection under section 8.01 of Rev. Proc. 2015-13 for dispositions subject to a change under this section 6.14 in taxable years beginning before January 1, 2014. See section 5.05 of Rev. Proc. 2015-20.

(9) *Concurrent automatic change.*

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

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

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

(ii) A change under section 6.12 of this revenue procedure;

(iii) A change under section 6.13 of this revenue procedure; and

(iv) A change under section 6.15 of this revenue procedure.

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

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

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

(1) *Description of change.*

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

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

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

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

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

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

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

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

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

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

*(4) Manner of making change.*

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

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

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

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

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

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

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

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

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

(b) A qualified small taxpayer, as defined in section 6.01(4)(b) of this revenue procedure, is required to complete only the following information on Form 3115 (Rev. December 2018) to make this change:

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

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

(iii) Part I;

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

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

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

(vii) Schedule E.

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

(6) *Section 481(a) adjustment period.*

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

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

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

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

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



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

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

*(7) Concurrent automatic change.*

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

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

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

(ii) A change under section 6.12 of this revenue procedure;

(iii) A change under section 6.13 of this revenue procedure; and

(iv) A change under section 6.14 of this revenue procedure.

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

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

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

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

FINAL REGULATION SECTION	SECTION # in REV. PROC. 2022-14	DESIGNATED CHANGE NUMBER (DCN)
§ 1.167(a)-4, Depreciation of leasehold improvements	6.11	199

**General Asset Accounts:**

FINAL REGULATION SECTION	SECTION # in REV. PROC. 2022-14	DESIGNATED CHANGE NUMBER (DCN)
a. § 1.168(i)-1(c), Change in grouping assets	6.12	200
b. § 1.168(i)-1(e)(2)(viii), Change in determining asset disposed of	6.15	207
c. § 1.168(i)-1(j)(2), Change in method of identifying which assets or portions of assets have been disposed of from one method to another method specified in § 1.168(i)-1(j)(2)	6.12	200
d. § 1.168(i)-1(j)(2), Change in method of identifying which assets or portions of assets have been disposed of from a method not specified in § 1.168(i)-1(j)(2) to a method specified in § 1.168(i)-1(j)(2)	6.15	207
e. § 1.168(i)-1(j)(3), Change in determining unadjusted depreciable basis of disposed asset or disposed portion of an asset from one reasonable method to another reasonable method when it is impracticable from the taxpayer's records to determine the unadjusted depreciable basis of disposed asset or disposed portion of asset	6.12	200
f. § 1.168(i)-1(j)(3), Change in determining unadjusted depreciable basis of disposed asset or disposed portion of an asset from not using to using the taxpayer's records when it is practicable from the taxpayer's records to determine the unadjusted depreciable basis of disposed asset or disposed portion of asset	6.15	207
g. § 1.168(i)-1(j)(3), Change in determining unadjusted depreciable basis of disposed asset or disposed portion of an asset from an unreasonable method to a reasonable method when it is impracticable from the taxpayer's records to determine the unadjusted depreciable basis of disposed asset or disposed portion of asset	6.15	207

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

FINAL REGULATION SECTION	SECTION # in REV. PROC. 2022-14	DESIGNATED CHANGE NUMBER (DCN)
a. § 1.168(i)-7, Change from single asset accounts to multiple asset accounts, or <i>vice versa</i>	6.12	200
b. § 1.168(i)-7(c), Change in grouping assets in multiple asset accounts	6.12	200

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

FINAL REGULATION SECTION	SECTION # in REV. PROC. 2022-14	DESIGNATED CHANGE NUMBER (DCN)
a. § 1.168(i)-8(c)(4), Change in determining asset disposed of	6.13 (Building or structural component) 6.14 (Property other than a building or structural component)	205  206
b. § 1.168(i)-8(f)(2) or (3), Change in determining unadjusted depreciable basis of disposed asset in a multiple asset account or disposed portion of an asset from one reasonable method to another reasonable method when it is impracticable from the taxpayer's records to determine the unadjusted depreciable basis of disposed asset or disposed portion of asset	6.12	200
c. § 1.168(i)-8(f)(2) or (3), Change in determining unadjusted depreciable basis of disposed asset in a multiple asset account or disposed portion of an asset from not using to using the taxpayer's records when it is practicable from the taxpayer's records to determine the unadjusted depreciable basis of disposed asset or disposed portion of asset	6.13 (Building or structural component) 6.14 (Property other than a building or structural component)	205  206
d. § 1.168(i)-8(f)(2) or (3), Change in determining unadjusted depreciable basis of disposed asset in a multiple asset account or disposed portion of an asset from an unreasonable method to a reasonable method when it is impracticable from the taxpayer's records to determine the unadjusted depreciable basis of disposed asset or disposed portion of asset	6.13 (Building or structural component) 6.14 (Property other than a building or structural component)	205  206
e. § 1.168(i)-8(g), Change in method of identifying which assets in a multiple asset account or portions of assets have been disposed of from one method to another method specified in § 1.168(i)-8(g)(1) or (2)	6.12	200

FINAL REGULATION SECTION	SECTION # in REV. PROC. 2022-14	DESIGNATED CHANGE NUMBER (DCN)
f. § 1.168(i)-8(g), Change in method of identifying which assets in a multiple asset account or portions of assets have been disposed of from a method not specified in § 1.168(i)-8(g)(1) or (2) to a method specified in § 1.168(i)-8(g)(1) or (2)	6.13 (Building or structural component) 6.14 (Property other than a building or structural component)	205  206
g. § 1.168(i)-8(h)(1), Change from depreciating a disposed asset or disposed portion of an asset to recognizing gain or loss upon disposition when a taxpayer continues to depreciate the asset or portion that the taxpayer disposed of prior to the year of change	6.13 (Building or structural component) 6.14 (Property other than a building or structural component)	205  206
h. § 1.168(i)-8(d)(2)(iii), Partial disposition election for the disposition of a portion of an asset to which the IRS's adjustment pertains	6.10	198

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

(1) *Description of change.*

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

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

(i) any property that is not depreciated under § 168 under the taxpayer's present and proposed methods of accounting; or

(ii) any property that is not owned by the taxpayer at the beginning of the year of change.

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

(3) *Concurrent automatic change.*

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

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

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

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

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

(1) *Description of Change.*

(a) *Applicability.* This change applies to a taxpayer within the scope of Rev. Proc. 2019-33, 2019-34 I.R.B. 662, that wants to make a late election, or to revoke an election, provided in sections 4, 5, and 6 of Rev. Proc. 2019-33 under § 168(k)(5), (7), or (10).

(b) *Inapplicability.* The IRS will treat the making of a late election, or the revocation of an election, provided in sections 4, 5, and 6 of Rev. Proc. 2019-33 under § 168(k)(5), (7), and (10) as a change in method of accounting with a § 481(a) adjustment only for the taxable years specified in section 6.18(2) of this revenue procedure. This treatment does not apply to a taxpayer that makes these late elections or revocations before or after the time specified in section 6.18(2) of this revenue procedure, and any such late election or revocation is not a change in method of accounting pursuant to § 1.446-1(e)(2)(ii)(d)(3)(iii).

(2) *Time for making the change.* The change under this section 6.18 must be made for the taxpayer’s first, second, or third taxable year succeeding the taxpayer’s taxable year beginning in 2016 and ending on or after September 28, 2017 (2016 taxable year) or beginning in 2017 and ending on or after September 28, 2017 (2017 taxable year).

(3) *Certain eligibility rules inapplicable.* The eligibility rules in section 5.01(1)(d) and (f) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, do not apply to this change for the taxpayer’s first, second, or third taxable year succeeding the taxpayer’s 2016 taxable year or 2017 taxable year.

(4) *Concurrent automatic change.*



(a) A taxpayer making this change for more than one specified plant under section 4 of Rev. Proc. 2019-33 for the same year of change should file a single Form 3115 for all such specified plants. The single Form 3115 must provide a single net § 481(a) adjustment for all such changes.

(b) A taxpayer making this change for more than one class of property under section 5 of Rev. Proc. 2019-33 for the same year of change should file a single Form 3115 for all such classes of property. The single Form 3115 must provide a single net § 481(a) adjustment for all such changes.

(c) A taxpayer making this change for all qualified property under section 6 of Rev. Proc. 2019-33 should provide a single net § 481(a) adjustment for all assets that are qualified property.

(d) A taxpayer making a late election, or revoking an election, under more than one section of Rev. Proc. 2019-33 (for example, under sections 4 and 6 of Rev. Proc. 2019-33) for the same year of change should file a single Form 3115 for all such changes. The single Form 3115 must provide a single net § 481(a) adjustment for all such changes.

(5) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change to the method of accounting under this section 6.18 is “241.”

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

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

(1) *Description of change.*

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

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

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

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

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

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

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

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

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

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

(iv) any change in method of accounting to which section 6.21 of this revenue procedure applies.

(2) *Certain eligibility rules temporarily inapplicable.* For an item of qualified improvement property placed in service by the taxpayer after December 31, 2017, in its taxable year ending in 2018, 2019, or 2020, the eligibility rules in section 5.01(1)(d) and (f) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, do not apply to this change for the taxpayer's first or second taxable year succeeding the taxable year in which the item of qualified improvement property is placed in service by the taxpayer.

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

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

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

(c) Part I;

(d) Part II, all lines except lines 11, 12, 13, 15, 16, 17, and 19;

(e) Part IV, all lines; and

(f) Schedule E, all lines except lines 1, 4b, 5, and 6.

(4) *Concurrent automatic change.*

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

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

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

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

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

(1) *Description of change.*

(a) *Applicability.* This change applies to:

(i) A taxpayer within the scope of section 4 of Rev. Proc. 2020-25, 2020-19 I.R.B. 785, as modified by section 8 of Rev. Proc. 2020-50, 2020-48 I.R.B. 1122, that wants to make a late election provided in section 4.02(2) of Rev. Proc. 2020-25 under § 168(g)(7), (k)(5), (k)(7), or (k)(10). This change also applies to a taxpayer within the scope of section 5 of Rev. Proc. 2020-25 that wants to revoke an election provided in section 5.02(2)(b) of Rev. Proc. 2020-25 under § 168(k)(5), (k)(7), or (k)(10); or

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

(b) *Inapplicability.*

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

(ii) The IRS will treat the making of a late election under § 168(k)(5), (7), or (10), a late component election, a late designated transaction election, or a late proposed component election as provided in section 5 of Rev. Proc. 2020-50, or the revocation of an election under § 168(k)(5), (k)(7), or (k)(10), or a proposed component election as provided in section 6 of Rev. Proc. 2020-50, as a change in method of accounting with a § 481(a) adjustment only for the taxable years specified in section 6.20(2)(b) of this revenue procedure. This treatment does not apply to a taxpayer that makes these late elections or revocations before or after the time specified in section 6.20(2)(b) of this revenue procedure, and any such late election or revocation is not a change in method of accounting pursuant to § 1.446-1(e)(2)(ii)(d)(3)(iii).

*(2) Time for making the change.*

(a) The change under section 6.20(1)(a)(i) and (b)(i) of this revenue procedure must be made for the taxpayer's first or second taxable year succeeding the taxable year in which the taxpayer placed in service the property affected by the late election under § 168(g)(7), (k)(5), (k)(7), or (k)(10), as applicable, or revocation of the election under § 168(k)(5), (k)(7), or (k)(10), as applicable.

(b) The change under section 6.20(1)(a)(ii) and (b)(ii) of this revenue procedure must be made for the taxpayer's first or second taxable year succeeding the taxable year in which the taxpayer (A) placed in service the property affected by the late election under § 168(k)(7) or (10), the late component election, the late designated transaction election, or the late proposed component election, as applicable, or by the revocation of the election under § 168(k)(7) or (k)(10), or the proposed component election, as applicable, or (B) planted or grafted the specified plant to which the late § 168(k)(5) election applies or to which the revocation of the election under § 168(k)(5) applies.

*(3) Certain eligibility rules inapplicable.*

(a) The eligibility rules in section 5.01(1)(d) and (f) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, do not apply to the change under section 6.20(1)(a)(i) and (b)(i) of this revenue procedure for the taxpayer's first or second taxable year succeeding the taxable year in which the taxpayer placed in service the property affected by the late election under § 168(g)(7), (k)(5), (k)(7), or (k)(10), as applicable, or revocation of the election under § 168(k)(5), (k)(7), or (k)(10), as applicable.

(b) The eligibility rules in section 5.01(1)(d) and (f) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, do not apply to the change under section 6.20(1)(a)(ii) and (b)(ii) of this revenue procedure for the taxpayer's first or second taxable year succeeding the taxable year in which the taxpayer (A) placed in service the property affected by the late election under § 168(k)(7) or (10), the late component election, the late designated transaction election, or the late proposed component election, as applicable, or by the revocation of the election under § 168(k)(7) or (k)(10), or the proposed component election, as applicable, or (B) planted or grafted the specified plant to which the late § 168(k)(5) election applies or to which the revocation of the election under § 168(k)(5) applies.

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

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

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

(c) Part I;

(d) Part II, all lines except lines 11, 12, 13, 15, 16, 17, and 19;

(e) Part IV, all lines; and

(f) Schedule E, all lines except lines 1, 4b, 5, and 6.

(5) *Concurrent automatic change.*

(a) A taxpayer making one or more late elections, and/or revoking one or more elections, under sections 4 and 5 of Rev. Proc. 2020-25, or under sections 5 and 6 of Rev. Proc. 2020-50, for the same year of change must file a single Form 3115 for all such changes. The single Form 3115 must provide a single net § 481(a) adjustment for all such changes for all assets placed in service, and all specified plants planted or grafted, by the taxpayer during the same taxable year. See section 6.03(1)(b) of Rev. Proc. 2015-13 for information on making concurrent changes.

(b) A taxpayer making one or more changes under this section 6.20 and the change in section 6.01, 6.19, or 6.21 of this revenue procedure for the same year of change must file a single Form 3115 for all such changes and must enter the designated automatic accounting method change numbers on the appropriate line on the Form 3115. The single Form 3115 must provide a single net § 481(a) adjustment for all such changes for all assets placed in service, and all specified plants planted or grafted, by the taxpayer during the same taxable year. See section 6.03(1)(b) of Rev. Proc. 2015-13 for information on making concurrent changes.

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

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

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

(1) *Description of Change.*

(a) *Applicability.* This change applies to a taxpayer within the scope of section 4 of Rev. Proc. 2020-50, 2020-48 I.R.B. 1122, that wants to change its method of accounting for depreciation under § 168 to comply with the Final Regulations (as defined in section 2.02(6) of Rev. Proc. 2020-50), the 2019 final regulations (as defined in section 2.02(2) of Rev. Proc. 2020-50), or



both the 2019 final regulations and the 2019 proposed regulations (as defined in section 1 of Rev. Proc. 2020-50), as applicable, for depreciable property and specified plants within the scope of section 4 of Rev. Proc. 2020-50. A change under this section 6.21 applies to (i) a taxpayer that is changing from an impermissible method of accounting to a permissible method of accounting under section 4.03(4)(b) of Rev. Proc. 2020-50 and section 6.21(3) of this revenue procedure, and (ii) a taxpayer that is changing from one permissible method of accounting to another permissible method of accounting under section 4.04 of Rev. Proc. 2020-50 and section 6.21(4) of this revenue procedure. For purposes of this section 6.21, a taxpayer is deemed to change from an impermissible method of accounting to a permissible method of accounting when, for the first time, the taxpayer changes its method of accounting for depreciation under this section 6.21 for depreciable property and specified plants described in section 4.02(1) of Rev. Proc. 2020-50 to comply with the Final Regulations, the 2019 final regulations, or both the 2019 final regulations and the 2019 proposed regulations. Further, any subsequent time the taxpayer changes its method of accounting for depreciation for depreciable property and specified plants described in section 4.02(1) of Rev. Proc. 2020-50 to comply with the Final Regulations, the 2019 final regulations, or both the 2019 final regulations and the 2019 proposed regulations, is a change from a permissible method of accounting to another permissible method of accounting under this section 6.21. See section 4.02(2) of Rev. Proc. 2020-50.

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

(2) *Certain eligibility rules inapplicable.*

(a) *In general.* The eligibility rule in section 5.01(1)(d) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, does not apply to a taxpayer making this change for the property and specified plant within the scope of section 4 of Rev. Proc. 2020-50, as modified by section 6.21(1)(b) of this revenue procedure.

(b) *Special rule.* The eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, does not apply to a taxpayer making this change for the property and specified plant within the scope of section 4 of Rev. Proc. 2020-50, as modified by section 6.21(1)(b) of this revenue procedure, for the taxpayer's first or second taxable year succeeding the taxable year in which the taxpayer placed in service such property, or planted or grafted such specified plant, as applicable.

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

(a) A taxpayer may change from an impermissible method of accounting to a permissible method of accounting under section 4.03 of Rev. Proc. 2020-50 for the property and specified plant within the scope of section 4.03 of Rev. Proc. 2020-50, as modified by section 6.21(1)(b) of this revenue procedure, for which the taxpayer used the impermissible method of accounting in at least two taxable years immediately preceding the year of change (but see section 6.21(3)(b) of this revenue procedure for property placed in service or a specified plant planted or grafted in the taxable year immediately preceding the year of change).

(b) If a taxpayer does not satisfy section 6.21(3)(a) of this revenue procedure for depreciable property that is within the scope of section 4.03 of Rev. Proc. 2020-50, as modified by section 6.21(1)(b) of this revenue procedure, because the depreciable property is placed in service by the taxpayer in the taxable year immediately preceding the year of change (1-year Property), the taxpayer may change from the impermissible method of determining depreciation to the

permissible method of determining depreciation for the 1-year Property by filing a Form 3115 for this change in accordance with this section 6.21(3), provided the § 481(a) adjustment reported on the Form 3115 includes the amount of any adjustment attributable to all property, including the 1-year Property, subject to the Form 3115. Similarly, for a specified plant that is within the scope of section 4.03 of Rev. Proc. 2020-50, as modified by section 6.21(1)(b) of this revenue procedure, and is planted or grafted by the taxpayer in the taxable year immediately preceding the year of change (1-year Plant), the taxpayer may change from the impermissible method of determining depreciation to the permissible method of determining depreciation under this section 6.21(3) for the 1-year Plant by filing a Form 3115 for this change in accordance with this section 6.21(3), provided the § 481(a) adjustment reported on the Form 3115 includes the amount of any adjustment attributable to all property, including the 1-year Plant, subject to the Form 3115. Alternatively, the taxpayer may change from the impermissible method of determining depreciation to the permissible method of determining depreciation for the 1-year Property or 1-year Plant by filing an amended federal income tax return, or an administrative adjustment request under § 6227 (AAR), as applicable, for the 1-year Property's placed-in-service year or 1-year Plant's planting or grafting year, as applicable, prior to the date the taxpayer files its federal income tax return for the taxable year succeeding the placed-in-service year or planting or grafting year, as applicable. In addition, if the 1-year Property or 1-year Plant is within the scope of section 4.03 of Rev. Proc. 2020-50, as modified by section 6.21(1)(b) of this revenue procedure, the taxpayer may change from the impermissible method of determining depreciation to the permissible method of determining depreciation for the 1-year Property or 1-year Plant by filing an amended federal income tax return, or AAR, as applicable, in accordance with section 4.03(4)(a) of Rev. Proc. 2020-50.

(c) A change under section 4.03(4)(b) of Rev. Proc. 2020-50 and this section 6.21(3) is made with a § 481(a) adjustment. However, consent to make a change in method of accounting under this section 6.21 will be granted by the Commissioner only if the taxpayer satisfies section 4.02 of Rev. Proc. 2020-50, to the extent relevant. Further, if a taxpayer that has a trade or business with floor plan financing indebtedness is applying § 1.168(k)-2(b)(2)(ii)(G) of the Final Regulations, § 1.168(k)-2(b)(2)(ii)(G) of the 2019 final regulations, or both § 1.168(k)-2(b)(2)(ii)(G) of the 2019 final regulations and § 1.168(k)-2(b)(2)(ii)(G) of the 2019 proposed regulations for depreciable property placed in service by the taxpayer in its 2018, 2019, or 2020 taxable year, consent to make a change in method of accounting under this section 6.21 will be granted by the Commissioner only if the amount of the § 481(a) adjustment is adjusted to account for the proper amount of interest expense, taking into account the business interest limitation under § 163(j) and the regulations thereunder, as of the beginning of the year of change.

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

(a) A taxpayer may change from one permissible method of accounting to another permissible method of accounting under section 4.04 of Rev. Proc. 2020-50 for the property and specified plant within the scope of section 4.04 of Rev. Proc. 2020-50, as modified by section 6.21(1)(b) of this revenue procedure.

(b) A change under section 4.04 of Rev. Proc. 2020-50 and this section 6.21(4) is made on a cut-off basis. Accordingly, neither the modified cut-off method, as described in § 1.446-1(e)(2)(ii)(d)(5)(iii), nor a § 481(a) adjustment is permitted or required.

(5) *Additional requirement.* A taxpayer making a change under this section 6.21 also must comply with section 4.02 of Rev. Proc. 2020-50, to the extent relevant. Once a taxpayer applies § 1.168(k)-2 and, to the extent relevant, § 1.1502-68, of the Final Regulations, in their entirety, for a taxable year, the taxpayer must continue to apply § 1.168(k)-2 and, to the extent relevant, § 1.1502-68, of the Final Regulations, in their entirety, for the taxpayer's subsequent taxable

years. See §§ 1.168(k)-2(h)(3)(iii) and 1.1502-68(e)(2)(iii) of the Final Regulations and section 4.02(1) of Rev. Proc. 2020-50.

(6) *Reduced filing requirement.* A taxpayer making a change under this section 6.21 is required to complete only the following information on Form 3115 (Rev. December 2018):

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

(7) *Concurrent automatic change.*

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

(b) A taxpayer making one or more changes under section 6.21(3) of this revenue procedure and the change in section 6.01, 6.19, or 6.20 of this revenue procedure for the same year of change must file a single Form 3115 for all such changes and must enter the designated automatic accounting method change numbers on the appropriate line on the Form 3115. The single Form 3115 must provide a single net § 481(a) adjustment for all such changes for all assets placed in service, and all specified plants planted or grafted, by the taxpayer during the same taxable year. See section 6.03(1)(b) of Rev. Proc. 2015-13 for information on making concurrent changes.

(8) *Designated automatic accounting method change numbers.* The designated automatic accounting method change number for (a) a change under section 6.21(3) of this revenue procedure is “246”, and (b) a change under section 6.21(4) of this revenue procedure is “247.”

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

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

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

§§ 964 and 986(b) and the regulations thereunder. This change applies regardless of whether the method of accounting for depreciation that the CFC wants to change pursuant to this section 6.22 is impermissible or permissible under the Internal Revenue Code and the regulations thereunder.

(2) *CFC has not adopted a method of accounting for the item of property.* If a CFC placed in service an item of property described in section 6.22(1) of this revenue procedure in the taxable year immediately preceding the year of change (1-year property), the CFC may change its method of determining depreciation for the 1-year property to ADS if the designated shareholder files a Form 3115 for this change, provided the § 481(a) adjustment attributable to the 1-year property is included on the Form 3115. Alternatively, the CFC may change its impermissible method of determining depreciation for the 1-year property to ADS if each U.S. shareholder of the CFC (or the agent described in § 1.1502-77(a), if applicable) files an amended federal income tax return for the taxable year in which or with which the property's placed-in-service year ends prior to the date the shareholder files its federal income tax return for the taxable year in which or with which the CFC's taxable year succeeding the placed-in-service year ends.

(3) *Applicability.* This change is effective for a Form 3115 filed on or after May 11, 2021, for a taxable year of a CFC ending before January 1, 2024.

(4) *Limited period to convert a Form 3115 filed under the non-automatic change procedures in Rev. Proc. 2015-13.*

(a) *Eligibility.* The designated shareholder may convert a Form 3115 that was properly filed on behalf of a CFC under the non-automatic change procedures in Rev. Proc. 2015-13 requesting the Commissioner's consent for a change in method of accounting described in this section 6.22 if:

(i) the CFC is otherwise eligible to use the automatic change procedures in this section 6.22 and Rev. Proc. 2015-13 (to the extent the eligibility requirements in Rev. Proc. 2015-13 are not waived by this section 6.22), and

(ii) the Form 3115 was filed before May 11, 2021, and is pending with the national office on May 11, 2021.

(b) *Notification procedures.* The designated shareholder must notify the national office contact person for the Form 3115 (if contact person is unknown, fax the notification to 855-576-2341 or send the notification to the address specified in section 9.08(6) of Rev. Proc. 2022-1, 2022-1 I.R.B. 1 (or its successor)) of the CFC's intent to make the change in method of accounting under the automatic change procedures in this section 6.22 and Rev. Proc. 2015-13 before the later of (i) June 10, 2021, or (ii) the issuance of a letter ruling granting or denying consent for the change. The notification must indicate that the designated shareholder chooses on behalf of the CFC to convert the Form 3115 to the automatic change procedures in this section 6.22 and Rev. Proc. 2015-13. If the national office is timely and properly notified in accordance with the requirements in this paragraph, the national office will send a letter to the designated shareholder acknowledging its request and will return the user fee submitted with the Form 3115.

(c) *Resubmission procedures.* A designated shareholder converting a Form 3115 to the automatic change procedures in this section 6.22 and Rev. Proc. 2015-13 for a change in method of accounting described in this section 6.22 must resubmit a Form 3115 that conforms to the automatic change procedures, with a copy of the national office letter sent acknowledging the request to convert attached, by the earlier of (i) the 30th calendar day after the date of the national office's letter acknowledging the request to convert, or (ii) the date the designated shareholder is

required to file the original Form 3115 under section 6.03(1)(a) of Rev. Proc. 2015-13. See section 6.03(3) of Rev. Proc. 2015-13 regarding additional required copies of Form 3115.

For purposes of the eligibility rules in section 5 of Rev. Proc. 2015-13, the duplicate copy of the timely resubmitted Form 3115 will be considered filed as of the date the designated shareholder originally filed the converted Form 3115 under the non-automatic change procedures in Rev. Proc. 2015-13. This paragraph (4) does not extend the date the designated shareholder must file the original (converted) Form 3115 under section 6.03(1)(a) of Rev. Proc. 2015-13.

(d) *Agent treated as designated shareholder.* For purposes of this section 6.22, in the case of a designated shareholder that is a member of a consolidated group, a reference to a designated shareholder refers to the agent described in § 1.1502-77(a) with respect to the consolidated group of which the designated shareholder is a member.

(5) *Section 481(a) adjustment.* A § 481(a) adjustment is required with respect to a change made under this section 6.22 for any CFC.

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

(7) *Short Form 3115 in lieu of a standard Form 3115.* In accordance with § 1.446-1(e)(3)(ii), the requirement in § 1.446-1(e)(3)(i) to file a standard Form 3115 is waived and, pursuant to section 6.02(2) of Rev. Proc. 2015-13, a short Form 3115 is authorized with respect to any CFC making a change under this section 6.22. The short Form 3115 (Rev. December 2018) must include the following information:

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

(8) *Concurrent automatic changes.* A designated shareholder making an accounting method change on behalf of a CFC under this section 6.22 with respect to more than one asset for the same year of change may file a single short Form 3115 for all such changes. If any § 481(a) adjustment (or any component of a § 481(a) adjustment) from a change that is included in that Form 3115 shares all of the same characteristics as any other § 481(a) adjustment (or component) from a change that is included in that Form 3115, those § 481(a) adjustments (or components) must be provided as a single § 481(a) adjustment, with the characteristics identified, in the Form 3115. Any § 481(a) adjustment (or component of a § 481(a) adjustment) from a change that is included in that Form 3115 that does not share all of the same characteristics as any other § 481(a) adjustment (or component) from a change that is included in that Form 3115 must be provided as a separate § 481(a) adjustment, with the characteristics identified, in the Form 3115. A § 481(a) adjustment



(or any component of a § 481(a) adjustment) shares all of the same characteristics as another § 481(a) adjustment (or component) if:

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

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

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

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

(9) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 6.22 is “248.”

(10) *Contact information.* For further information regarding a change under this section, contact Natalie Punchak at (202) 317-6934 (not a toll-free number).

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

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

(1) *Description of change.*

(a) This change applies to a taxpayer that wants to change the treatment of expenditures that qualify as research and experimental expenditures under § 174. Unless otherwise stated, references to § 174 in this section 7.01 refer to § 174 as in effect prior to amendment by § 13206 of Public Law 115-97, 131 Stat. 2054 (Dec. 22, 2017), commonly referred to as the Tax Cuts and Jobs Act (TCJA).

(b) Section 174 and the regulations thereunder provide the specific rules for changing a method of accounting under § 174 for research and experimental expenditures. Under § 174, a taxpayer may treat research and experimental expenditures that are paid or incurred by the taxpayer during the taxable year in connection with the taxpayer’s trade or business as expenses under § 174(a) or as deferred expenses amortizable ratably over a period of not less than 60 months under § 174(b). Pursuant to § 1.174-1, research and experimental expenditures that are not treated as expenses or deferred expenses under § 174 must be treated as a charge to capital account. Further, § 1.174-1 provides that the expenditures to which § 174 applies may relate either to a general research program or to a particular project. Finally, §§ 1.174-3(a) and 1.174-4(a)(5) provide that in no event will a taxpayer be permitted to apply one method as to part of the expenditures relative to a particular project and apply a different method to the balance of the expenditures relating to the same project for the same taxable year.

(c) If a taxpayer has not treated research and experimental expenditures as expenses under § 174(a), § 174(a)(2)(B) and § 1.174-3(b)(2) provide that the taxpayer may, with consent, adopt the expense method at any time.

(d) If a taxpayer has treated research and experimental expenditures as expenses under § 174(a), § 174(a)(3) and § 1.174-3(b)(3) provide that the taxpayer may, with consent, change to a different method of treating research and experimental expenditures.

(e) If a taxpayer has treated research and experimental expenditures as deferred expenses under § 174(b), § 174(b)(2) and § 1.174-4(b)(2) provide that the taxpayer may, with consent, change to a different method of treating research or experimental expenditures or to a different period of amortization for deferred expenses.

(2) *Applicability.*

(a) *In general.* This change applies to any taxpayer that is changing:

(i) from treating research and experimental expenditures for a particular project or projects as expenses under § 174(a) to treating such expenditures as deferred expenses under § 174(b), or *vice versa*;

(ii) to a different period of amortization for research and experimental expenditures for a particular project or projects that are being treated as deferred expenses under § 174(b);

(iii) from treating research and experimental expenditures for a particular project or projects as expenses under § 174(a) or deferred expenses under § 174(b) to treating such expenditures as a charge to capital account, or *vice versa*; or

(iv) from treating research and experimental expenditures under any provision of the Code other than § 174 to treating such expenditures under § 174 and the regulations thereunder.

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

(i) a change in the treatment of computer software costs under Rev. Proc. 2000-50, 2000-2 C.B. 601, as modified by Rev. Proc. 2007-16, 2007-1 C.B. 358 (but see section 9 of this revenue procedure for making that change);

(ii) a change in the treatment of Year 2000 costs under Rev. Proc. 97-50, 1997-2 C.B. 525; or

(iii) any amount paid or incurred in any taxable year for which § 174 as amended by § 13206 of the TCJA is in effect.

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

(4) *Manner of making change.*

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

(b) The requirement under §§ 1.174-3(b)(2), 1.174-3(b)(3), and 1.174-4(b)(2) to file an application (that is, a Form 3115) no later than the end of the first taxable year in which the different method or different amortization period is to be used is waived for this change. However, see section 6.03 of Rev. Proc. 2015-13 for filing requirements applicable to a change under this section 7.01.

(c) The consent granted under section 9 of Rev. Proc. 2015-13 satisfies the consent required under §§ 174(a)(2)(B), 174(a)(3), and 174(b)(2), and §§ 1.174-3(b)(2), 1.174-3(b)(3), and 1.174-4(b)(2).

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

(a) the information required in § 1.174-3(b)(2) if the taxpayer is changing to treating research and experimental expenditures as expenses under § 174(a);

(b) the information required in § 1.174-3(b)(3) if the taxpayer is changing from treating research and experimental expenditures as expenses under § 174(a); or

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

(6) *No audit protection.* A taxpayer does not receive audit protection under section 8.01 of Rev. Proc. 2015-13 in connection with this change. See section 8.02(2) of Rev. Proc. 2015-13.

(7) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 7.01 is “17.”

(8) *Contact information.* For further information regarding a change under this section, contact Martha M. Garcia or John M. Deininger at (202) 317-6853 (not a toll-free number).

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## SECTION 8. ELECTIVE EXPENSING PROVISIONS (§ 179D)

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### .01 *Deduction for Energy Efficient Commercial Buildings (§ 179D).*

(1) *Description of change.* This change, as described in Rev. Proc. 2012-39, 2012-41 I.R.B. 470, applies to a taxpayer that wants to change its method of accounting to deduct under § 179D amounts paid or incurred for the installation of energy efficient commercial building property,

as defined in § 179D(c)(1). The deduction for energy efficient commercial building property is subject to the limits of § 179D(b) and must be claimed in the taxable year in which the property is placed in service. The basis of the energy efficient commercial building property is reduced by the amount of the § 179D deduction taken and the remaining basis of the energy efficient commercial building property is depreciated over its recovery period.

(2) *Applicability.* This change applies to a taxpayer that places in service property for which a deduction is allowed under § 179D(a).

(3) *Inapplicability.* This change does not apply to a designer to whom the owner of a government building allocates the § 179D deduction.

(4) *Manner of making change.* A taxpayer making this change must attach to its Form 3115 (the original, the duplicate copy filed with the IRS in Ogden, UT, and any additional copies) a statement with a detailed description of the tax treatment of the property under the taxpayer's present and proposed methods of accounting.

(5) *Certification requirement.* In addition to the statement required by section 8.01(4) of this revenue procedure, a taxpayer making this change must attach to its Form 3115 a certification as required by section 4 of Notice 2006-52, 2006-1 C.B. 1175, or section 5 of Notice 2008-40, 2008-1 C.B. 725, to demonstrate that the energy efficient commercial building property has achieved the reduction in energy and power costs or in lighting power density necessary to qualify for the § 179D deduction.

(6) *No ruling on qualification.* The consent granted under section 9 of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, for a change provided in this section 8.01 is not a determination by the Commissioner that the taxpayer qualifies for a deduction under section 179D. The director will ascertain whether the taxpayer qualifies for a deduction under section 179D (including a review of the required certifications). See section 12 of Rev. Proc. 2015-13.

(7) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 8.01 is "152."

(8) *Contact information.* For further information regarding a change under this section, contact Charles Hyde at (202) 317-5214 (not a toll-free number).

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## SECTION 9. COMPUTER SOFTWARE EXPENDITURES (§§ 162, 167, and 197)

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### .01 *Computer software expenditures.*

(1) *Description of change.* This change applies to a taxpayer that wants to change its method of accounting for the costs of computer software to a method described in Rev. Proc. 2000-50, 2000-2 C.B. 601, as modified by Rev. Proc. 2007-16, 2007-1 C.B. 358. Section 5 of Rev. Proc. 2000-50 describes the methods applicable to the costs of developing computer software. Section 6 of Rev. Proc. 2000-50 describes the method applicable to the costs of acquired computer software. Section 7 of Rev. Proc. 2000-50 describes the method applicable to leased or licensed computer software. Section 13206 of Public Law 115-97, 131 Stat. 2054 (Dec. 22, 2017), commonly referred to as the Tax Cuts and Jobs Act (TCJA), amended § 174 to treat the costs of software development as

research or experimental expenditures, effective for amounts paid or incurred in taxable years beginning after December 31, 2021. In accordance, section 5 of Rev. Proc. 2000-50 (costs of developing computer software) does not apply to any amount paid or incurred in any taxable year for which § 174 as amended by § 13206 of the TCJA is in effect.

(2) *Scope.* This change applies to all costs of computer software as defined in section 2 of Rev. Proc. 2000-50. However, this change does not apply to any computer software that is subject to amortization as an “amortizable section 197 intangible” as defined in § 197(c) and the regulations thereunder, or to costs that a taxpayer has treated as research and experimentation expenditures under § 174.

(3) *Inapplicability.* This change does not apply to costs of developing computer software that are paid or incurred in taxable years for which § 174 as amended by § 13206 of the TCJA is in effect.

(4) *Statement required.* If a taxpayer is changing to the method described in section 5.01(2) of Rev. Proc. 2000-50, the taxpayer must attach to its Form 3115 a statement providing the information required in section 8.02(2) of Rev. Proc. 2000-50.

(5) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 9.01 is “18.”

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

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## SECTION 10. START-UP EXPENDITURES AND ORGANIZATIONAL FEES (§§ 195, 248, AND 709)

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### .01 *Start-up expenditures.*

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

(a) *Applicability.* This change applies to a taxpayer that wants to change its method of accounting under § 195 to change:

(i) the characterization of an item as a start-up expenditure;

(ii) the determination of the taxable year in which the taxpayer begins the active trade or business to which the start-up expenditures relate; or

(iii) the amortization period of a start-up expenditure to 180 months.

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

(i) start-up expenditures paid or incurred before October 23, 2004; or



(ii) start-up expenditures paid or incurred after October 22, 2004, and before August 17, 2011, if the period of limitations on assessment of tax for the taxable year the election under § 1.195-1(b) is deemed made has expired.

(2) *No rulings.*

(a) *Characterization of item.* The consent granted under section 9 of Rev. Proc. 2015-13 for a change specified in section 10.01(1)(a)(i) of this revenue procedure is not a determination by the Commissioner that the taxpayer has properly characterized an item as a start-up expenditure and does not create any presumption that the proposed characterization of an item as a start-up expenditure is permissible under § 195(c)(1). The director will ascertain whether the taxpayer's characterization of an item as a start-up expenditure is permissible.

(b) *When active trade or business begins.* The consent granted under section 9 of Rev. Proc. 2015-13 for a change specified in section 10.01(1)(a)(ii) of this revenue procedure is not a determination by the Commissioner that the taxpayer has properly determined the taxable year in which the taxpayer begins the active trade or business to which the start-up expenditures relate and does not create any presumption that the proposed taxable year in which the taxpayer begins the active trade or business to which the start-up expenditures relate is permissible under § 195(c)(2). The director will ascertain whether the taxpayer's determination of the taxable year in which the taxpayer begins the active trade or business to which the start-up expenditures relate is permissible.

(3) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change to a method of accounting under this section 10.01 is "223."

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

.02 *Organizational expenditures under § 248.*

(1) *Description of change and scope.*

(a) *Applicability.* This change applies to a corporation that wants to change its method of accounting under § 248 to change:

(i) the characterization of an item as an organizational expenditure;

(ii) the determination of the taxable year in which the corporation begins business to which the organizational expenditures relate; or

(iii) the amortization period of an organizational expenditure to 180 months.

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

(i) organizational expenditures paid or incurred before October 23, 2004; or

(ii) organizational expenditures paid or incurred after October 22, 2004, and before August 17, 2011, if the period of limitations on assessment of tax for the taxable year the election under § 1.248-1(c) is deemed made has expired.

(2) *No rulings.*

(a) *Characterization of items.* The consent granted under section 9 of Rev. Proc. 2015-13 for a change specified in section 10.02(1)(a)(i) of this revenue procedure is not a determination by the Commissioner that the corporation has properly characterized an item as an organizational expenditure and does not create any presumption that the proposed characterization of an item as an organizational expenditure is permissible under § 248(b) and § 1.248-1(b). The director will ascertain whether the corporation's characterization of an item as an organizational expenditure is permissible.

(b) *When the corporation begins business.* The consent granted under section 9 of Rev. Proc. 2015-13 for a change specified in section 10.02(1)(a)(ii) of this revenue procedure is not a determination by the Commissioner that the corporation has properly determined the taxable year in which the corporation begins business to which the organizational expenditures relate and does not create any presumption that the proposed taxable year in which the corporation begins business to which the organizational expenditures relate is permissible under § 1.248-1(d). The director will ascertain whether the corporation's determination of the taxable year in which the corporation begins business to which the organizational expenditures relate is permissible.

(3) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 10.02 is "228."

(4) *Contact information.* For further information regarding a change under this section, contact Sharon Horn at (202) 317-7003 (not a toll-free number).

.03 *Organization fees under § 709.*

(1) *Description of change and scope.*

(a) *Applicability.* This change applies to a partnership that wants to change its method of accounting under § 709 to change:

(i) the characterization of an item as an organizational expense;

(ii) the determination of the taxable year in which the partnership begins business to which the organizational expenses relate; or

(iii) the amortization period of an organizational expense to 180 months.

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

(i) organizational expenses paid or incurred before October 23, 2004; or

(ii) organizational expenses paid or incurred after October 22, 2004, and before August 17, 2011, if the period of limitations on assessment of tax for the taxable year the election under § 1.709-1(b) is deemed made has expired.

(2) *No rulings.*

(a) *Characterization of items.* The consent granted under section 9 of Rev. Proc. 2015-13 for a change specified in section 10.03(1)(a)(i) of this revenue procedure is not a determination by the Commissioner that the partnership has properly characterized an item as an organizational expense and does not create any presumption that the proposed characterization of an item as an organizational expense is permissible under § 709(b)(3). The director will ascertain whether the partnership's characterization of an item as an organizational expense is permissible.

(b) *When the partnership begins business.* The consent granted under section 9 of Rev. Proc. 2015-13 for a change specified in section 10.03(1)(a)(ii) of this revenue procedure is not a determination by the Commissioner that the partnership has properly determined the taxable year in which the partnership begins business to which the organizational expenses relate and does not create any presumption that the proposed taxable year in which the partnership begins business to which the organizational expenses relate is permissible under § 1.709-2(c). The director will ascertain whether the partnership's determination of the taxable year in which the partnership begins business to which the organizational expenses relate is permissible.

(3) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 10.03 is "229."

(4) *Contact information.* For further information regarding a change under this section, contact Meghan Howard at (202) 317-5055 (not a toll-free number).

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SECTION 11. CAPITAL EXPENDITURES (§ 263)

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.01 *Package design costs.*

(1) *Description of change.*

(a) *Applicability.* This change applies to a taxpayer that wants to change its method of accounting for package design costs that are within the scope of Rev. Proc. 97-35, 1997-2 C.B. 448, as modified by Rev. Proc. 98-39, 1998-1 C.B. 1320, to one of the three alternative methods of accounting for package design costs described in section 5 of Rev. Proc. 97-35, which are: (i) the capitalization method, (ii) the design-by-design capitalization and 60-month amortization method, and (iii) the pool-of-cost capitalization and 48-month amortization method.

(b) *Inapplicability.* This change does not apply to a taxpayer that wants to change to the capitalization method for costs of developing or modifying any package design that has an ascertainable useful life.

(2) *Additional requirements.* If a taxpayer is changing its method of accounting for package design costs to the capitalization method or the design-by-design capitalization and 60-month

amortization method, the taxpayer must attach a statement to its timely filed Form 3115. The statement must provide a description of each package design, the date on which each was placed in service, and the cost basis of each (as determined under sections 5.01(2) or 5.02(2) of Rev. Proc. 97-35).

(3) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 11.01 is “19.”

(4) *Contact information.* For further information regarding a change under this section, contact Alexa Dubert at (202) 317-7003 (not a toll-free number).

*.02 Line pack gas or cushion gas.*

(1) *Description of change.* This change applies to a taxpayer that wants to change its method of accounting for line pack gas or cushion gas to a method consistent with the holding in Rev. Rul. 97-54, 1997-2 C.B. 23. Rev. Rul. 97-54 holds that the cost of line pack gas or cushion gas is a capital expenditure under § 263, the cost of recoverable line pack gas or recoverable cushion gas is not depreciable, and the cost of unrecoverable line pack gas or unrecoverable cushion gas is depreciable under §§ 167 and 168.

(2) *Additional requirements.* A taxpayer that changes its method of accounting for unrecoverable line pack gas or unrecoverable cushion gas under this section 11.02 must change to a permissible method of accounting for depreciation for the cost of that gas as part of this change.

(3) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 11.02 is “20.”

(4) *Contact information.* For further information regarding a change under this section, contact Douglas Kim at (202) 317-7003 (not a toll-free number).

*.03 Removal costs.*

(1) *Description of change.*

(a) *Applicability.* This change applies to a taxpayer that wants to change its method of accounting for certain costs in the retirement and removal of a depreciable asset to conform with Rev. Rul. 2000-7, 2000-1 C.B. 712, as modified by this revenue procedure, or for removal costs in disposal of a depreciable asset, including a partial disposition, as described under § 1.263(a)-3(g)(2)(i).

(b) *Inapplicability.* This change does not apply to a taxpayer that wants to change its method of accounting for removal costs in the disposal of a component of a unit of property where the disposal of the component is not a disposition for federal tax purposes. To make that change, see section 11.08 of this revenue procedure.

(c) *Manner of making change.* A qualified small taxpayer, as defined in section 6.01(4)(b) of this revenue procedure, is required to complete only the following information on Form 3115 (Rev. December 2018):

- (i) The identification section of page 1 (above Part I);
- (ii) The signature section at the bottom of page 1;
- (iii) Part I, line 1(a);
- (iv) Part II, all lines except lines 13, 15, 16, 17, and 19, if the change is not to depreciating property;
- (v) Part II, all lines except lines 13, 15b, 16, 17, and 19, if the change is to depreciating property;
- (vi) Part IV, lines 26 and 27; and
- (vii) Schedule E, if applicable.

(2) *Additional requirements.*

(a) Except for assets for which depreciation is determined in accordance with § 1.167(a)-11 (ADR), the taxpayer's proposed method of treating removal costs for assets accounted for in a multiple asset account must be consistent with the taxpayer's method of treating salvage proceeds. See Rev. Rul. 74-455, 1974-2 C.B. 63. (See section 6.02 of this revenue procedure for changing a taxpayer's present method of treating salvage proceeds.)

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

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

(4) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 11.03 is "21."

(5) *Contact information.* For further information regarding a change under this section, contact Douglas Kim at (202) 317-7003 (not a toll-free number).

.04 *Distributor commissions.*

(1) *Description of change.*

(a) *Applicability.* This change applies to a taxpayer that wants to change from currently deducting distributor commissions (as defined by section 2 of Rev. Proc. 2000-38, 2002-2 C.B. 310, as modified by Rev. Proc. 2007-16, 2007-1 C.B. 358) to a method of capitalizing and amortizing distributor commissions using the distribution fee period method, the 5-year method, or the useful life method (all described in Rev. Proc. 2000-38).



(b) *Inapplicability.* This change does not apply to an amortizable section 197 intangible (including any property for which a timely election under § 13261(g)(2) of the Revenue Reconciliation Act of 1993, 1993-3 C.B. 1, 128, was made).

(2) *Manner of making change.* This change is made on a cut-off basis and applies only to distributor commissions paid or incurred on or after the beginning of the year of change. Accordingly, a § 481(a) adjustment is neither permitted nor required.

(3) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 11.04 is “47.”

(4) *Contact information.* For further information regarding a change under this section, contact Alexa Dubert at (202) 317-7003 (not a toll-free number).

*.05 Intangibles.*

(1) *Description of change.* This change applies to a taxpayer that wants to change its treatment of an item to a method of accounting permitted by §§ 1.263(a)-4, 1.263(a)-5, and 1.167(a)-3(b). See Rev. Proc. 2006-12, 2006-1 C.B. 310, as modified by Rev. Proc. 2006-37, 2006-2 C.B. 499, for the specific requirements, information, and documentation required for this change.

(2) *Section 481(a) adjustment.* In computing the § 481(a) adjustment for this change, the taxpayer takes into account only amounts paid or incurred in taxable years ending on or after January 24, 2002. See section 5 of Rev. Proc. 2006-12 for detailed rules for computing the § 481(a) adjustment and reporting it on Form 3115.

(3) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 11.05 is “78.”

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

*.06 Rotable spare parts safe harbor method.*

(1) *Description of change.* This change applies to a taxpayer that maintains a pool or pools of rotatable spare parts that are primarily used to repair customer-owned (or customer-leased) equipment under warranty or maintenance agreements, and wants to change its method of accounting for the rotatable spare parts to the safe harbor method of accounting provided in Rev. Proc. 2007-48, 2007-2 C.B. 110. The taxpayer must meet the requirements in section 4.01 of Rev. Proc. 2007-48 to use this safe harbor method of accounting.

(2) *Change from safe harbor method.* A taxpayer that is required to change its method of accounting from the safe harbor method under section 5.06 of Rev. Proc. 2007-48, must make the change under section 21.09 of this revenue procedure.

(3) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 11.06 is “109.”

(4) *Contact information.* For further information regarding a change under this section, contact Stephen Rothandler at (202) 317-7003 (not a toll-free number).

*.07 Repairable and reusable spare parts.*

(1) *Description of change.*

(a) *Applicability.* This change applies to a taxpayer that wants to change its method of accounting to treat repairable and reusable spare parts as depreciable property to conform with the holdings in Rev. Rul. 69-200, 1969-1 C.B. 60, and Rev. Rul. 69-201, 1969-1 C.B. 60. This change applies to repairable and reusable spare parts that: are owned by the taxpayer at the beginning of the year of change; are used to repair equipment owned by the taxpayer; are acquired by the taxpayer for a specific type of equipment at the time that the related equipment is acquired; usually have the same useful life as the related equipment; and have been placed in service by the taxpayer after 1986. A taxpayer making a change in method of accounting under this section 11.07 may treat its repairable and reusable spare parts as tangible property for which depreciation is allowable at the time that the related equipment is placed in service by the taxpayer. The method of computing depreciation for the repairable and reusable spare parts is the same method of computing depreciation for the related equipment.

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

(i) A taxpayer that is currently capitalizing and depreciating the cost of its repairable and reusable spare parts, or that is currently capitalizing the cost of its repairable and reusable spare parts and treating these parts as nondepreciable property (but see section 6.01 of this revenue procedure for making a change from an impermissible to a permissible method of accounting for depreciation);

(ii) A taxpayer that is using an impermissible method of accounting for depreciation for the related equipment for which the repairable and reusable spare parts are acquired, unless the taxpayer concurrently changes its method to use a permissible method of accounting for depreciation under section 6 of this revenue procedure;

(iii) A repairable and reusable spare part that meets the definition of rotatable spare parts, temporary spare parts, or standby emergency spare parts in § 1.162-3(c)(2) or (3), for which the cost was paid or incurred by the taxpayer in a taxable year beginning on or after January 1, 2014 (or in a taxable year beginning on or after January 1, 2012, if the taxpayer chooses to apply § 1.162-3 to amounts paid or incurred in those taxable years), and for which the taxpayer did not make the election under § 1.162-3(d) to capitalize and depreciate such repairable and reusable spare part; or

(iv) a taxpayer that chooses to apply § 1.162-3T to a repairable and reusable spare part that meets the definition of rotatable spare parts or temporary spare parts in § 1.162-3T(c)(2), for which the cost was paid or incurred by the taxpayer in a taxable year beginning on or after January 1, 2012, and before January 1, 2014, and for which the taxpayer did not make the election under § 1.162-3T(d) to capitalize and depreciate such repairable and reusable spare part.

(2) *Additional requirements.*

(a) To change a method of accounting under this section 11.07, a taxpayer (including a qualified small taxpayer as defined in section 6.01(4)(b) of this revenue procedure) must complete Schedule

E of Form 3115 for the repairable and reusable spare parts and also attach the following information to the completed Form 3115:

(i) A description of the repairable and reusable spare parts;

(ii) A list of related equipment for which the repairable and reusable spare parts are acquired; and

(iii) A complete description of the method of computing depreciation (for example, depreciation method, recovery period, convention, and applicable asset class under Rev. Proc. 87-56, 1987-2 C.B. 674, as clarified and modified by Rev. Proc. 88-22, 1988-1 C.B. 785) that the taxpayer uses for the related equipment for which the repairable and reusable spare parts are acquired.

(b) *Reduced filing requirement for qualified small taxpayers.* A qualified small taxpayer, as defined in section 6.01(4)(b) of this revenue procedure, is required to complete only the following information on Form 3115 (Rev. December 2018):

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

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

(iii) Part I;

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

(v) Part IV, all lines except line 25.

(3) *Concurrent automatic change.*

(a) A taxpayer making both this change and a change to a UNICAP method under section 12.01, 12.02, 12.08, or 12.12 of this revenue procedure (as applicable) for the same year of change should file a single Form 3115 for both changes, in which case the taxpayer must enter the designated automatic accounting method change numbers for both changes on the appropriate line on that Form 3115. See section 6.03(1)(b) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, for information on making concurrent changes. For example, a qualified small taxpayer, as defined in section 6.01(4)(b) of this revenue procedure, must include on the single Form 3115 the information required by section 11.07(2)(b) of this revenue procedure and the information required by the lines on Form 3115, applicable to the UNICAP method change, including Part II line 14 and 15, Part IV, and Schedule D, and must include a separate response to each line on Form 3115 that is applicable to both changes (such as Part II lines 6b, 7, 8b, 14, and, as applicable for this change, Part IV) for which the taxpayer's response is different for this change and the change to a UNICAP method.

(b) A taxpayer making both this change and a change to a permissible method of accounting for depreciation for repairable and reusable spare parts, or for the related equipment for which the repairable and reusable spare parts are acquired, under section 6 of this revenue procedure (as applicable) for the same year of change should file a single Form 3115 for both changes, in which case the taxpayer must enter the designated automatic accounting method change numbers for both changes on the appropriate line on that Form 3115. See section 6.03(1)(b) of Rev. Proc. 2015-13 for information on making concurrent changes. For example, a qualified small taxpayer

must include on the single Form 3115 the information required to be completed on Form 3115 by a qualified small taxpayer under this revenue procedure for each change in method of accounting included on that Form 3115.

(c) A taxpayer making this change also may establish pools for the repairable and reusable spare parts or may identify disposed repairable and reusable spare parts in accordance with section 6.12 of this revenue procedure. A taxpayer making both this change and the change under section 6.12 of this revenue procedure for the same year of change should file a single Form 3115 for both changes, in which case the taxpayer must enter the designated automatic accounting method change numbers for both changes on the appropriate line on that Form 3115. See section 6.03(1)(b) of Rev. Proc. 2015-13 for information on making concurrent changes. For example, a qualified small taxpayer must include on the single Form 3115 the information required to be completed on Form 3115 by a qualified small taxpayer under this revenue procedure for each change in method of accounting included on that Form 3115.

(4) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 11.07 is “121”.

(5) *Contact information.* For further information regarding a change under this section, contact Stephen Rothandler at (202) 317-7003 (not a toll-free number).

*.08 Tangible property.*

(1) *Description of change.*

(a) *Applicability.* This change, as described in Rev. Proc. 2014-16, 2014-9 I.R.B. 606, applies to a taxpayer that wants to make a change to a method of accounting specified in section 11.08(2) of this revenue procedure and permitted under:

(i) Section 1.162-3, § 1.162-4, § 1.263(a)-1, § 1.263(a)-2, or § 1.263(a)-3 (the final tangible property regulations) for taxable years beginning on or after January 1, 2012; or

(ii) Section 1.446-1(e)(2)(ii)(d)(2) if the property for which the taxpayer is otherwise changing its method of accounting under this section is depreciable under either the present or the proposed method of accounting.

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

(i) A taxpayer that wants to change its method of accounting for dispositions of depreciable property, including a change in the asset disposed of (but see sections 6.10, 6.13, 6.14, and 6.15 of this revenue procedure);

(ii) Amounts paid or incurred for certain materials and supplies that the taxpayer has elected to capitalize and depreciate under § 1.162-3(d);

(iii) Amounts paid or incurred to which the taxpayer has elected to apply the de minimis safe harbor under § 1.263(a)-1(f);

(iv) Amounts paid or incurred for employee compensation or overhead that the taxpayer has elected to capitalize under § 1.263(a)-2(f)(2)(iv)(B);

(v) Amounts paid or incurred to which the taxpayer has elected to apply the safe harbor for small taxpayers under § 1.263(a)-3(h);

(vi) Amounts paid or incurred for repair and maintenance costs that the taxpayer has elected to capitalize under § 1.263(a)-3(n);

(vii) Amounts paid or incurred to facilitate the acquisition or disposition of assets that constitute a trade or business (but see section 10.05 of this revenue procedure); or

(viii) Amounts paid or incurred for repair and maintenance costs that the taxpayer is changing from capitalizing to deducting and for which the taxpayer has (A) claimed a federal income tax credit, (B) elected to apply § 168(k)(4) (as in effect on the day before the date of enactment of Public Law 115-97, 131 Stat. 2054 (Dec. 22, 2017), commonly referred to as the Tax Cuts and Jobs Act (TCJA)), or (C) received a payment for specified energy property in lieu of tax credits under section 1603 of the American Recovery and Reinvestment Tax Act of 2009, Div. B of Pub. L. No. 111-5, 123 Stat. 115 (February 17, 2009), as amended by section 707 of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, Pub. L. No. 111-312, 124 Stat. 3296 (December 17, 2010).

(2) *Covered changes.* This section 11.08 only applies to the following changes in methods of accounting:

(a) A change to deducting amounts paid or incurred to acquire or produce non-incidentals materials and supplies in the taxable year in which they are first used in the taxpayer's operations or consumed in the taxpayer's operations in accordance with §§ 1.162-3(a)(1) and 1.162-3(c)(1);

(b) A change to deducting amounts to acquire or produce incidentals materials and supplies in the taxable year in which paid or incurred in accordance with §§ 1.162-3(a)(2) and 1.162-3(c)(1);

(c) A change to deducting amounts paid or incurred to acquire or produce non-incidentals rotatable and temporary spare parts in the taxable year which the taxpayer disposes of the parts in accordance with §§ 1.162-3(a)(3) and 1.162-3(c)(2);

(d) A change to the optional method of accounting for rotatable and temporary spare parts in accordance with § 1.162-3(e);

(e) A change to deducting amounts paid or incurred for repair and maintenance in accordance with § 1.162-4, including a change, if any, in identifying the unit of property under § 1.263(a)-3(e) or, in the case of a building, identifying the building structure or building systems under § 1.263(a)-3(e)(2) for purposes of making the change to deducting the amounts;

(f) A change to capitalizing amounts paid or incurred for improvements to tangible property in accordance with § 1.263(a)-3 and, if depreciable, to depreciating such property under § 167 or § 168, including a change, if any, in identifying the unit of property under § 1.263(a)-3(e) or, in the case of a building, identifying the building structure or building systems under § 1.263(a)-3(e)(2) for purposes of making the change to capitalizing the amounts;



(g) A change by a dealer in property to deduct amounts paid or incurred for commissions and other costs that facilitate the sale of property in accordance with § 1.263(a)-1(e)(2);

(h) A change by a non-dealer in property to capitalizing amounts paid or incurred for commissions and other costs that facilitate the sale of property in accordance with § 1.263(a)-1(e);

(i) A change to capitalizing amounts paid or incurred to acquire or produce property in accordance with § 1.263(a)-2, and if depreciable, to depreciating such property under § 167 or § 168;

(j) A change to deducting amounts paid or incurred in the process of investigating or otherwise pursuing the acquisition of real property if the amounts meet the requirements of § 1.263(a)-2(f)(2)(iii); and

(k) A change to the optional regulatory accounting method in accordance with § 1.263(a)-3(m) to determine whether amounts paid or incurred to repair, maintain, or improve tangible property are treated as deductible expenses or capital expenditures.

(3) *Manner of making change.*

(a) *Form 3115.* In addition to the other information required on line 14 of Form 3115, the taxpayer must include the following:

(i) The citation to the paragraph of the final tangible property regulations that provides for the proposed method, or methods, of accounting to which the taxpayer is changing (for example, § 1.162-3(a), § 1.263(a)-3(i), § 1.263(a)-3(k)); and

(ii) If the taxpayer is changing any unit(s) of property under § 1.263(a)-3(e) or, in the case of a building, is changing the identification of any building structure(s) or building system(s) under § 1.263-3(e)(2) for purposes of determining whether amounts are deducted as repair and maintenance costs under section § 1.162-4 or capitalized as improvement costs under § 1.263(a)-3, the taxpayer must include a detailed description of the unit(s) of property, building structure(s), or buildings system(s) used under its present method of accounting and a detailed description of the unit(s) of property, building structure(s), and building system(s) under its proposed method of accounting, together with a citation to the paragraph of the final tangible property regulations under which the unit of property is permitted.

(iii) A taxpayer changing its method of accounting under this section 11.08 to capitalizing amounts paid or incurred and to depreciating such property under § 167 or § 168, as applicable, must complete Schedule E of Form 3115.

(b) *Reduced filing requirement for qualified small taxpayers.* A qualified small taxpayer, as defined in section 6.01(4)(b) of this revenue procedure, is required to complete only the following information on Form 3115 (Rev. December 2018):

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

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

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

(iv) Part II, all lines except lines 13, 15, 16, 17, and 19, if the change is to not depreciating property;

(v) Part II, all lines except line 13, line 15b, 16, 17, and 19, if the change is to depreciating property;

(vi) Part IV, lines 26 and 27; and

(vii) Schedule E, if applicable.

(4) *Concurrent automatic change.*

(a) A taxpayer making two or more changes in method of accounting pursuant to this section 11.08 should file a single Form 3115 for all of these changes and must enter the designated automatic accounting method change numbers for all of these changes on the appropriate line on the Form 3115.

(b) A taxpayer making both one or more changes in method of accounting pursuant to this section 11.08 and a change to a UNICAP method under section 12 of this revenue procedure (as applicable) for the same year of change should file a single Form 3115 that includes all of these changes and must enter the designated automatic accounting method change numbers for all of these changes on the appropriate line on that Form 3115. See section 6.03(1)(b) of Rev. Proc. 2015-13 for information on making concurrent changes. For example, a qualified small taxpayer, as defined in section 6.01(4)(b) of this revenue procedure, must include on the single Form 3115 the information required by section 11.08(3)(b) of this revenue procedure for this change and the information required by the lines on Form 3115, applicable to the UNICAP method change, including Part II lines 14 and 15, Part IV, and Schedule D, and must include a separate response to each line on Form 3115 that is applicable to both changes (such as Part II lines 6b, 7, 8b, 14, and, as applicable for this change, Part IV) for which the taxpayer's response is different for this change and the change to a UNICAP method.

(5) *Section 481(a) adjustment.*

(a) *In general.* Except as provided in section 11.08(5)(b) of this revenue procedure, a taxpayer changing to a method of accounting provided in this section 11.08 must apply § 481(a) and take into account any applicable § 481(a) adjustment in the manner provided in section 7.03 of Rev. Proc. 2015-13.

(b) *Limited adjustment for certain changes.*

(i) *Final tangible property regulations.* A taxpayer changing to a method of accounting under § 1.162-3 (except § 1.162-3(e)), § 1.263(a)-2(f)(2)(iii), § 1.263(a)-2(f)(3)(ii), § 1.263(a)-3(m), § 1.263A-1(e)(2)(i)(A), and § 1.263A-1(e)(3)(ii)(E) is required to calculate a § 481(a) adjustment as of the first day of the taxpayer's taxable year of change that takes into account only amounts paid or incurred in taxable years beginning on or after January 1, 2014. Optionally, a taxpayer may take into account amounts paid or incurred in taxable years beginning on or after January 1, 2012.

(ii) *Small business exception.* A taxpayer that met the scope requirements of section 4 of Rev. Proc. 2015-20, 2015-9 I.R.B. 694, and that changed its method of accounting under section 10.11(3)(a) of Rev. Proc. 2015-14 (which is now section 11.08(2) of this revenue procedure) by following section 5 of Rev. Proc. 2015-20 is required to calculate a § 481(a) adjustment as of the first day of the year of change that takes into account only amounts paid or incurred in taxable years beginning on or after January 1, 2014.

(c) *Itemized listing on Form 3115.* A taxpayer changing to a method of accounting provided in this section 11.08 must include on Form 3115 (Rev. December 2018), Part IV, line 26, the total § 481(a) adjustment for each change in method of accounting being made. If the taxpayer is making more than one change in method of accounting under the final tangible property regulations, the taxpayer (including a qualified small taxpayer) must include on an attachment to Form 3115:

(i) The information required by Part IV, line 26 of Form 3115 (Rev. December 2018) for each change in method of accounting (including the amount of the § 481(a) adjustment for each change in method of accounting, which includes the portion of the § 481(a) adjustment attributable to UNICAP);

(ii) The information required by Part II, line 14 of Form 3115 (Rev. December 2018) for each change; and

(iii) The citation to the paragraph of the final tangible property regulations that provides for each proposed method of accounting.

(d) *Repair allowance property.* A taxpayer changing to a method of accounting provided by § 1.263(a)-3 under this section 11.08 must not include in the § 481(a) adjustment any amount attributable to property for which the taxpayer elected to apply the repair allowance under § 1.167(a)-11(d)(2) for any taxable year in which the repair allowance election was made.

(e) *Statistical Sampling.* Except for any change in accounting method for which a taxpayer is required to compute a § 481(a) adjustment under section 11.08(5)(b) of this revenue procedure, a taxpayer changing its method of accounting under this section 11.08 may use statistical sampling in determining the § 481(a) adjustment by following the guidance provided in Rev. Proc. 2011-42, 2011-37 I.R.B. 318.

(6) *No audit protection.* A taxpayer calculating a § 481(a) adjustment under section 11.08(5)(b)(ii) of this revenue procedure that takes into account only amounts paid or incurred in taxable years beginning on or after January 1, 2014, does not receive audit protection under section 8.01 of Rev. Proc. 2015-13 for amounts subject to a change under this section 11.08 that are paid or incurred in taxable years beginning before January 1, 2014. See section 5.02 of Rev. Proc. 2015-20.

(7) *Designated automatic accounting method change number.* See the following table for the designated automatic accounting method change numbers (DCN) for the changes in method of accounting under this section 11.08.

(a) *Changes under the final tangible property regulations.*

<i>Description of Change</i>	<i>DCN</i>	<i>Citation</i>
A change to deducting amounts paid or incurred for repair and maintenance or a change to capitalizing amounts paid or incurred for improvements to tangible property and, if depreciable, to depreciating such property under § 167 or § 168. Includes a change, if any, in the method of identifying the unit of property, or in the case of a building, identifying the building structure or building systems for the purpose of making this change.	184	§§ 1.162-4, 1.263(a)-3
Change to the regulatory accounting method.	185	§ 1.263(a)-3(m)
Change to deducting non-incidentals materials and supplies when used or consumed.	186	§ 1.162-3(a)(1), (c)(1)
Change to deducting incidental materials and supplies when paid or incurred.	187	§ 1.162-3(a)(2), (c)(1)
Change to deducting non-incidentals rotatable and temporary spare parts when disposed of.	188	§ 1.162-3(a)(3), (c)(2)
Change to the optional method for rotatable and temporary spare parts.	189	§ 1.162-3(e)
Change by a dealer in property to deduct commissions and other costs that facilitate the sale of property.	190	§ 1.263(a)-1(e)(2)
Change by a non-dealer in property to capitalizing commissions and other costs that facilitate the sale of property.	191	§ 1.263(a)-1(e)(1)
Change to capitalizing acquisition or production costs and, if depreciable, to depreciating such property under § 167 or § 168.	192	§ 1.263(a)-2
Change to deducting certain costs for investigating or pursuing the acquisition of real property (whether and which).	193	§ 1.263(a)-2(f)(2)(iii)

(8) *Contact information.* For further information regarding a change under this section, contact Douglas Kim at (202) 317-7003 (not a toll-free number).

*.09 Railroad track structure expenditures.*

(1) *Description of change.* This change applies to a taxpayer that wants to change its method of accounting for railroad track structures to:

(a) the safe harbor method provided in Rev. Proc. 2002-65, 2002-2 C.B. 700; or

(b) the safe harbor method provided in Rev. Proc. 2001-46, 2001-2 C.B. 263.

(2) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 11.09 is “213.”

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

*.10 Remodel-refresh safe harbor method.*

(1) *Description of change.*

(a) *Applicability.* This change applies to a qualified taxpayer as defined in section 4.01 of Rev. Proc. 2015-56, 2015-49 I.R.B. 827, and within the scope of Rev. Proc. 2015-56 that wants to change to the remodel-refresh safe harbor method of accounting provided in section 5.02 of Rev. Proc. 2015-56, as modified by Rev. Proc. 2020-25, 2020-19 I.R.B. 785, for its qualified costs, including the making of a late general asset account election as provided under section 5.02(6)(d) of Rev. Proc. 2015-56.

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

(i) The revocation of a partial disposition election that is made pursuant to section 5.02(4)(b)(ii)(B) of Rev. Proc. 2015-56;

(ii) A change in determination of the asset disposed of described in section 5.02(5) of Rev. Proc. 2015-56 (which is made under section 6.13(3)(a) or 6.15(3)(a) of this revenue procedure, as applicable). See section 11.10(5)(b) of this revenue procedure for making the change under section 6.13(3)(a) or 6.15(3)(a) of this revenue procedure as a concurrent change;

(iii) The making of a late general asset account election not provided under section 5.02(6)(d) of Rev. Proc. 2015-56;

(iv) If section 5.02(4)(c) of Rev. Proc. 2015-56 applies to a qualified building (partial disposition election made in a prior year and the qualified taxpayer did not revoke such election within the time and in the manner provided in section 5.02(4)(b)(ii) of Rev. Proc. 2015-56), any qualified costs paid for that qualified building prior to the year of change for a Form 3115 filed to make the change to the remodel-refresh safe harbor method of accounting under this section 11.10; or

(v) If section 5.02(5)(b) of Rev. Proc. 2015-56 applies to a qualified building (recognized gain or loss under § 1.168(i)-1 or § 1.168(i)-8, or in a taxable year beginning before January 1, 2012, for disposition of a component of a qualified building) and the qualified taxpayer did not make the required change in method of accounting to be in accord with § 1.168(i)-1(e)(2)(viii) or § 1.168-8(c)(4), as applicable, on or before the first taxable year that the qualified taxpayer uses the remodel-refresh safe harbor and takes the entire amount of the § 481(a) adjustment into account in computing the qualified taxpayer's taxable income for that year of change, any qualified costs paid for that qualified building prior to the first taxable year that the qualified taxpayer or the IRS makes the change specified in section 6.13(3)(a) or 6.15(3)(a) of this revenue procedure, as applicable, for that qualified building and takes into account the entire amount of the § 481(a) adjustment in computing taxable income for the year of change.

(2) *No audit protection.* If section 5.02(4)(c) or 5.02(5)(b) of Rev. Proc. 2015-56 applies to a qualified building (and, in the case of section 5.02(5)(b), the qualified taxpayer does not make the required change on or before the first taxable year that the qualified taxpayer uses the remodel-refresh safe harbor), the qualified taxpayer does not receive audit protection under section 8.01 of Rev. Proc. 2015-13 in connection with this change for that qualified building. See section 8.02(2) of Rev. Proc. 2015-13.

(3) *Manner of making change.*



(a) *Reduced filing requirement for qualified small taxpayers.* A qualified small taxpayer, as defined in section 6.01(4)(b) of this revenue procedure, may complete only the following information on Form 3115 (Rev. December 2018):

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

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

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

(iv) Part II, all lines except lines 5, 13, 15, 16, 17, and 19;

(v) Part IV, lines 25, 26, and 27;

(vi) Schedule E; and

(vii) If applicable, the election statement described in section 11.10(3)(b)(ii).

(b) *Late general asset account election.*

(i) *In general.* If under section 5.02(6)(d) of Rev. Proc. 2015-56 the qualified taxpayer is required to make a late general asset account election, the late general asset account election change is made using a modified cut-off method under which the unadjusted depreciable basis and the depreciation reserve of the asset as of the beginning of the year of change are accounted for using the new method of accounting. The late general asset account election change requires the general asset account to include a beginning balance for both the unadjusted depreciable basis and the depreciation reserve. The beginning balance for the unadjusted depreciable basis of each general asset account is equal to the sum of the unadjusted depreciable bases as of the beginning of the year of change for all assets included in that general asset account. The beginning balance of the depreciation reserve of each general asset account is equal to the sum of the greater of the depreciation allowed or allowable as of the beginning of the year of change for all assets included in that general asset account.

(ii) *Election statement.* The qualified taxpayer (including a qualified small taxpayer) must attach to its Form 3115 a statement providing that the qualified taxpayer agrees to the following additional terms and conditions:

(A) The qualified taxpayer consents to, and agrees to apply, all of the provisions of § 1.168(i)-1 to the assets that are subject to the election specified in section 5.02(6)(d) of Rev. Proc. 2015-56; and

(B) Except as provided in § 1.168(i)-1(c)(1)(ii)(A), (e)(3), (g), or (h), the election made by the qualified taxpayer under section 5.02(6)(d) of Rev. Proc. 2015-56 is irrevocable and will be binding on the qualified taxpayer for computing taxable income for the year of change and for all subsequent taxable years with respect to the assets that are subject to this election.

(c) *Cut-off method required for certain changes.*

(i) If section 5.02(4)(c) of Rev. Proc. 2015-56 applies to a qualified building, the change to the remodel-refresh safe harbor method of accounting for that qualified building, and any improvements to that qualified building, is made using a cut-off method and applies only to qualified costs paid or incurred for that qualified building, and any improvements to that qualified building, beginning in the year of change for the change made to the remodel-refresh safe harbor method of accounting.

(ii) If section 5.02(5)(b) of Rev. Proc. 2015-56 applies to a qualified building and the qualified taxpayer does not change its present method of accounting to be in accord with § 1.168(i)-1(e)(2)(viii) or § 1.168(i)-8(c)(4), as applicable, on or before the first taxable year that the qualified taxpayer used the remodel-refresh safe harbor and take the entire amount of the § 481(a) adjustment into account in computing the qualified taxpayer's taxable income for that year of change, the change to the remodel-refresh safe harbor method of accounting for that qualified building, and any improvements to that qualified building, is made using a cut-off method and applies only to qualified costs paid or incurred for that qualified building, and any improvements to that qualified building, beginning in the year of change for the change made to comply with § 1.168(i)-1(e)(2)(viii) or § 1.168(i)-8(c)(4), as applicable. *See* section 6.13(3)(a) and section 6.15(3)(a) of this revenue procedure, as applicable.

(4) *Section 481(a) adjustment.*

(a) *In general.* A qualified taxpayer changing its method of accounting under this section 11.10 must apply § 481(a) and take into account any applicable § 481(a) adjustment in the manner provided in section 7.03 of Rev. Proc. 2015-13. However, a § 481(a) adjustment is neither required nor permitted for the late general asset account election under section 5.02(6)(d) of Rev. Proc. 2015-56 or, if section 5.02(4)(c) or 5.02(5)(b) of Rev. Proc. 2015-56 applies to a qualified building, and an improvement to a qualified building (and, in the case of section 5.02(5)(b) of Rev. Proc. 2015-56, the qualified taxpayer did not make the required change on or before the first taxable year that the qualified taxpayer uses the remodel-refresh safe harbor), for the change to the remodel-refresh safe harbor method of accounting for that qualified building and an improvement to that qualified building.

(b) *Repair allowance property.* A qualified taxpayer changing to the method of accounting provided under this section 11.10 must not include in the § 481(a) adjustment any amount attributable to property for which the qualified taxpayer elected to apply the repair allowance under § 1.167(a)-11(d)(2) for any taxable year in which the repair allowance election was made.

(c) *Statistical sampling.* A qualified taxpayer changing its method of accounting under this section 11.10 may use statistical sampling in determining the § 481(a) adjustment only by following the sampling procedures provided in Rev. Proc. 2011-42, 2011-37 I.R.B. 318.

(5) *Concurrent automatic change.*

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

(b) A qualified taxpayer making this change, a change under section 6.13(3)(a) of this revenue procedure, and any change listed in section 6.12(3)(b) or section 6.15 of this revenue procedure for the same year of change should file a single Form 3115 for all such changes and must enter the designated automatic accounting method change numbers for the changes on the appropriate

line on the Form 3115. See section 6.03(1)(b) of Rev. Proc. 2015-13 for information on making concurrent changes.

(6) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change to the method of accounting under this section 11.10 is “222.”

(7) *Contact information.* For further information regarding a change under this section, contact Merrill Feldstein at (202) 317-5100 (not a toll-free number).

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## SECTION 12. UNIFORM CAPITALIZATION (UNICAP) METHODS (§ 263A)

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.01 *Certain uniform capitalization (UNICAP) methods used by resellers and reseller-producers.*

(1) *Description of change.*

(a) *Applicability.* This change applies to:

(i) a reseller that is a former small business taxpayer, or a reseller-producer that is a former small business taxpayer, that wants to change from a permissible non-UNICAP inventory capitalization method to a permissible UNICAP method specifically described in the regulations in the first taxable year that it does not qualify as a small business taxpayer;

(ii) a reseller-producer that wants to change from a permissible UNICAP method for both its production and resale activities to a permissible simplified resale method described in § 1.263A-3(d)(3) in any taxable year that it qualifies to use a simplified resale method for both its production and resale activities under § 1.263A-3(a)(4) (resellers with *de minimis* production activities);

(iii) a reseller-producer that wants to change from a permissible simplified resale method described in § 1.263A-3(d)(3) for both its production and resale activities to a permissible UNICAP method specifically described in the regulations for both its production and resale activities in the first taxable year that it does not qualify to use a simplified resale method for both its production and resale activities under § 1.263A-3(a)(4);

(iv) a reseller that wants to change its permissible UNICAP method to include a special reseller cost allocation rule;

(v) a reseller or reseller-producer that wants to change to a UNICAP method (or methods) specifically described in the regulations, including any necessary changes in the identification of costs subject to § 263A that will be accounted for using the proposed method, in any taxable year other than the first taxable year that it does not qualify as a small business taxpayer; or

(vi) a reseller or reseller-producer that wants to change from not capitalizing a cost subject to § 263A to capitalizing that cost under a UNICAP method (or methods) specifically described in the regulations that the reseller or reseller-producer is already using.

(b) *Inapplicability.*

(i) *Self constructed assets.* This change does not apply to a taxpayer that wants to use either the simplified service cost method, the simplified production method, or the modified simplified production method for self-constructed assets under §§ 1.263A-1(h)(2)(i)(D), 1.263A-2(b)(2)(i)(D), and 1.263A-2(c)(2), respectively.

(ii) *Election or revocation of election to use a historic absorption ratio.* This change does not apply to a taxpayer that (1) wants to make a historic absorption ratio election with the simplified production method, the modified simplified production method, or the simplified resale method under §§ 1.263A-2(b)(4), 1.263A-2(c)(4), or 1.263A-3(d)(4), respectively; or (2) wants to revoke an election to use a historic absorption ratio with the simplified production method, the modified simplified production method, or the simplified resale method (see §§ 1.263A-2(b)(4)(iii)(B), 1.263A-2(c)(4), or 1.263A-3(d)(4)(iii)(B), respectively).

(iii) *Interest capitalization.* This change does not apply to a change in method of accounting for interest capitalization (but see section 12.14 of this revenue procedure).

(iv) *Recharacterizing costs under the simplified resale method, simplified production method, or modified simplified production method.* This change does not include a change to recharacterize section 471 costs, as defined in § 1.263A-1(d)(2), as additional section 263A costs, as defined in § 1.263A-1(d)(3) (or *vice versa*) for a taxpayer that uses or is changing to the simplified resale method, the simplified production method, or the modified simplified production method. See section 12.17 of this revenue procedure for certain changes to recharacterize section 471 costs as additional section 263A costs (or *vice versa*).

(v) *Revocation of election under § 263A(d)(3).* This change does not apply to a taxpayer that wants to revoke its election under § 263A(d)(3) not to have § 263A apply to certain plants produced by the taxpayer in a farming business. But see Rev. Proc. 2020-13, 2020-11 I.R.B. 515, for the procedures to revoke an election under § 263A(d)(3).

(2) *Eligibility rule temporarily inapplicable.*

(a) *Eligibility rule inapplicable.* The eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, does not apply to the change described in section 12.01(1)(a)(i) of this revenue procedure.

(b) *Eligibility rule temporarily inapplicable.* The eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13 does not apply to the changes described in section 12.01(1)(a)(ii)-(vi) of this revenue procedure for the taxpayer's first, second or third taxable year ending on or after November 20, 2018.

(c) *Eligibility rule temporarily inapplicable for certain changes related to cost offset method.* The eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13 does not apply to a method change under this section 12.01 if:

(i) the taxpayer made or requested to make a change during any of the five taxable years ending with the year of change to recover inventory costs in a taxable year prior to the taxable year in which ownership of the inventory is transferred to the customer to offset inclusions under § 451(b) and/or 451(c), as applicable;

(ii) in the case of a taxpayer with an applicable financial statement (AFS), as defined in section 16.10(1)(b) of this revenue procedure, the taxpayer makes, for the same year of change, a change in method of accounting for income from the sale of inventory under section 16.10(2)(a)(iii) of this revenue procedure and, to the extent the taxpayer receives advance payments for the sale of inventory, section 16.10(2)(a)(iv) of this revenue procedure, or in the case of a taxpayer that does not have an AFS, the taxpayer concurrently changes its method of accounting for advance payments from the sale of inventory under section 16.10(2)(b)(ii) of this revenue procedure; and

(iii) the taxpayer makes the change under this section 12.01 for its early application year, as defined in section 16.10(4)(c)(i) of this revenue procedure, or if a taxpayer does not apply § 1.451-3 and/or § 1.451-8 for a taxable year beginning before January 1, 2021, for the taxpayer's first taxable year beginning on or after January 1, 2021.

(3) *Definitions.*

(a) "Reseller" means a taxpayer that acquires real or personal property described in § 1221(a)(1) for resale.

(b) "Producer" means a taxpayer that produces real or tangible personal property.

(c) "Reseller-producer" means a taxpayer that is both a producer and a reseller.

(d) "Permissible UNICAP method" means a method of capitalizing costs that is permissible under § 263A.

(e) "A UNICAP method specifically described in the regulations" does not include any other reasonable allocation method within the meaning of § 1.263A-1(f)(4). However, a "UNICAP method specifically described in the regulations" includes:

(i) the 90-10 *de minimis* rule to allocate a mixed service department's costs to resale activities (§ 1.263A-1(g)(4)(ii));

(ii) the 1/3 - 2/3 rule to allocate labor costs of personnel to purchasing activities (§ 1.263A-3(c)(3)(ii)(A));

(iii) the 90-10 *de minimis* rule to allocate a dual-function storage facility's costs to property acquired for resale (§ 1.263A-3(c)(5)(iii)(C));

(iv) the specific identification method (§ 1.263A-1(f)(2));

(v) the burden rate method (§ 1.263A-1(f)(3)(i));

(vi) the standard cost method (§ 1.263A-1(f)(3)(ii));

(vii) the direct reallocation method (§ 1.263A-1(g)(4)(iii)(A));

(viii) the step-allocation method (§ 1.263A-1(g)(4)(iii)(B));



(ix) the simplified service cost method (§ 1.263A-1(h)) (with either a labor-based allocation ratio or a production cost allocation ratio);

(x) the simplified resale method without a historic absorption ratio election (§ 1.263A-3(d));

(xi) the alternative method to determine amounts of section 471 costs by using a taxpayer's financial statement (§ 1.263A-1(d)(2)(iii));

(xii) the method to determine amounts of section 471 costs by using the amounts incurred in the taxable year for federal income tax purposes (§ 1.263A-1(d)(2)(i));

(xiii) the safe harbor method for certain variances and under- or over- applied burdens (§ 1.263A-1(d)(2)(v));

(xiv) the removal of one or more costs from section 471 costs as required in § 1.263A-1(d)(2)(vi);

(xv) the removal of one or more costs from section 471 costs using negative adjustments to additional section 263A costs as permitted in § 1.263A-1(d)(3)(ii)(B);

(xvi) the *de minimis* rule for certain direct labor costs (§ 1.263A-1(d)(2)(iv)(B));

(xvii) the *de minimis* rule for certain direct material costs (§ 1.263A-1(d)(2)(iv)(C));

(xviii) the simplified production method without a historic absorption ratio election (§ 1.263A-2(b));

(xix) the modified simplified production method without a historic absorption ratio election (§ 1.263A-2(c));

(xx) the direct material costs or pre-production labor costs allocation methods for capitalizable mixed service costs under the modified simplified production method (§ 1.263A-2(c)(3)(iii)(B)); and

(xxi) the 90-10 *de minimis* rule to allocate capitalizable mixed service costs under the modified simplified production method (§ 1.263A-2(c)(3)(iii)(C)).

(f) "Special reseller cost allocation rule" means the 90-10 *de minimis* rule to allocate a mixed service department's costs to property acquired for resale (§ 1.263A-1(g)(4)(ii)), the 1/3 – 2/3 rule to allocate labor costs of personnel to purchasing activities (§ 1.263A-3(c)(3)(ii)(A)), and the 90-10 *de minimis* rule to allocate a dual-function storage facility's costs to property acquired for resale (§ 1.263A-3(c)(5)(iii)(C)).

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

(h) “Small business taxpayer” means a taxpayer, other than a tax shelter under § 448(d)(3), proposed § 1.448-2(b)(2), or § 1.448-2(b)(2), as applicable, that meets the § 448(c) gross receipts test as provided in § 448(c), proposed § 1.263A-1(j), or § 1.263A-1(j), as applicable. The § 448(c) gross receipts test is met if a taxpayer has average annual gross receipts for the three prior taxable years of \$25,000,000 or less (adjusted for inflation), as described in § 448(c), proposed §§ 1.448-2(c), or § 1.448-2(c), as applicable. For taxable years beginning in 2019, 2020 and 2021, the inflation-adjusted amount is \$26,000,000. See Rev. Proc. 2018-57, 2018-49 I.R.B. 827, Rev. Proc. 2019-44, 2019-47 I.R.B. 1093, or Rev. Proc. 2020-45, 2020-46 I.R.B. 1016, as applicable. For a taxable year beginning in 2022, the inflation-adjusted amount is \$27,000,000. See Rev. Proc. 2021-45, 2021-48 I.R.B. 764.

(i) “Former small business taxpayer” means a taxpayer that no longer qualifies as a small business taxpayer. A former small business taxpayer includes a taxpayer that no longer qualifies as a small business taxpayer for the year of change because it is a tax shelter under § 448(d)(3), proposed § 1.448-2(b)(2), or § 1.448-2(b)(2), as applicable.

(4) *Section 481(a) adjustment period.* Except as otherwise provided in this section 12.01(4), beginning with the year of change, a taxpayer changing its method of accounting for costs under section 12.01(1)(a)(ii) or 12.01(1)(a)(iii) of this revenue procedure generally must take any applicable net positive § 481(a) adjustment for such change into account ratably over the same number of taxable years, not to exceed four, that the taxpayer used its former method of accounting. A taxpayer changing its method of accounting for costs under section 12.01(1)(a)(i), 12.01(1)(a)(iv), 12.01(1)(a)(v), or 12.01(1)(a)(vi) of this revenue procedure must take any applicable net positive § 481(a) adjustment for such change into account as provided in section 7.03 of Rev. Proc. 2015-13.

(5) *Multiple changes.* A taxpayer making both this change and another change in method of accounting for the same year of change must comply with the ordering rules of § 1.263A-7(b)(2).

(6) *Under examination – certain audit protection exception temporarily inapplicable.* For a taxpayer’s first, second, or third taxable year ending on or after November 20, 2018, the audit protection rule in section 8.02(1) of Rev. Proc. 2015-13 does not apply to a change in method of accounting made under this section 12.01. However, section 8.02(1) of Rev. Proc. 2015-13 continues to apply for purposes of determining the § 481(a) adjustment period for a positive § 481(a) adjustment provided in section 7.03(3)(b) of Rev. Proc. 2015-13.

(7) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 12.01 is “22.”

(8) *Example.* The following example illustrates the principles of this section 12.01 and 12.16 for small business taxpayers and former small business taxpayers.

*X* is a C corporation incorporated on January 2, 2017, that adopted a taxable year ending December 31 and an overall accrual method of accounting. *X* is a reseller of personal property. To determine whether *X* is a small business taxpayer, as provided in section 12.01(3)(h) of this revenue procedure, *X* calculated its average annual gross receipts for the three taxable years (or fewer, if applicable) immediately preceding the taxable year being analyzed as shown in the table below, in accordance with § 1.263A-1(j):

Current Taxable Year	Average Annual Gross Receipts for the Three Taxable Years Immediately Preceding the Current Taxable Year
2017	0
2018	24,000,000

Current Taxable Year	Average Annual Gross Receipts for the Three Taxable Years Immediately Preceding the Current Taxable Year
2019	27,000,000
2020	27,000,000
2021	25,000,000

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

	Beginning	Ending
2017	\$10,000,000	\$11,000,000
2018	11,000,000	12,000,000
2019	12,000,000	13,000,000
2020	13,000,000	14,000,000
2021	14,000,000	15,000,000

*X* was not required to use the UNICAP method for 2017 and 2018 because its average annual gross receipts for such years made *X* a small reseller, as described in section 12.01(3)(b) of Rev. Proc. 2019-43, prior to modification by Rev. Proc. 2022-9, 2022-2 I.R.B. 310 for 2017, and a small business taxpayer, as described in section 12.01(3)(h) of this revenue procedure, for 2018. *X* was required by § 263A to change to the UNICAP method for 2019 because its average annual gross receipts for the three taxable years immediately preceding 2019 were \$27,000,000, which exceeded the \$26,000,000 threshold permitted by the small business taxpayer exemption under § 263A(i). Assume that *X* was required to capitalize \$800,000 of “additional § 263A costs” to the cost of its 2019 beginning inventory because of this change in inventory method. In addition, *X* was required to include one-fourth of the § 481(a) adjustment when computing taxable income for each of the four taxable years beginning with 2019. Thus, *X* was required to include a \$200,000 positive § 481(a) adjustment in its 2019 taxable income.

*X* elected to use the simplified resale method without a historic absorption ratio election under § 1.263A-3(d)(3) for determining the amount of additional § 263A costs to be capitalized to each LIFO layer. Assume that *X* was required to add \$100,000 of additional § 263A costs to the cost of its 2019 ending inventory because of the \$1,000,000 increment for 2019.

*X*'s 2019 Ending Inventory:

Beginning Inventory (Without UNICAP costs)	\$12,000,000
2019 Increment	1,000,000
Additional § 263A Costs in Beginning Inventory	800,000
Additional § 263A Costs in 2019 Increment	100,000
Total 2019 Ending Inventory	<u>\$13,900,000</u>

*X*'s Unamortized 2019 § 481(a) Adjustment:

2019 § 481(a) Adjustment	\$800,000
Amount included in 2019 Taxable Income	<200,000>
Unamortized 2019 § 481(a) Adjustment—12/31/19	<u>600,000</u>

Because *X*'s average annual gross receipts of \$27,000,000 for the three taxable years immediately preceding 2020 exceeded the \$26,000,000 threshold, *X* failed to qualify for the small business taxpayer exemption for 2020 and was required to continue using the UNICAP method for its inventory costs. Furthermore, *X* was required to include \$200,000 of the unamortized 2019 positive § 481(a) adjustment in its 2020 taxable income. Assume that *X* was required to add \$100,000 of additional § 263A costs to the cost of its 2020 ending inventory because of the \$1,000,000 increment for 2020.

X's 2020 Ending Inventory:

Beginning Inventory (With UNICAP costs)	\$13,900,000
2020 Increment	1,000,000
Additional § 263A Costs in 2020 Increment	<u>100,000</u>
Total 2020 Ending Inventory	<u>\$15,000,000</u>

X's Unamortized 2019 § 481(a) Adjustment:

Unamortized 2019 § 481(a) Adjustment—12/31/19	\$600,000
Amount Included in 2020 Taxable Income	<200,000>
Unamortized 2019 § 481(a) Adjustment—12/31/20	<u>\$400,000</u>

Because X's average annual gross receipts of \$25,000,000 for the three taxable years immediately preceding 2021 did not exceed the \$26,000,000 threshold, X satisfied the small business taxpayer exemption under section 263A(i) for 2021 and may change voluntarily from the UNICAP method to a method that no longer capitalizes costs under § 263A for 2021, as provided in section 12.16 of this revenue procedure. To reflect the removal of the additional § 263A costs from the cost of its 2021 beginning inventory, X must compute a corresponding § 481(a) adjustment, which is a negative \$1,000,000 (\$14,000,000 - \$15,000,000). The entire amount of this negative § 481(a) adjustment is included in X's taxable income for 2021. In addition, X must take the \$400,000 remaining portion of the unamortized 2019 § 481(a) adjustment into account in its taxable income for 2021, as provided in section 12.16(5) of this revenue procedure.

X's 2021 Ending Inventory:

Beginning Inventory (With UNICAP costs)	\$15,000,000
2021 Increment	1,000,000
2021 § 481(a) Adjustment <Negative>	<1,000,000>
Total 2021 Ending Inventory	<u>\$15,000,000</u>

X's Unamortized 2019 § 481(a) Adjustment:

Unamortized 2019 § 481(a) Adjustment—12/31/20	\$400,000
Amount included in 2021 Taxable Income	<400,000>
Unamortized 2019 § 481(a) Adjustment—12/31/21	<u>\$ 0</u>

X's Unamortized 2021 § 481(a) Adjustment:

2021 § 481(a) Adjustment <Negative>	\$<1,000,000>
Amount included in 2021 Taxable Income	<u>1,000,000</u>
Unamortized 2021 § 481(a) Adjustment—12/31/21	<u>\$ 0</u>

(9) *Contact information.* For further information regarding a change under this section, contact Megan McLaughlin at (202) 317-7007 (not a toll-free number).

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

(1) *Description of change.*

(a) *Applicability.* This change applies to:

(i) a producer as defined in section 12.01(3)(b) of this revenue procedure or a reseller-producer as defined in section 12.01(3)(c) of this revenue procedure that wants to change to a UNICAP method (or methods) specifically described in the regulations, including any necessary changes in the identification of costs subject to § 263A that will be accounted for using the proposed method, in any taxable year other than the first taxable year that it does not qualify as a small business taxpayer as defined in section 12.01(3)(h) of this revenue procedure. This change includes a change from not capitalizing a cost subject to § 263A to capitalizing that cost for a producer or a reseller-producer under a UNICAP method (or methods) specifically described in the regulations that the producer or reseller-producer is already using; or

(ii) a producer or reseller-producer that is a former small business taxpayer, as defined in section 12.01(3)(i) of this revenue procedure, that wants to change from not capitalizing costs under § 263A(i) to capitalizing costs under a UNICAP method (or methods) specifically described in the regulations in the first taxable year that the taxpayer does not qualify as a small business taxpayer as defined in section 12.01(3)(h) of this revenue procedure.

(b) *Inapplicability.*

(i) *Self-constructed assets.* This change does not apply to a taxpayer that wants to use either the simplified service cost method, the simplified production method, or the modified simplified production method for self-constructed assets under §§ 1.263A-1(h)(2)(i)(D), 1.263A-2(b)(2)(i)(D), and 1.263A-2(c)(2), respectively.

(ii) *Election or revocation of election to use a historic absorption ratio.* This change does not apply to a taxpayer that (1) wants to make a historic absorption ratio election with the simplified production method or the modified simplified production method under §§ 1.263A-2(b)(4) or 1.263A-2(c)(4), respectively; or (2) wants to revoke an election to use a historic absorption ratio with the simplified production method or the modified simplified production method (see §§ 1.263A-2(b)(4)(iii)(B) or 1.263A-2(c)(4), respectively).

(iii) *Interest capitalization.* This change does not apply to a change in method of accounting for interest capitalization (but see section 12.14 of this revenue procedure).

(iv) *Recharacterizing costs under the simplified production method or modified simplified production method.* This change does not include a change to recharacterize section 471 costs, as defined in § 1.263A-1(d)(2), as additional section 263A costs, as defined in § 1.263A-1(d)(3), (or *vice versa*) for a taxpayer that uses or is changing to the simplified production method or the modified simplified production method. See section 12.17 of this revenue procedure for certain changes to recharacterize section 471 costs as additional section 263A costs (or *vice versa*).

(v) *Reseller-producer using the simplified resale method.* This change does not apply to a reseller-producer that uses or is changing to the simplified resale method under § 1.263A-3(d) (but see section 12.01(1) of this revenue procedure for certain changes that may be made by a reseller-producer).

(2) *Definition.* A “UNICAP method specifically described in the regulations” does not include the simplified resale method under § 1.263A-3(d)(4) or any other reasonable allocation method within the meaning of § 1.263A-1(f)(4). However, a “UNICAP method specifically described in the regulations” includes:



- (a) the 90-10 *de minimis* rule to allocate a mixed service department's costs to production or resale activities (§ 1.263A-1(g)(4)(ii));
- (b) the 1/3 - 2/3 rule to allocate labor costs of personnel to purchasing activities (§ 1.263A-3(c)(3)(ii)(A));
- (c) the 90-10 *de minimis* rule to allocate a dual-function storage facility's costs to property acquired for resale (§ 1.263A-3(c)(5)(iii)(C));
- (d) the specific identification method (§ 1.263A-1(f)(2));
- (e) the burden rate method (§ 1.263A-1(f)(3)(i));
- (f) the standard cost method (§ 1.263A-1(f)(3)(ii));
- (g) the direct reallocation method (§ 1.263A-1(g)(4)(iii)(A));
- (h) the step-allocation method (§ 1.263A-1(g)(4)(iii)(B));
- (i) the simplified service cost method (§ 1.263A-1(h)) (with either a labor-based allocation ratio or a production cost allocation ratio);
- (j) the simplified production method without a historic absorption ratio election (§ 1.263A-2(b));
- (k) the alternative method to determine amounts of section 471 costs by using a taxpayer's financial statement (§ 1.263A-1(d)(2)(iii));
- (l) the method to determine amounts of section 471 costs by using the amounts incurred in the taxable year for federal income tax purposes (§ 1.263A-1(d)(2)(i));
- (m) the safe harbor method for certain variances and under- or over-applied burdens (§ 1.263A-1(d)(2)(v));
- (n) the removal of one or more costs from section 471 costs as required in § 1.263A-1(d)(2)(vi);
- (o) the removal of one or more costs from section 471 costs using negative adjustments to additional section 263A costs as permitted in § 1.263A-1(d)(3)(ii)(B);
- (p) the *de minimis* rule for certain direct labor costs (§ 1.263A-1(d)(2)(iv)(B));
- (q) the *de minimis* rule for certain direct material costs (§ 1.263A-1(d)(2)(iv)(C));
- (r) the modified simplified production method without a historic absorption ratio election (§ 1.263A-2(c)(3));

(s) the direct material costs or pre-production labor costs allocation methods for capitalizable mixed service costs under the modified simplified production method (§ 1.263A-2(c)(3)(iii)(B)); and

(t) the 90-10 *de minimis* rule to allocate capitalizable mixed service costs under the modified simplified production method (§ 1.263A-2(c)(3)(iii)(C)).

(3) *Multiple changes.* A taxpayer making both this change and another change in method of accounting in the same year of change must comply with the ordering rules of § 1.263A-7(b)(2).

(4) *Eligibility rule temporarily inapplicable.*

(a) *Eligibility rule inapplicable.* The eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, does not apply to a change described in section 12.02(1)(a)(ii) of this revenue procedure.

(b) *In general.* The eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, does not apply to the changes described in this section 12.02 for the taxpayer's first, second, or third taxable year ending on or after November 20, 2018.

(c) *Eligibility rule temporarily inapplicable for certain changes related to cost offset method.* The eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13 does not apply to a method change under this section 12.02 if:

(i) the taxpayer made or requested to make a change during any of the five taxable years ending with the year of change to recover inventory costs in a taxable year prior to the taxable year in which ownership of the inventory is transferred to the customer to offset inclusions under § 451(b) and/or 451(c), as applicable;

(ii) in the case of a taxpayer with an applicable financial statement (AFS) as defined in section 16.10(1)(b) of this revenue procedure, the taxpayer makes, for the same year of change, a change in method of accounting for income from the sale of inventory under section 16.10(2)(a)(iii) of this revenue procedure and, to the extent the taxpayer receives advance payments for the sale of inventory, section 16.10(2)(a)(iv) of this revenue procedure, or in the case of a taxpayer that does not have an AFS, the taxpayer concurrently changes its method of accounting for advance payments from the sale of inventory under section 16.10(2)(b)(ii) of this revenue procedure; and

(iii) the taxpayer makes the change under this section 12.02 for its early application year, as defined in section 16.10(4)(c)(i) of this revenue procedure, or if a taxpayer does not apply § 1.451-3 and/or § 1.451-8, as applicable, for a taxable year beginning before January 1, 2021, for the taxpayer's first taxable year beginning on or after January 1, 2021.

(5) *Under examination – certain audit protection exception temporarily inapplicable.* For a taxpayer's first, second, or third taxable year ending on or after November 20, 2018, the audit protection rule in section 8.02(1) of Rev. Proc. 2015-13 does not apply to a change in method of accounting made under this section 12.02. However, section 8.02(1) of Rev. Proc. 2015-13 continues to apply for purposes of determining the § 481(a) adjustment period for a positive § 481(a) adjustment provided in section 7.03(3)(b) of Rev. Proc. 2015-13.

(6) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 12.02 is “23.”

(7) *Contact information.* For further information regarding a change under this section, contact Megan McLaughlin at (202) 317-7007 (not a toll-free number).

*.03 Impact fees.*

(1) *Description of change.* This change applies to a taxpayer that incurs impact fees as defined in Rev. Rul. 2002-9, 2002-1 C.B. 614, in connection with the construction of a new residential rental building that wants to capitalize the costs to the building under §§ 263(a) and 263A. See Rev. Rul. 2002-9 for further information.

(2) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 12.03 is “25.”

(3) *Contact information.* For further information regarding a change under this section, contact Megan McLaughlin at (202) 317-7007 (not a toll-free number).

*.04 Change to capitalizing environmental remediation costs under § 263A.*

(1) *Description of change.* This change applies to a taxpayer that wants to change its method of accounting for environmental remediation costs from a method that does not comply with the holding in Rev. Rul. 2004-18, 2004-1 C.B. 509, to capitalizing them to inventory under § 263A.

(2) *Concurrent automatic changes.* A taxpayer making both this change and another automatic change under § 263A for the same year of change may file a single Form 3115 for both changes, provided the taxpayer enters the designated automatic change numbers for both changes on the appropriate line on that Form 3115, and complies with the ordering rules of § 1.263A-7(b)(2). See section 6.03(1)(b) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, for information on making concurrent changes.

(3) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 12.04 is “77.”

(4) *Contact information.* For further information regarding a change under this section, contact Megan McLaughlin at (202) 317-7007 (not a toll-free number).

*.05 Change in allocating environmental remediation costs under § 263A.*

(1) *Description of change.* This change applies to a taxpayer that capitalizes environmental remediation costs to inventory under § 263A, but allocates these costs to inventory using a method of accounting that does not comply with the holding in Rev. Rul. 2005-42, 2005-2 C.B. 67, and wants to change to allocating these costs to inventory produced during the taxable year in which the costs are incurred under § 263A. See Rev. Rul. 2005-42 for further information.

(2) *Concurrent automatic changes.* A taxpayer making both this change and another automatic change under § 263A for the same year of change may file a single Form 3115 for both changes,

provided the taxpayer enters the designated automatic accounting method change numbers for both changes on the appropriate line on that Form 3115, and complies with the ordering rules of § 1.263A-7(b)(2). See section 6.03(1)(b) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, for information on making concurrent changes.

(3) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 12.05 is “92.”

(4) *Contact information.* For further information regarding a change under this section, contact Megan McLaughlin at (202) 317-7007 (not a toll-free number).

*.06 Safe harbor methods under § 263A for certain dealerships of motor vehicles.*

(1) *Description of change.* This change applies to a motor vehicle dealership, as defined in section 4 of Rev. Proc. 2010-44, 2010-49 I.R.B. 811, that is within the scope of section 3 of Rev. Proc. 2010-44 and wants to change its method of accounting to (1) treat its sales facility as a retail sales facility or (2) be treated as a reseller without production activities, as described in section 5 of Rev. Proc. 2010-44. A motor vehicle dealership that wants to make an automatic change in method of accounting to use one or both safe harbor methods described in section 5 of Rev. Proc. 2010-44 may make any corresponding changes in the identification of costs subject to § 263A that will be accounted for using the proposed method (for example, to remove internal profit from inventory costs) or to no longer include negative amounts as additional § 263A costs in the numerator of the simplified resale method formula or the simplified production method formula. However, except as provided in the preceding sentence, a change under this section does not include a change for purposes of recharacterizing “§ 471 costs” as “additional § 263A costs” (or *vice versa*) under the simplified resale method or the simplified production method.

(2) *Concurrent automatic changes.* A motor vehicle dealership making an automatic change to one or both safe harbor methods described in section 5 of Rev. Proc. 2010-44 and another automatic change under § 263A for the same taxable year may file one Form 3115 to make both changes, provided the dealership enters the designated automatic change numbers for all such changes in Part I on that Form 3115, and complies with the ordering rules of § 1.263A-7(b)(2). See section 6.03(1)(b) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, for information on making concurrent changes.

(3) *Multiple adjustments.* In the event that a motor vehicle dealership is taking into account a § 481(a) adjustment from another accounting method change in addition to the § 481(a) adjustment required by a change to a safe harbor method described in section 5 of Rev. Proc. 2010-44, the § 481(a) adjustments must be taken into account separately. For example, a motor vehicle dealership that changed to comply with § 263A in 2009 and was required to take its § 481(a) adjustment into account over four years must continue to take into account that adjustment over the remainder of that four year § 481(a) adjustment period even though the dealership changed to a safe harbor method described in section 5 of Rev. Proc. 2010-44 in 2010 and has an additional § 481(a) adjustment required by that change.

(4) *Designated automatic accounting method change numbers.* The designated automatic accounting method change number for a change to treat certain sales facilities as retail sales facilities as described in section 5.01 of Rev. Proc. 2010-44 is “150.” The designated automatic accounting method change number for a change to be treated as a reseller without production activities as described in section 5.02 of Rev. Proc. 2010-44 is “151.”

(5) *Contact information.* For further information regarding a change under this section, contact Megan McLaughlin at (202) 317-7007 (not a toll-free number).

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

(1) *Description of change.* This change, as described in Rev. Proc. 2013-20, 2013-14 I.R.B. 744, applies to a taxpayer that is not a corporation, partnership, or tax shelter required to use an accrual method of accounting under § 447 or § 448(a)(3), and either (a) wants to not apply § 263A, pursuant to § 263A(d)(1) and § 1.263A-4(a)(2), to the production of one or more plants that the IRS and the Treasury Department have removed from the list of plants that have a nationwide weighted average preproductive period in excess of 2 years, or (b) properly elected, pursuant to § 263A(d)(3) and § 1.263A-4(d), to not apply § 263A to the production of a plant or plants that have been removed from the list of plants that have a nationwide weighted average preproductive period in excess of 2 years, and wishes to revoke its § 263A(d)(3) election with respect to those plants. See Notice 2013-18, 2013-14 I.R.B. 742, or its successor.

(2) *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), the IRS will not raise such method of accounting for 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 Rev. Proc. 2015-13) 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, the IRS will not further pursue that issue.

(3) *Manner of making change.* A change under this section 12.07 is made with any necessary adjustments under § 481(a). For example, the revocation of an election under § 263A(d)(3) results in a § 481(a) adjustment that must take into account the change in depreciation from the alternative depreciation system to the general depreciation system included within such revocation.

(4) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 12.07 is “181.”

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

.08 *Change to a reasonable allocation method described in § 1.263A-1(f)(4) for self-constructed assets.*

(1) *Description of change.*

(a) *Applicability.* This change, as described in Rev. Proc. 2014-16, 2014-9 I.R.B. 606, applies to a producer (as defined in section 12.01(3)(b) of this revenue procedure) or a reseller-producer (as defined in section 12.01(3)(c) of this revenue procedure) that wants to change to a reasonable allocation method within the meaning of § 1.263A-1(f)(4), other than the methods specifically described in § 1.263A-1(f)(2) or (3), for self-constructed assets produced during the taxable year, including any necessary changes in the identification of costs subject to § 263A that will be accounted for using the proposed method. This section 12.08 also includes a change from not capitalizing a cost subject to § 263A to capitalizing that cost for a producer or reseller-producer under a reasonable allocation method within the meaning of § 1.263A-1(f)(4) that the producer or reseller-producer is already using for self-constructed assets, other than the methods specifically

described in § 1.263A-1(f)(2) or (3). See section 12.02 of this revenue procedure for a producer or reseller-producer that wants to change to a method described in § 1.263A-1(f)(2) or (3).

(b) *Inapplicability*. This change does not apply to an allocation method based on the number of units produced or an allocation method that does not allocate costs to the units of property produced. This change does not apply to a change described in another section of this revenue procedure or in other guidance published in the Internal Revenue Bulletin. For example, this change does not apply to a change described in section 12.01 or 12.02 of this revenue procedure.

(2) *No ruling on reasonableness of method*. The consent granted in section 9 of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, for this change is not a determination by the Commissioner that the taxpayer is using a reasonable allocation method for costs subject to § 263A and does not create any presumption that the proposed allocation method is permissible. The director will ascertain whether the taxpayer's allocation method is reasonable within the meaning of § 1.263A-1(f)(4).

(3) *Multiple changes*. A taxpayer making both this change and another change in method of accounting under section 11.08 of this revenue procedure for the same year of change must comply with the ordering rules of § 1.263A-7(b)(2).

(4) *Designated automatic accounting method change number*. The designated automatic accounting method change number for a change under this section 12.08 is "194."

(5) *Contact information*. For further information regarding a change under this section, contact Megan McLaughlin at (202) 317-7007 (not a toll-free number).

*.09 Real property acquired through foreclosure.*

(1) *Applicability*. This change, as described in Rev. Proc. 2014-16, 2014-9 I.R.B. 606, applies to a taxpayer that capitalizes costs under § 263A(b)(2) and § 1.263A-3(a)(1) to real property acquired through foreclosure, or similar transaction, where the taxpayer wants to change its method of accounting to an otherwise permissible method of accounting under which the acquisition and holding costs for real property acquired through foreclosure, or similar transaction, are not capitalized under § 263A(b)(2) and § 1.263A-3(a)(1). To qualify for this change in method of accounting, a taxpayer must:

(a) originate, or acquire and hold for investment, loans that are secured by real property; and

(b) acquire the real property that secures the loans at a foreclosure sale, by deed in lieu of foreclosure, or in another similar transaction.

(2) *Inapplicability*. This change does not apply to costs capitalized under § 263A(b)(1) and § 1.263A-2(a)(1) by the taxpayer to the acquired real property as a result of production activities.

(3) *Designated automatic accounting method change numbers*. The designated automatic accounting method change number for a change under this section 12.09 is "195."

(4) *Contact information*. For further information regarding a change under this section, contact Roy Hirschhorn at (202) 317-7007 (not a toll-free number).



*.10 Sales-Based Royalties.*

(1) *Description of change.* This change, as described in Rev. Proc. 2014-33, 2014-22 I.R.B. 1060, applies to a taxpayer that wants to change its method of accounting for sales-based royalties (as described in § 1.263A-1(e)(3)(ii)(U)(2)) that are properly allocable to inventory property:

(a) From not capitalizing sales-based royalties to capitalizing these costs and allocating them entirely to cost of goods sold under a taxpayer's method of accounting;

(b) From not capitalizing sales-based royalties to capitalizing these costs and allocating them to inventory property under a taxpayer's method of accounting;

(c) From capitalizing sales-based royalties and allocating these costs to inventory property to allocating them entirely to cost of goods sold; or

(d) From capitalizing sales-based royalties and allocating these costs entirely to cost of goods sold to allocating them to inventory property.

(2) *Limitations.*

(a) A taxpayer may not make a change in method of accounting under this section 12.10 if the taxpayer wants to change to capitalizing sales-based royalties and allocating them to inventory property using another reasonable allocation method within the meaning of § 1.263A-1(f)(4).

(b) A taxpayer making the changes described in section 12.10(1)(a) or 12.10(1)(c) of this revenue procedure that uses a simplified method to determine the additional § 263A costs allocable to inventory property on hand at year end must remove sales-based royalties allocated to cost of goods sold from the formulas used to allocate additional § 263A costs to ending inventory in the same manner that the taxpayer included these amounts in the formulas.

(c) A taxpayer making a change in method of accounting under this section 12.10 that uses a simplified method with an historic absorption ratio election (see §§ 1.263A-2(b)(4) and 1.263A-3(d)(4)) and currently includes, or is changing its method to include, sales-based royalties in any part of its historic absorption ratio must revise its previous and current historic absorption ratios. To revise its historic absorption ratios, the taxpayer must apply its proposed method of accounting during the test period, during all recomputation years, and during all updated test periods to determine the § 471 costs and additional § 263A costs that were incurred. The revised historic absorption ratios must be used to revalue beginning inventory and must be accounted for in the taxpayer's § 481(a) adjustment. The taxpayer must use a method described in § 1.263A-7(c) to revalue beginning inventory.

(3) *Concurrent automatic changes.* A taxpayer making a change under this section 12.10 and one or more automatic changes in method of accounting under § 263A for the same year of change may file a single Form 3115 for all changes, provided the taxpayer enters the designated automatic change numbers for all changes on the appropriate line on the Form 3115 and complies with the ordering rules of § 1.263A-7(b)(2). See section 6.03(1)(b) of Rev. Proc. 2015-13 for information on making concurrent changes.

(4) *Designated automatic accounting method change number.* The designated automatic accounting method change number for changes in method of accounting under this section 12.10 is “201.”

(5) *Contact information.* For further information regarding a change under this section, contact Andrew Braden at (202) 317-7007 (not a toll-free number).

*.11 Treatment of Sales-Based Vendor Chargebacks under a Simplified Method.*

(1) *Description of change.* This change, as described in Rev. Proc. 2014-33, 2014-22 I.R.B. 1060, applies to a taxpayer that wants to change its method of accounting to no longer include cost adjustments for sales-based vendor chargebacks described in § 1.471-3(e)(1) in the formulas used to allocate additional § 263A costs to ending inventory under a simplified method.

(2) *Limitations.*

(a) A taxpayer making this change that uses a simplified method to determine the additional § 263A costs allocable to inventory property on hand at year end must remove sales-based vendor chargebacks from the formulas used to allocate additional § 263A costs to ending inventory in the same manner that the taxpayer included these amounts in the formulas.

(b) A taxpayer making a change in method of accounting under this section 12.11 that uses a simplified method with an historic absorption ratio election (see §§ 1.263A-2(b)(4) and 1.263A-3(d)(4)) and currently includes sales-based vendor chargebacks in any part of its historic absorption ratio must revise its previous and current historic absorption ratio(s). To revise its historic absorption ratios, the taxpayer must apply its proposed method of accounting during the test period, during all recomputation years, and during all updated test periods to determine the § 471 costs and additional § 263A costs that were incurred. The revised historic absorption ratios must be used to revalue beginning inventory and must be accounted for in the taxpayer’s § 481(a) adjustment. The taxpayer must use a method described in § 1.263A-7(c) to revalue beginning inventory.

(3) *Concurrent automatic changes.* A taxpayer making both this change and one or more automatic changes under § 263A, or both this change and the change described in section 21.15 of this revenue procedure for the same taxable year of change may file a single Form 3115 for both changes, provided the taxpayer enters the designated automatic change numbers for all changes on the appropriate line on the Form 3115 and complies with the ordering rules of § 1.263A-7(b)(2). See section 6.03(1)(b) of Rev. Proc. 2015-13 for information on making concurrent changes.

(4) *Designated automatic accounting method change number.* The designated automatic accounting method change number for changes in method of accounting under this section 12.11 is “202.”

(5) *Contact information.* For further information regarding a change under this section, contact Andrew Braden at (202) 317-7007 (not a toll-free number).

*.12 U.S. ratio method.*

(1) *Change to the U.S. ratio method.*

(a) *Description of change.* This change applies to a foreign person, as defined in Notice 88-104, 1988-2 C.B. 443, as modified by Notice 89-67, 1989-1 C.B. 723, that is required to capitalize costs under § 263A and wants to change its method of accounting to the U.S. ratio method, as described in Notice 88-104.

(b) *Manner of making change.* A taxpayer requesting a change on behalf of a foreign person under section 12.12(1) of this revenue procedure must attach a statement to the Form 3115 providing the following information:

(i) *Foreign person requirement.* A representation that the foreign person is a qualified business unit (QBU), as defined in § 1.989(a)-1(b), of a foreign person, or the foreign branch of a U.S. person that constitutes a separate QBU, within the meaning of Notice 88-104. If the taxpayer is requesting a change in method of accounting on behalf of multiple foreign persons, please provide a representation that each foreign person is a QBU, as defined in § 1.989(a)-1(b), of a foreign person or the foreign branch of a U.S. person that constitutes a separate QBU, within the meaning of Notice 88-104;

(ii) *Description of trade or business.* The name and employer identification number (if applicable) for each foreign person and an explanation of each trade or business, as defined in § 1.446-1(d), for which a request to change to the U.S. ratio method is being made under this section 12.12(1);

(iii) *Applicable U.S. trade or business requirement.* The identity of the “applicable U.S. trade or business,” as defined in Notice 88-104, that the foreign person wishes to use and an explanation of how this U.S. trade or business is “the same as, or most similar to” the trade or business conducted by the foreign person. If the taxpayer is requesting a change in method of accounting for multiple foreign persons, the taxpayer must identify the “applicable U.S. trade or business” for each foreign person, and explain how the respective U.S. trade or business is “the same as, or most similar to” the trade or business conducted by the foreign person; and

(iv) *Relationship requirement.* An explanation of how the “applicable U.S. trade or business” identified in section 12.12(1)(b)(iii) of this revenue procedure is a trade or business conducted in the United States by a “related person,” as defined in Notice 88-104, with respect to the foreign person requesting a change under this section. If the taxpayer is requesting a change in method of accounting for multiple foreign persons, the taxpayer must explain how the “applicable U.S. trade or business” identified in section 12.12(1)(b)(iii) of this revenue procedure is a trade or business conducted in the United States by a “related person” for purposes of Notice 88-104 for each foreign person requesting a change in method of accounting. Use § 267(b) or § 707(b), as applicable, to explain the relationship.

(c) *Additional requirements.*

(i) A foreign person must continue to use the U.S. ratio of the applicable U.S. trade or business identified in section 12.12(1)(b)(iii) of this revenue procedure unless consent of the Commissioner is obtained to use the U.S. ratio of a different applicable U.S. trade or business under § 446(e) (see section 12.12(2) of this revenue procedure);

(ii) In the case of a controlled foreign corporation, the controlling U.S. shareholder, or in the case of a foreign branch of a U.S. person, the U.S. person, must maintain records of the U.S. ratio used by each foreign person to calculate the additional § 263A costs capitalized to property produced and property acquired for resale for the year of change and for subsequent taxable years for each foreign person requesting a change in method of accounting under this section 12.12. In

the case of a controlled foreign partnership, the U.S. partner must maintain records of the U.S. ratio used by each foreign person to calculate the additional § 263A costs capitalized to property produced and property acquired for resale for the year of change and for subsequent taxable years for each foreign person requesting a change in method of accounting under this section 12.12.

(iii) The § 481(a) adjustment is computed in the manner provided in Notice 88-104;

(iv) The U.S. ratio is determined, and the ratio is applied to the costs of property produced or property acquired for resale incurred by the foreign person, in accordance with Notice 88-104; and

(v) If any foreign person is unable to obtain a U.S. ratio from the applicable U.S. trade or business identified in section 12.12(1)(b)(iii) of this revenue procedure, or is otherwise no longer eligible to use the U.S. ratio method, the foreign person is no longer permitted to use the U.S. ratio method. However, the foreign person is not ineligible to use the U.S. ratio method if the foreign person is able to obtain a U.S. ratio from a different applicable U.S. trade or business, and changes the applicable U.S. trade or business pursuant to section 12.12(2) of this revenue procedure or under the non-automatic change procedures of this revenue procedure, as applicable. If a foreign person is no longer eligible to use the U.S. ratio method, it is required to change its method of accounting to a method that complies with §§ 263A and 471 using either the automatic change procedures of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, and sections 12.01, 12.02, or 12.08, as applicable, of this revenue procedure or the non-automatic change procedures of Rev. Proc. 2015-13.

(2) *Change within U.S. ratio method.* This change applies to a foreign person currently using the U.S. ratio method that wants to use the U.S. ratio of a different applicable U.S. trade or business for purposes of applying the U.S. ratio method as described in section 12.12(2)(a) or 12.12(2)(b) of this revenue procedure.

(a) *Required change in the applicable U.S. trade or business.*

(i) *In general.* A foreign person is permitted to change its method of accounting under this section 12.12(2)(a) to use the U.S. ratio of a different applicable U.S. trade or business, as defined in Notice 88-104, if the foreign person is no longer able to obtain the U.S. ratio from the applicable U.S. trade or business previously identified and if: (A) the U.S. person or related person in which the applicable U.S. trade or business is conducted terminates its existence; (B) the foreign person is no longer related, within the meaning of § 267(b) or § 707(b), to the U.S. person or related person in which the applicable U.S. trade or business is conducted; or (C) the U.S. person or related person ceases to conduct the applicable U.S. trade or business.

(ii) *Certain eligibility rule inapplicable.* The eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13 does not apply to the change described in section 12.12(2)(a) of this revenue procedure.

(iii) *Manner of making change.* A foreign person making a change in method of accounting under this section 12.12(2)(a) must make the change in accordance with the requirement set forth in section 12.12(2)(c) of this revenue procedure.

(b) *Other changes in the applicable U.S. trade or business.*

(i) *In general.* If the foreign person cannot make the change in method of accounting described in section 12.12(2)(a) of this revenue procedure, or there is more than one U.S. trade or business

that can reasonably be considered the “same as, or most similar to” the foreign person’s trade or business, the foreign person is permitted to change its method of accounting under this section 12.12(2)(b) to use the U.S. ratio of a different applicable U.S. trade or business.

(ii) *Manner of making change.* A foreign person making a change in method of accounting under this section 12.12(2)(b) must make the change in accordance with the requirement set forth in section 12.12(2)(c) of this revenue procedure.

(c) *Short Form 3115 in lieu of a standard Form 3115.* In accordance with § 1.446-1(e)(3)(ii), the requirement of § 1.446-1(e)(3)(i) to file a standard Form 3115 is waived and pursuant to section 6.02(2) of Rev. Proc. 2015-13, a short Form 3115 is authorized for a change described in section 12.12(2)(a) or 12.12(2)(b) of this revenue procedure. The short Form 3115 (Rev. December 2018) must include the following information:

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

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

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

(iv) the information required under section 12.12(1)(b) of this revenue procedure; and

(v) a statement that the change in method of accounting is made under section 12.12(2)(a) or 12.12(2)(b) of Rev. Proc. 2022-14, as applicable.

(3) *Designated automatic accounting method change numbers.* The designated automatic accounting method change number for a change under this section 12.12 is “214.”

(4) *Contact information.* For further information regarding a change under this section, contact Megan McLaughlin at (202) 317-7007 (not a toll-free number).

### .13 *Depletion.*

(1) *Description of change.* This change applies to a taxpayer that wants to change its method of accounting for depletion to treat these amounts as an indirect cost that is only properly allocable to property that has been sold (that is, for purposes of determining gain or loss on the sale of the property) under § 1.263A-1(e)(3)(ii)(J).

#### (2) *Limitation.*

(a) A taxpayer making this change in method of accounting that uses a simplified method to determine the additional § 263A costs allocable to inventory property on hand at year end must remove depletion allocated to cost of goods sold from the formulas used to allocate additional § 263A costs to ending inventory in the same manner that the taxpayer included these amounts in the formulas.

(b) A taxpayer making this change in method of accounting that uses a simplified method with an historic absorption ratio election (see §§ 1.263A-2(b)(4) and 1.263A-3(d)(4)) and currently

includes depletion in any part of its historic absorption ratio must revise its previous and current historic absorption ratios. To revise its historic absorption ratios, the taxpayer must apply its proposed method of accounting during the test period, during all recomputation years, and during all updated test periods to determine the § 471 costs and additional § 263A costs that were incurred. The revised historic absorption ratios must be used to revalue beginning inventory and must be accounted for in the taxpayer's § 481(a) adjustment. The taxpayer must use a method described in § 1.263A-7(c) to revalue beginning inventory

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

(4) *Concurrent automatic changes.* A taxpayer making both this change and another automatic change under § 263A for the same year of change may file a single Form 3115 for both changes, provided the taxpayer enters the designated automatic change numbers for both changes on the appropriate line on that Form 3115 and complies with the ordering rules of § 1.263A-7(b)(2). See section 6.03(1)(b) of Rev. Proc. 2015-13 for information on making concurrent changes.

(5) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change in method of accounting under this section 12.13 is "215."

(6) *Contact information.* For further information regarding a change under this section, contact Andrew Braden at (202) 317-7007 (not a toll-free number).

#### .14 *Interest capitalization.*

##### (1) *Description of change.*

(a) *Applicability.* This change applies to a taxpayer that wants to change its method of accounting for interest from not capitalizing any interest, capitalizing interest in accordance with its method of accounting for financial reporting purposes, or applying an improper method of capitalizing interest under §§ 1.263A-8 through -14, with respect to the production of designated property, to capitalizing interest with respect to the production of designated property in accordance with §§ 1.263A-8 through -14.

(b) *Inapplicability.* This change does not apply to a taxpayer that wants to change its method of accounting for interest from either capitalizing interest to not capitalizing interest or not capitalizing interest to capitalizing interest for improvements that involve the associated property rules in § 1.263A-11(e)(1)(ii)(B).

(2) *Manner of making change.* A taxpayer requesting a change under this section 12.14 must attach a statement to the Form 3115 with the following information:

(a) Representations as to the following:

(i) The taxpayer's method is in accordance with the avoided cost method under § 1.263A-9; and

(ii) The taxpayer will comply with § 1.263A-14 and Notice 88-89, 1988-2 C.B. 422, should the taxpayer incur average excess expenditures allocable to related persons; and



(b) Details with respect to the taxpayer's sub-methods of accounting for determining capitalizable interest in accordance with §§ 1.263A-8 through -14 (for example, whether the taxpayer elects to not trace debt under § 1.263A-9(d); the computation period(s) used under the new method; and whether the taxpayer will suspend the capitalization of interest for units of property for which production has ceased for at least 120 consecutive days as determined under § 1.263A-12(g)).

(3) *Concurrent automatic changes.* A taxpayer making a change under this section 12.14 and one or more automatic changes in method of accounting under § 263A for the same year of change may file a single Form 3115 for all changes, provided the taxpayer enters the designated automatic change numbers for all changes on the appropriate line on the Form 3115 and complies with the ordering rules of § 1.263A-7(b)(2). See section 6.03(1)(b) of Rev. Proc. 2015-13 for information on making concurrent changes.

(4) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change in method of accounting under this section 12.14 is "224."

(5) *Contact information.* For further information regarding a change under this section, contact Megan McLaughlin at (202) 317-7007 (not a toll-free number).

.15 *Change to not apply § 263A to replanting costs for lost or damaged citrus plants pursuant to § 263A(d)(2)(C).*

(1) *Description of change.*

(a) *In general.* This change, as described in Rev. Proc. 2018-35, 2018-28 I.R.B. 204, applies to a taxpayer, other than the owner described in § 263A(d)(2)(A), that: (i) paid or incurred replanting costs of citrus plants after the loss or damage of citrus plants by reason of freezing temperatures, disease, drought, pests, or casualty, as described in § 263A(d)(2)(A); (ii) paid or incurred the replanting costs after December 22, 2017, and on or before December 22, 2027; (iii) satisfies the ownership test provided in section 12.15(1)(b) of this revenue procedure; and (iv) wants to change its method of accounting from applying § 263A to citrus plant replanting costs to not applying § 263A to those costs, pursuant to § 263A(d)(2)(C).

(b) *Ownership test.* The taxpayer satisfies the ownership test if either: (i) the owner described in § 263A(d)(2)(A) has an equity interest of not less than 50 percent in the replanted citrus plants at all times during the taxable year in which the taxpayer paid or incurred amounts for replanting costs, and the taxpayer holds any part of the remaining equity interest; or (ii) the taxpayer acquired the entirety of the equity interest of the owner described in § 263A(d)(2)(A) in the land on which the lost or damaged citrus plants were located at the time of the loss or damage, and the replanting is on such land.

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

(3) *Section 481(a) adjustment.* A taxpayer making a change under this section 12.15 calculates a § 481(a) adjustment by taking into account only amounts paid or incurred after December 22, 2017, and on or before December 22, 2027.

(4) *Multiple changes.* A taxpayer making both this change and another change in method of accounting in the same year of change must comply with the ordering rules of § 1.263A-7(b)(2).

(5) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 12.15 is “232.”

(6) *Contact information.* For further information regarding a change under this section, contact Megan McLaughlin at (202) 317-7007 (not a toll-free number).

*.16 Small business taxpayer exception from requirement to capitalize costs under § 263A.*

(1) *Description of change.* This change applies to a small business taxpayer, as defined in section 12.01(3)(h) of this revenue procedure, that chooses to no longer capitalize costs under § 263A, including for self-constructed assets, pursuant to § 263A(i), proposed § 1.263A-1(j), or § 1.263A-1(j), as applicable.

(2) *Inapplicability.*

(a) *Home construction contracts.* This change does not apply to a taxpayer not required by § 460(e)(1) to capitalize costs under § 263A for home construction contracts, and that wants to make a change to no longer capitalize costs under section 263A. See section 19.01 of this revenue procedure to make this change.

(b) *Election under § 263A(d)(3).* This change does not apply to a small business taxpayer, as defined in section 12.01(3)(h) of this revenue procedure, that elected under § 263A(d)(3) not to have § 263A apply to certain plants produced by the taxpayer in a farming business and wants to revoke its § 263A(d)(3) election and change to a method of accounting that no longer capitalizes costs under § 263A. *But see* Rev. Proc. 2020-13, 2020-11 I.R.B. 511.

(3) *Eligibility rules.*

(a) *Eligibility rule inapplicable.* For a change described in section 12.16(1) of this revenue procedure, if the taxpayer changed from not capitalizing costs under § 263A in accordance with § 263A(i), proposed § 1.263A-1(j) or § 1.263A-1(j), as applicable, to capitalizing costs under § 263A and the accompanying regulations within the prior five taxable years ending with the year of change, and such change was made in the first taxable year that the taxpayer did not qualify as a small business taxpayer, then such change is disregarded for purposes of section 5.01(f) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419.

(b) *Eligibility rule temporarily inapplicable.* The eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13 does not apply to this change for the taxpayer’s first, second or third taxable year beginning after December 31, 2017. In addition, the eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13 does not apply to a taxpayer’s early application year, or, in the case of a taxpayer that does not apply § 1.263A-1(j) in the early application year, the taxpayer’s first taxable year beginning on or after January 5, 2021. For purposes of this section 12.16, “early application year” means the taxable year beginning before January 5, 2021, in which a taxpayer first applies § 1.263A-1(j).

(4) *Reduced filing requirement.* A taxpayer is required to complete only the following information on Form 3115 (Rev. December 2018) to make this change:

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

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

(c) Part I;

(d) Part II, all lines except line 16; and

(e) Part IV, all lines except line 25.

(5) *Acceleration of § 481 adjustment.* If a taxpayer making a change described in section 12.16(1) of this revenue procedure has a § 481(a) adjustment remaining on a prior change in method of accounting from not capitalizing costs under § 263A in accordance with § 263A(i), proposed § 1.263A-1(j) or § 1.263A-1(j), as applicable, to capitalizing costs under § 263A and the accompanying regulations, then it must take the remaining portion of such prior § 481(a) adjustment into account in the year of change.

(6) *Concurrent automatic changes.* A small business taxpayer making a change under this section 12.16 and a change under sections 15.17, 22.18 and/or 22.19 of this revenue procedure for the same year of change may file a single Form 3115 for such changes, provided the taxpayer enters the designated automatic accounting method change number for each change on the appropriate line of the Form 3115. See section 6.03(1)(b) of Rev. Proc. 2015-13 for information on making concurrent changes.

(7) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 12.16 is “234.”

(8) *Contact information.* For further information regarding a change under this section, contact Livia Piccolo at (202) 317-7007 (not a toll-free number).

.17 *Recharacterizing costs under the simplified resale method, simplified production method, or the modified simplified production method.*

(1) *Description of change.*

(a) *Applicability.* This change applies to a taxpayer that uses or is changing to the simplified production method, the modified simplified production method, or the simplified resale method under §§ 1.263A-2(b), 1.263A-2(c), and 1.263A-3(d), respectively, and that wants to recharacterize a section 471 cost, as defined in § 1.263A-1(d)(2), as an additional section 263A cost, as defined in § 1.263A-1(d)(3), or *vice versa*, in accordance with the characterization requirements of § 1.263A-1(d)(2) and (d)(3). For example, this change applies to a taxpayer using the modified simplified production method that treats a direct cost of property produced or property acquired for resale as an additional section 263A cost and that wants to change to characterize the direct cost as a section 471 cost, as required by § 1.263A-1(d)(2)(ii).

(b) *Inapplicability.* This change does not apply to a change in method of accounting that is described in another section of this revenue procedure or in other guidance published in the IRB. For example, this change does not apply to a taxpayer that wants to make a change described in

section 12.01 or 12.02 of this revenue procedure, such as a change to use the methods described in § 1.263A-1(d)(2)(iv), (v), or (vi), § 1.263A-2(b), § 1.263A-2(c), or § 1.263A-3(d).

(2) *Restatement of financial statement.* A taxpayer's restatement of its financial statement does not invalidate the taxpayer's method of accounting or change its determination of section 471 costs in earlier taxable years.

(3) *Certain eligibility rule temporarily inapplicable.* The eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, does not apply to this change for the taxpayer's first, second, or third taxable year ending on or after November 20, 2018.

(4) *Reduced filing requirement.* A taxpayer is required to complete only the following information on Form 3115 (Rev. December 2018) to make this change:

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

(5) *Limitation.* If a taxpayer making this change in method of accounting uses a historic absorption ratio election under §§ 1.263A-2(b)(4), 1.263A-2(c)(4), or 1.263A-3(d)(4), and the change in the characterization of cost(s) under this section 12.17 affects any part of the taxpayer's historic absorption ratio, the taxpayer must revise its previous and current historic absorption ratios. To revise its historic absorption ratios, the taxpayer must apply its proposed method of accounting during the test period, during all recomputation years, and during all updated test periods to determine the section 471 costs and additional section 263A costs that were incurred. The revised historic absorption ratios must be used to revalue beginning inventory and must be accounted for in the taxpayer's § 481(a) adjustment. The taxpayer must use a method described in § 1.263A-7(c) to revalue beginning inventory.

(6) *Concurrent automatic changes.* A taxpayer making both this change and another automatic change under § 263A for the same year of change may file a single Form 3115 for both changes, provided the taxpayer enters the designated automatic change numbers for both changes on the appropriate line of that Form 3115 and complies with the ordering rules of § 1.263A-7(b)(2). See section 6.03(1)(b) of Rev. Proc. 2015-13 for information on making concurrent changes.

(7) *Under examination – certain audit protection exception temporarily inapplicable.* For a taxpayer's first, second, or third taxable year ending on or after November 20, 2018, the audit protection rule in section 8.02(1) of Rev. Proc. 2015-13 does not apply to a change in method of accounting made under this section 12.17. However, section 8.02(1) of Rev. Proc. 2015-13 continues to apply for purposes of determining the § 481(a) adjustment period for a positive § 481(a) adjustment provided in section 7.03(3)(b) of Rev. Proc. 2015-13.

(8) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 12.17 is “237.”

(9) *Contact information.* For further information regarding a change under this section, contact Megan McLaughlin at (202) 317-7007 (not a toll-free number).

*.18 Revocation of a historic absorption ratio election.*

(1) *Description of change.* This change applies to a taxpayer that uses the simplified resale method with a historic absorption ratio election that wants to revoke its historic absorption ratio election and change to the simplified resale method without a historic absorption ratio. This change also applies to a taxpayer that uses the simplified production method with a historic absorption ratio election that wants to revoke its historic absorption ratio election and change to the simplified production method without a historic absorption ratio. This change applies to a revocation of the simplified resale method with a historic absorption ratio election or the simplified production method with a historic absorption ratio election regardless of whether the year of change is during the taxpayer’s qualifying period.

(2) *Limited applicability.* This change is the exclusive procedure for a taxpayer on the simplified production method with a historic absorption ratio election or the simplified resale method with a historic absorption ratio election that wants to revoke its historic absorption election under the transition rules of §§ 1.263A-2(b)(4)(v)(B) and 1.263A-3(d)(4)(v)(B). This change is applicable only for the taxpayer’s first, second, or third taxable year ending on or after November 20, 2018. A taxpayer that complies with the requirements of this section 12.18 will be deemed to have obtained the consent of the Commissioner to make a revocation of its historic absorption ratio election under § 446(e).

(3) *Certain eligibility rule temporarily inapplicable.* The eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, does not apply to this change for the taxpayer’s first, second or third taxable year ending on or after November 20, 2018.

(4) *Manner of making change.*

(a) *Cut-off basis.* This change is made on a cut-off basis. Accordingly, a § 481(a) adjustment is neither permitted nor required.

(b) *Audit protection.*

(i) *No audit protection.* A taxpayer does not receive audit protection under section 8.01 of Rev. Proc. 2015-13 in connection with this change if the taxpayer’s revocation of a historic absorption ratio election is during a qualifying period or extended qualifying period. *See* section 8.02(2) of Rev. Proc. 2015-13.

(ii) *Under examination – certain audit protection exception temporarily inapplicable.* For a taxpayer’s first, second, or third taxable year ending on or after November 20, 2018, the audit protection rule in section 8.02(1) of Rev. Proc. 2015-13 does not apply to a taxpayer’s revocation of its historic absorption ratio election as described in this section 12.18 if such revocation is not during a qualifying period or extended qualifying period. However, section 8.02(1) of Rev. Proc. 2015-13 continues to apply for purposes of determining the § 481(a) adjustment period for a positive § 481(a) adjustment provided in section 7.03(3)(b) of Rev. Proc. 2015-13.

(5) *Concurrent automatic changes.* A taxpayer making both this change and another automatic change under § 263A for the same year of change may file a single Form 3115 for both changes, provided the taxpayer enters the designated automatic change numbers for both changes on the appropriate line of that Form 3115 and complies with the ordering rules of § 1.263A-7(b)(2). See section 6.03(1)(b) of Rev. Proc. 2015-13 for information on making concurrent changes.

(6) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 12.18 is “238.”

(7) *Contact information.* For further information regarding a change under this section, contact Tom McElroy at (202) 317-7007 (not a toll-free number).

.19 *Late revocation of elections under § 263A(d)(3).*

(1) *Description of change.*

(a) *Applicability.* This change applies to an eligible small business taxpayer within the scope of Rev. Proc. 2020-13, 2020-11 I.R.B. 515, that wants to make a late revocation of the election under § 263A(d)(3) provided in section 5.02(2)(b) of Rev. Proc. 2020-13.

(b) *Inapplicability.* The IRS will treat the late revocation of an election under § 263A(d)(3) that is provided in section 5.02(2)(b) of Rev. Proc. 2020-13 as a change in method of accounting with a § 481(a) adjustment only for the taxable years specified in section 12.19(2) of this revenue procedure. This treatment does not apply to a taxpayer that makes a late revocation under § 263A(d)(3) provided in section 5.02(2)(b) of Rev. Proc. 2020-13 before or after the time specified in section 12.19(2) of this revenue procedure, and any such late revocation is not a change in method of accounting.

(2) *Time for making the change.* The change under this section 12.19 must be made for the taxpayer’s first, second, or third taxable year beginning after the taxpayer’s first taxable year beginning in 2018 (2018 taxable year).

(3) *Certain eligibility rules inapplicable.* The eligibility rules in section 5.01(1)(d) and (f) of Rev. Proc. 2015-13, 2015-5 I.R.B 419, do not apply to this change for the taxpayer’s first, second, or third taxable year succeeding the 2018 taxable year.

(4) *Concurrent automatic change.* A taxpayer making this change for more than one property used predominantly in any farming business of the taxpayer under section 5.02(2)(b) of Rev. Proc. 2020-13 for the same year of change should file a single Form 3115 for all such farming property. The single Form 3115 must provide a single net § 481(a) adjustment for all such changes.

(5) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change to the method of accounting under this section 12.19 is “243.”

(6) *Contact information.* For further information regarding a change under this section, contact Anna Gleysteen at (202) 317-7007 (not a toll-free number).



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SECTION 13. LOSSES, EXPENSES AND INTEREST WITH RESPECT TO TRANSACTIONS BETWEEN RELATED TAXPAYERS (§ 267)

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.01 *Change to comply with § 267.*

(1) *Description of change.* This change applies to a taxpayer that wants to change its method or methods of accounting to comply with the requirements of § 267, and, to clarify, this change also applies to a taxpayer that, by reason of the exception in § 1.267(a)-3(c)(4), wants to change its method of accounting with respect to the deduction of amounts owed to a controlled foreign corporation (as defined in § 957) (CFC) that does not have any United States shareholders (as defined in § 951(b)) owning stock of the CFC within the meaning of § 958(a). However, this change does not apply to a change for original issue discount (OID), including stated interest that is OID because it is not qualified stated interest (as defined in § 1.1273-1(c)). See section 5.02 of this revenue procedure for a change to comply with § 163(e)(3) for OID on an obligation held by a related foreign person.

(2) *Certain eligibility rules inapplicable.* The eligibility rules in sections 5.01(1)(e) and (f) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, do not apply to this change to comply with § 267(a)(3), including a change by reason of the exception in § 1.267(a)-3(c)(4).

(3) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 13.01 is “26.”

(4) *Contact information.* For further information regarding a change under this section, contact Megan McLaughlin at (202) 317-7007 (not a toll-free number). For further information regarding a change to comply with § 267(a)(3), contact Anisa Afshar at (202) 317-6934 (not a toll-free number).

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SECTION 14. DEFERRED COMPENSATION (§ 404)

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.01 *Deferred compensation.*

(1) *Description of change.* This change applies to a taxpayer using an overall accrual method of accounting that wants to change its method of accounting to treat bonuses or vacation pay as follows (*see* § 404(a)(5) and § 1.404(b)-1T, Q&A 2):

(a) *Applicability.*

(i) *Bonuses.*

(A) *Bonuses not subject to capitalization under § 263A.* If by the end of the taxable year all the events have occurred that establish the fact of the liability to pay a bonus and the amount of the liability can be determined with reasonable accuracy (*see* § 1.446-1(c)(1)(ii)), and the bonus is otherwise deductible, but the bonus is received by the employee after the 15<sup>th</sup> day of the 3<sup>rd</sup>

calendar month after the end of that taxable year, to treat the bonus as deductible in the taxable year of the employer in which or with which ends the taxable year of the employee in which the bonus is includible in the gross income of the employee; or

(B) *Bonuses that are subject to capitalization under § 263A.* If by the end of the taxable year all the events have occurred that establish the fact of the liability to pay a bonus and the amount of the liability can be determined with reasonable accuracy (*see* § 1.446-1(c)(1)(ii)), and the bonus is otherwise deductible (without regard to § 263A), but the bonus is received by the employee after the 15<sup>th</sup> day of the 3<sup>rd</sup> calendar month after the end of that taxable year, to treat the bonus as capitalizable (within the meaning of § 1.263A-1(c)(3)) in the taxable year of the employer in which or with which ends the taxable year of the employee in which the bonus is includible in the gross income of the employee.

(ii) *Vacation pay.*

(A) *Vacation pay not subject to capitalization under § 263A.* If by the end of the taxable year all the events have occurred that establish the fact of the liability to pay vacation pay and the amount of the liability can be determined with reasonable accuracy (*see* § 1.446-1(c)(1)(ii)), and the vacation pay is otherwise deductible but the vacation pay is received by the employee after the 15<sup>th</sup> day of the 3<sup>rd</sup> calendar month after the end of that taxable year, to treat the vacation pay as deductible in the taxable year of the employer in which the vacation pay is paid to the employee; or

(B) *Vacation pay that is subject to capitalization under § 263A.* If by the end of the taxable year all the events have occurred that establish the fact of the liability to pay vacation pay and the amount of the liability can be determined with reasonable accuracy (*see* § 1.446-1(c)(1)(ii)), and the vacation pay is otherwise deductible (without regard to § 263A), but the vacation pay is received by the employee after the 15<sup>th</sup> day of the 3<sup>rd</sup> calendar month after the end of that taxable year, to treat the vacation pay as capitalizable (within the meaning of § 1.263A-1(c)(3)) in the taxable year of the employer in which the vacation pay is paid to the employee.

(b) *Inapplicability.* This change does not apply to a taxpayer that is required under § 263A and the regulations thereunder to capitalize the costs with respect to which the taxpayer wants to change its method of accounting under this section 14.01 if the taxpayer is not capitalizing these costs, unless the taxpayer concurrently changes its method to capitalize these costs in conjunction with a change to a UNICAP method under section 12.01, 12.02, 12.08, or 12.12 of this revenue procedure (as applicable).

(2) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 14.01 is “28.”

(3) *Contact information.* For further information regarding a change under this section, contact Thomas Scholz at (202) 317-5600 (not a toll-free number).

.02 *Grace period contributions.*

(1) *Description of change.* This change applies to a taxpayer that wants to cease deducting contributions made during the § 404(a)(6) grace period to a qualified cash or deferred arrangement within the meaning of § 401(k) or to a defined contribution plan as matching contributions with the meaning of § 401(m) when the contributions are attributable to compensation earned by plan participants after the end of a taxable year as required by Rev. Rul. 2002-46, 2002-2 C.B. 117, as modified by Rev. Rul. 2002-73, 2002-2 C.B. 805.

(2) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 14.02 is “29.”

(3) *Contact information.* For further information regarding a change under this section, contact John Ricotta at 202-317-4102 or Joyce Kahn at 202-317-4148 (not toll-free numbers).

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## SECTION 15. METHODS OF ACCOUNTING (§ 446)

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### .01 *Change in overall method from the cash method to an accrual method.*

#### (1) *Description of change.*

(a) *Applicability.* This change applies to a taxpayer that wants to change its overall method of accounting from the cash receipts and disbursements method (cash method), as defined in section 15.01(2)(a) of this revenue procedure, to an accrual method, as defined in section 15.01(2)(b) of this revenue procedure. A change under this section 15.01 applies to (1) a taxpayer required to make this change by § 448, any other section of the Code or regulations, or in other guidance published in the Internal Revenue Bulletin (IRB), and (2) a taxpayer that wants to make this change but is not required to do so by § 448, any other section of the Code or regulations, or in other guidance published in the IRB. A taxpayer changing to an overall accrual method because it is prohibited from using the overall cash method under § 448 may use this section 15.01 regardless of whether the year of change is the first taxable year that the taxpayer is required by § 448 to change from the cash method, as defined in § 1.448-1(g)(1) (“first § 448 year”); or a mandatory § 448 year, as defined in proposed § 1.448-2(g)(1) or § 1.448-2(g)(1), as applicable; or a taxable year other than the taxpayer’s first § 448 year or mandatory § 448 year, as applicable. Similarly, a taxpayer changing to an overall accrual method because it is prohibited from using the overall cash method under § 447 may use this section 15.01 regardless of whether the year of change is the first taxable year that the taxpayer is required by § 447 to change from the cash method or a subsequent taxable year in which the taxpayer is newly subject to § 447 after previously making a change in method of accounting that complies with § 447 (“mandatory § 447 year”), or a taxable year other than a mandatory § 447 year, as applicable.

Additionally, a taxpayer qualifies to change its overall method of accounting from the cash method to an accrual method using this section 15.01 even if the taxpayer is also making one or more of the following changes in method of accounting for the same year of change:

(i) adopting the recurring item exception, as defined in section 15.01(2)(c) of this revenue procedure, for one or more types of recurring items. *See* § 1.461-5(d);

(ii) adopting or changing to a permissible inventory method of accounting and is either adopting this inventory method or qualifies to change to this inventory method using the automatic change procedures of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, and a section of this revenue procedure, or the change can be made automatically under any section of the Code or regulations, or other guidance published in the IRB. *See* Rev. Rul. 90-38, 1990-1 C.B. 57, regarding when a taxpayer may adopt a method of accounting;

(iii) adopting or changing to a permissible § 263A method of accounting and is either adopting this § 263A method or qualifies to change to this § 263A method using the automatic change

procedures of Rev. Proc. 2015-13 and a section of this revenue procedure, or the change can be made automatically under any section of the Code or regulations, or other guidance published in the IRB. See Rev. Rul. 90-38 regarding when a taxpayer may adopt a method of accounting; or

(iv) adopting or changing to any other special method of accounting (as defined in section 15.01(2)(d) of this revenue procedure) and is either adopting this special method or qualifies to change to this special method using the automatic change procedures of Rev. Proc. 2015-13 and a section of this revenue procedure, or the change can be made automatically under any section of the Code or regulations, or other guidance published in the IRB. See Rev. Rul. 90-38 regarding when a taxpayer may adopt a method of accounting.

Also, a taxpayer qualifies to use this section 15.01 when that taxpayer, in the taxable year immediately preceding the year of change, has used a permissible inventory method for that year, and, if that taxpayer was subject to § 263A for that year, has also used a permissible § 263A method for that year, and the method(s) continue to be used for the year of change.

Lastly, for a taxable year beginning after December 31, 2017, or December 31, 2018 in the case of specified credit card fees, as defined in § 1.451-3(j)(2), and before January 1, 2021, a taxpayer with an applicable financial statement (AFS) that is changing its overall method of accounting from the cash method to an accrual method qualifies to use this section 15.01 to comply with § 451(b)(1), and, if applicable, § 451(b)(4), or the proposed regulations under § 1.451-3 (REG-104870-18; 84 FR 47191) (proposed § 1.451-3). For a taxable year beginning after December 31, 2017, or December 31, 2018 in the case of specified credit card fees, a taxpayer with an AFS that is changing its overall method of accounting from the cash method to an accrual method qualifies to use this section 15.01 to comply with § 1.451-3. For purposes of this section 15.01, the term “AFS” is defined under: § 451(b)(3) for a taxpayer making a change to comply with § 451(b); proposed § 1.451-3(c)(1) for a taxpayer making a change to comply with proposed § 1.451-3; or § 1.451-3(b)(5) for a taxpayer making a change to comply with § 1.451-3.

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

(i) a taxpayer that is making a change from a hybrid method of accounting as defined in section 15.01(2)(e) of this revenue procedure;

(ii) a taxpayer that is changing its method of accounting for one or more items of income or expense, but not its overall method of accounting. See section 15.09 of this revenue procedure for a description of accounting method changes from the cash method to an accrual method for specific items that are to be made using the automatic change procedures of Rev. Proc. 2015-13 and that section;

(iii) a taxpayer that is required by the Code, regulations, or other guidance published in the IRB to use a special method such as, for example, an inventory method, a § 263A method, or a long-term contract method, in the year of change and fails to adopt or change to that method;

(iv) a taxpayer that has included in its § 481(a) adjustment any amount of deferred compensation that is described under § 457A(d)(3) that is attributable to services performed before January 1, 2009;

(v) a taxpayer that is engaged in two or more trades or businesses, unless that taxpayer makes this change for each trade or business so that the identical accrual method is used for each trade or business beginning with the year of change;

(vi) a cooperative organization described in §§ 501(c)(12), 521, or 1381;

(vii) an individual taxpayer, except for activities conducted as a sole proprietorship;

(viii) a taxpayer with an AFS that wants to make a change in method of accounting for allocating transaction price between item(s) of gross income that are subject to § 451 and item(s) of gross income that are subject to a special method of accounting, as defined in § 451(b)(2), proposed § 1.451-3(c)(5) or § 1.451-3(a)(14), as applicable, including a change to comply with the transaction price allocation rules in § 1.451-3(d)(5);

(ix) a taxpayer with an AFS that wants to change to use the AFS cost offset method, as defined in § 1.451-3(c), if the taxpayer receives advance payments from the sale of inventory and does not also make a concurrent change to apply the advance payment cost offset method, as defined in § 1.451-8(e), for the same year of change by using section 16.10 of this revenue procedure, or a taxpayer with an AFS that wants to change to use the advance payment cost offset method if the taxpayer is required to include gross income from the sale of inventory under § 1.451-3 and does not also make a change to apply the AFS cost offset method;

(x) a taxpayer with an AFS that wants to make a change in method of accounting for specified fees as defined in proposed § 1.451-3(i)(2) or § 1.451-3(j)(2), as applicable, other than specified credit card fees;

(xi) a taxpayer that wants to make a change in method of accounting for payments within the scope of the specified good exception, as defined in § 1.451-8(a)(1)(ii), if the proposed method of accounting is to include such payments in gross income under § 1.451-3 in one or more taxable years following the taxable year of receipt; or

(xii) a taxpayer with an AFS that makes a change to apply § 1.451-3 for a taxable year that begins before January 1, 2021, and fails to comply with the requirements in § 1.451-3(m)(3).

## (2) *Definitions.*

(a) *Cash method of accounting* is the method identified by § 446(c)(1) and §§ 1.446-1(c)(1)(i), 1.451-1(a), and 1.461-1(a)(1). In addition, solely for purposes of this section 15.01, a method of accounting in which a taxpayer uses an accrual method for purchases and sales of inventories, and uses the cash method for computing all other items of income and expense is deemed to be a cash method of accounting and not a hybrid method of accounting.

(b) *Accrual method of accounting* is a method identified by § 446(c)(2) and §§ 1.446-1(c)(1)(ii), 1.451-1(a), 1.451-3, and 1.461-1(a)(2). For a taxable year beginning after December 31, 2017, for which the taxpayer has an AFS, the all events test under § 451(b)(1)(C) and § 1.451-1(a) for any item of gross income, or portion thereof, is met no later than when that item, or portion thereof, is taken into account as AFS revenue. *See* § 451(b)(1) and § 1.451-3(b).

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

(d) *Special method of accounting* within the meaning of this section 15.01 is a method of accounting, other than the cash method, expressly permitted or required by the Code, regulations, or in other guidance published in the IRB, that deviates from the tax accrual accounting rules of §§ 446, 451, 461, and the regulations thereunder. For purposes of this section 15.01, a

deferral method under § 451(c) and the regulations thereunder is deemed to be a special method of accounting. Examples of special methods of accounting include the installment method of accounting under § 453, the mark-to-market method under § 475, and a long-term contract method under § 460. In contrast, application of the all-events test under a specific set of facts is not a special method of accounting. See, for example, Rev. Rul. 69-314, 1969-1 C.B. 139 concerning the treatment of retainages.

(e) *Hybrid method of accounting* is a combination of the cash and accrual methods under which one or more items of income or expense are reported on the cash method and one or more items of income or expense are reported on an accrual method. For purposes of this section 15.01, a hybrid method of accounting does not include a method of accounting in which a taxpayer uses an accrual method for purchases and sales of inventories and uses the cash method for computing all other items of income and expense.

(3) *Manner of making change.*

(a) *Section 481(a) adjustment.*

(i) *In general.* A taxpayer changing its method of accounting under this section 15.01 must compute a § 481(a) adjustment. This adjustment must reflect the account receivables, account payables, inventory, and any other item determined to be necessary in order to prevent items from being duplicated or omitted. However, the adjustment does not include any item of income accrued but not received that was worthless or partially worthless, within the meaning of § 166(a), on the last day of the year immediately prior to the year of change.

(ii) *Temporary rule for certain S corporation revocations.* The rules in this section 15.01(3)(a)(ii) apply to an eligible terminated S corporation, as defined in § 481(d)(2), that changes to an overall accrual method of accounting in the C corporation's first taxable year after its revocation of its election under § 1362(a), and such revocation occurs during the two-year period beginning on December 22, 2017.

(A) *Required spread period.* Pursuant to § 481(d)(1), an eligible terminated S corporation required to change to an overall accrual method as a result of a revocation of its S corporation election that changes its method of accounting under this section 15.01 in the C corporation's first taxable year after such revocation, takes into account the resulting positive or negative adjustment required by § 481(a)(2) ratably during the six-year period beginning with the year of change.

(B) *Optional six-year spread period.* An eligible terminated S corporation that is permitted to continue to use the overall cash method after the revocation of its S corporation election, and that changes to an overall accrual method under this section 15.01 in the C corporation's first taxable year after such revocation, may take into account the resulting positive or negative adjustment required by § 481(a)(2) ratably during the six-year period beginning with the year of change instead of using the adjustment periods provided in section 7.03(1) of Rev. Proc. 2015-13. An eligible terminated S corporation that wants to use this six-year spread period must indicate in the statement required by Line 26 of Form 3115 (Rev. December 2018) that it is making the change in method of accounting with the spread period permitted under this section 15.01(3)(a)(ii)(B) on its timely filed Form 3115.

(iii) *Section 481(a) adjustment period for changes relating to specified credit card fees.* In the case of income from a specified credit card fee, the § 481(a) adjustment period for any qualified change in method of accounting is six taxable years (year of change and next five taxable years). For purposes of this section 15.01(3)(a)(iii), a qualified change in method of accounting is a



change in method of accounting for income from a specified credit card fee to a method that is required by § 451(b), as added by section 13221 of Public Law 115-97, 131 Stat. 2054 (Dec. 22, 2017), commonly referred to the Tax Cuts and Jobs Act (TCJA), for such income, but only for the taxpayer's first taxable year beginning after December 31, 2018. Accordingly, a taxpayer that makes a qualified change in method of accounting as part of its overall method change under section 15.01 of this revenue procedure is required to use an adjustment period of six taxable years for the portion of the overall § 481(a) adjustment that is attributable to the qualified change in method of accounting. The § 481(a) adjustment period for the remainder of the overall § 481(a) adjustment required by section 15.01(3)(a)(i) of this revenue procedure is determined without regard to the qualified change in method of accounting.

(b) *Change to comply with § 1.451-3.* A taxpayer that uses section 15.01(1)(a) of this revenue procedure to comply with § 1.451-3 must attach a statement to its Form 3115, *Application for Change in Accounting Method* (Rev. December 2018) that provides a description of the proposed method(s) under § 1.451-3 to which it is changing. For example, a taxpayer that chooses to apply the alternative AFS revenue method in § 1.451-3(b)(2)(ii) must indicate in the statement attached to its Form 3115 that it is choosing to comply with the AFS income inclusion rule in § 1.451-3(b)(1) by applying the alternative AFS revenue method described in § 1.451-3(b)(2)(ii).

(c) *Adoption of recurring item exception.* The taxpayer must attach to its Form 3115 a statement describing the types of liabilities for which the recurring item exception will be used.

(d) *Concurrent automatic change to a special method.*

(i) *Generally only one Form 3115 required.* Except as provided in section 15.01(3)(e)(ii) of this revenue procedure, a taxpayer that is changing from the overall cash method to an overall accrual method under this section 15.01 and changing to one or more special methods, as permitted under section 15.01(1)(a)(ii), (iii), or (iv) of this revenue procedure, must timely file a single Form 3115 for all changes and must enter the designated automatic accounting method change numbers for all changes on the appropriate line of Form 3115. For example, a taxpayer making both a change from the overall cash method to an overall accrual method under this section 15.01 and a change to the deferral method for advance payments under section 16.06 or 16.10 of this revenue procedure must timely file a single Form 3115 for both changes and enter the designated automatic accounting method change numbers for both changes on the appropriate line on that Form 3115. See section 6.03(1)(b) of Rev. Proc. 2015-13 for information on making concurrent changes.

(ii) *Two Forms 3115 required when a concurrent change is being implemented under section 32.01 of this revenue procedure for short-term obligations.* When a taxpayer subject to § 1281 is changing its method of accounting for interest income on short-term obligations as part of the change to an overall accrual method under this section 15.01, that taxpayer must request the change for the interest income under section 32.01 of this revenue procedure. The taxpayer must timely file individual Forms 3115 for each change requested. This section 15.01 will govern the change to an overall accrual method.

(e) *Concurrent change in accounting method not permitted to be implemented using the automatic change procedures of Rev. Proc. 2015-13 and a section of this revenue procedure, any section of the Code or regulations, or other guidance published in the IRB.* A taxpayer that does not qualify to change from the overall cash method to an overall accrual method under this section 15.01 because that taxpayer is concurrently changing to a method of accounting that may not be implemented using the automatic change procedures of Rev. Proc. 2015-13 and a section of this revenue procedure, any section of the Code or regulations, or other guidance published in the IRB, must timely request both changes using the non-automatic change procedures in Rev. Proc.

2015-13. See Rev. Proc. 2022-1, 2022-1 I.R.B. 1 (or successor), for more information on whether one Form 3115 is required to request the changes, and for information on the appropriate user fee.

*(4) Change made in the taxpayer's first § 448 year or a mandatory § 448 year, as applicable.*

(a) *First § 448 year.* If the year of change is the first § 448 year for a taxpayer that qualifies to make the change from the cash method under the provisions of § 1.448-1(g) and (h) as well as this section 15.01, that taxpayer may choose to comply with the requirements and provisions of §§ 1.448-1(g) and (h) in addition to the requirements and provisions of this section 15.01. For example, if the taxpayer is a hospital, defined in § 1.448-1(g)(2)(ii)(B), and the taxpayer chooses to make its change from the cash method for the first § 448 year, as defined in § 1.448-1(g), using this section 15.01, the applicable § 481(a) adjustment period is provided by § 1.448-1(g)(2)(ii). If a taxpayer chooses not to implement its change from the cash method using this section 15.01, the taxpayer must make the change under the provisions of §§ 1.448-1(g) and (h).

(b) *Mandatory § 448 year.* For a taxpayer applying proposed § 1.448-2 or § 1.448-2, as applicable, if the year of change is a mandatory § 448 year, as defined in proposed § 1.448-2(g)(1) or § 1.448-2(g)(1), as applicable, such taxpayer makes the change from the cash method to an accrual method under the provisions of this section 15.01, and must comply with all the requirements and provisions of proposed § 1.448-2(g) or § 1.448-2(g), as applicable, in addition to the requirements and provisions of this section 15.01.

*(5) Eligibility rules inapplicable.*

(a) *Prior change eligibility rule inapplicable.* Any prior change to the overall cash method that the taxpayer implemented using the provisions of Rev. Proc. 2001-10, as modified by Rev. Proc. 2011-14, or Rev. Proc. 2002-28, as modified by Rev. Proc. 2011-14, is disregarded for purposes of section 5.01(1)(e) of Rev. Proc. 2015-13. Additionally, for a taxpayer making a change from the cash method in the first § 448 year, a mandatory § 448 year, or a mandatory § 447 year, as applicable, any prior change to the overall cash method is disregarded for purposes of section 5.01(1)(e) of Rev. Proc. 2015-13.

(b) *Eligibility rule temporarily inapplicable for changes to comply with § 451(b).* For a taxpayer with an AFS that changes to an overall accrual method under this section 15.01 that complies with § 451(b)(1), and, if applicable, § 451(b)(4), or proposed § 1.451-3, the eligibility rule in section 5.01(1)(e) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, does not apply to such change for the taxpayer's first, second or third taxable year beginning after December 31, 2017, provided such taxable year begins before January 1, 2021. In addition, for a taxpayer with an AFS that changes to an overall accrual method under this section 15.01 that complies with § 1.451-3 for a taxable year beginning before January 1, 2021, the eligibility rule in section 5.01(1)(e) of Rev. Proc. 2015-13 does not apply to such change for such taxable year. For a taxpayer with an AFS that does not apply § 1.451-3 for a taxable year beginning before January 1, 2021, and changes to an overall accrual method under this section 15.01 that complies with § 1.451-3 for the first taxable year that begins on or after January 1, 2021, the eligibility rule in section 5.01(1)(e) of Rev. Proc. 2015-13 does not apply to such change for such taxable year.

(6) *No ruling on method used.* The consent granted under section 9 of Rev. Proc. 2015-13 for a change made under this section 15.01 is not a determination by the Commissioner that the new method of accounting is a permissible method of accounting under § 451 and does not create a presumption that the allocation method used under § 451(b)(4) is a permissible method of accounting. The director may ascertain whether the new method of accounting is a permissible method of accounting under § 451 and whether the allocation method is permissible under § 451(b)

(4). This section 15.01(6) does not apply to a taxpayer with an AFS that is making a change to a method of accounting permissible under proposed § 1.451-3 or § 1.451-3.

*(7) Designated automatic accounting method change number.*

(a) *Change made in the first § 448 year.* The designated automatic accounting method change number for a change from the cash method to an accrual method in the first § 448 year is “123.” Entering designated automatic accounting method change number “123” on the appropriate line on the Form 3115 fulfills the requirement of § 1.448-1(h)(2)(i) to type or print “Automatic Change to Accrual Method – Section 448” at the top of page 1 of the Form 3115.

(b) *Change made in the mandatory § 448 year.* The designated automatic accounting method change number for a change from the cash method to an accrual method in the mandatory § 448 year is “257.”

(c) *Change made for a taxpayer subject to § 447.* The designated automatic accounting method change number for a change from the cash method to an accrual method for a taxpayer subject to § 447 under this section 15.01 is “258.”

(d) *All other changes from the cash method to an overall accrual method.* The designated automatic accounting method change number for all other changes from the cash method to an accrual method under this section 15.01 is “122.”

(8) *Contact information.* For further information regarding a change under this section, contact Megan McLaughlin at 202-317-7007 (not a toll-free number).

*.02 Multi-year insurance policies for multi-year service warranty contracts.*

*(1) Description of change.*

(a) *Applicability.* This change applies to a manufacturer, wholesaler, or retailer of motor vehicles or other durable consumer goods that wants to change its method of accounting for insurance costs paid or incurred to insure its risks under multi-year service warranty contracts to the method described in section 15.02(2) of this revenue procedure. Multi-year service warranty contracts to which this change applies include only those separately priced contracts sold by a manufacturer, wholesaler, or retailer also selling the motor vehicles or other durable consumer goods underlying the contracts (to the ultimate customer or to an intermediary). The classification of goods as “durable consumer goods” for purposes of this change depends on the common usage of the goods, rather than the purchaser’s actual intended use of the goods.

(b) *Inapplicability.* This change does not apply to a taxpayer that covers its risks under its multi-year service warranty contracts through arrangements not constituting insurance.

(2) *Description of method.* If a taxpayer purchases a multi-year service warranty insurance policy (in connection with its sale of multi-year service warranty contracts to customers) by paying a lump-sum premium in advance, the taxpayer must capitalize the amount paid or incurred and may only obtain deductions for that amount by prorating (or amortizing) it over the life of the insurance policy (whether the cash method or an accrual method of accounting is used to account for service warranty transactions).

(3) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 15.02 is “31.”

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

*.03 Nonaccrual-experience method.*

(1) *Description of change.*

(a) *Applicability.* This change applies to a taxpayer that wants to make one or more of the changes in method of accounting to, from, or within a nonaccrual-experience (NAE) method of accounting that are described in sections 3.01(1) through (5) of Rev. Proc. 2006-56, 2006-2 C.B. 1169, as modified by Rev. Proc. 2011-14, 2011-4 I.R.B. 330, and as modified and amplified by Rev. Proc. 2011-46, 2011-42 I.R.B. 518.

(b) *Inapplicability.* This change does not apply to a taxpayer within the scope of sections 3.01(6) through 3.01(8) of Rev. Proc. 2006-56, as modified and amplified by Rev. Proc. 2011-46.

(2) *Manner of making the change.*

(a) *Changes made with a § 481(a) adjustment.* A change in method of accounting described in section 3.01(1), (2), (3), or (5) of Rev. Proc. 2006-56, as modified and amplified by Rev. Proc. 2011-46, is made with a § 481(a) adjustment.

(b) *Changes made on a cut-off basis.*

(i) *In general.* A change described in section 3.01(4) of Rev. Proc. 2006-56 is made on a cut-off basis and the new applicable period applies only to the taxpayer’s NAE calculation of its uncollectible amount for the year of change and for subsequent years. Moreover, a change described in sections 5.02 and 5.03 of Rev. Proc. 2011-46 is made on a cut-off basis and the proposed method applies only to accounts receivable earned on or after the first day of the year of change. Accordingly, a § 481(a) adjustment is neither permitted nor required for a change described in section 3.01(4) of Rev. Proc. 2006-56 or in section 5.02 or 5.03 of Rev. Proc. 2011-46.

(ii) *Special filing rules for changes made under section 5.02 and 5.03 of Rev. Proc. 2011-46, as modified by this revenue procedure.*

(A) *Certain eligibility rule inapplicable.* The eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, does not apply to a change in method of accounting made under section 5.02 or 5.03 of Rev. Proc. 2011-46, as modified by this revenue procedure.

(B) *Filing rules.* In accordance with § 1.446-1(e)(3)(ii), the requirement of § 1.446-1(e)(3)(i) to file a Form 3115 is waived and a statement in lieu of a Form 3115 is authorized for this change. Notwithstanding the definition of Form 3115 in section 3.07 of Rev. Proc. 2015-13, the statement in lieu of a Form 3115 that is permitted under section 5.02 or 5.03 of Rev. Proc. 2011-46 and this section 15.03 is considered a Form 3115 for purposes of the automatic consent procedures of Rev. Proc. 2015-13. However, the requirement to file the duplicate copy, under section 6.03(1)(a) of

Rev. Proc. 2015-13, is waived. See section 5.02 or 5.03 of Rev. Proc. 2011-46, as applicable, for what information is required to be provided on the statement.

(3) *Concurrent change to overall accrual method and a NAE method of accounting.* A taxpayer making both an automatic change to, from, or within a NAE method of accounting under this section 15.03 and an automatic change to an overall accrual method under section 15.01 of this revenue procedure (whether or not it is the taxpayer's first § 448 year or mandatory § 448 year), must file a single Form 3115 for both changes. The taxpayer must complete all applicable sections of Form 3115, including sections that apply to the change to an overall accrual method and to the change to a NAE method, and must enter the automatic accounting method change numbers for both changes on Form 3115. See section 6.03(1)(b) of Rev. Proc. 2015-13 for information on making concurrent changes.

A taxpayer making both an automatic change to, from, or within a NAE method of accounting under this section 15.03 and a required change to an overall accrual method under § 448 for the taxpayer's first § 448 year, and is either not eligible to make the change to an overall accrual method under section 15.01 of this revenue procedure or chooses to make the change to an overall accrual method using the procedures of § 1.448-1(h)(2) for the taxpayer's first § 448 year, must make both changes (change to, from, or within a NAE method and change to an overall accrual method) on a single Form 3115. The taxpayer must follow the automatic change procedures of Rev. Proc. 2015-13 and this section 15.03 for the NAE change, and the procedures of § 1.448-1(h)(2) for the change to an overall accrual method for the taxpayer's first § 448 year except that entering the designated automatic accounting method change number "34" on the Form 3115 fulfills the requirement of § 1.448-1(h)(2) to type or print "Automatic Change to Accrual – Section 448" at the top of page 1 of the Form 3115. The taxpayer must complete all applicable sections of Form 3115, including sections that apply to the change to an overall accrual method and to the change to the NAE method and must enter the designated automatic accounting method changes numbers for both changes on Form 3115.

(4) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change to, from, or within a NAE method of accounting under this section 15.03 is "35."

(5) *Contact information.* For further information regarding a change under this section, contact Livia Piccolo at (202) 317-7007 (not a toll-free number).

*.04 Interest accruals on short-term consumer loans—Rule of 78's method.*

(1) *Description of change.* This change applies to a taxpayer that wants to change its method of accounting from the Rule of 78's method to the constant yield method for stated interest (including stated interest that is original issue discount) on short-term consumer loans described in Rev. Proc. 83-40, 1983-1 C.B. 774, which was obsoleted by Rev. Proc. 97-37, 1997-2 C.B. 455.

(2) *Background.*

(a) A short-term consumer loan is described in Rev. Proc. 83-40, provided:

(i) the loan is a self-amortizing loan that requires level payments, at regular intervals at least annually, over a period not in excess of five years (with no balloon payment at the end of the loan term); and



(ii) the loan agreement between the borrower and the lender provides that interest is earned, or upon the prepayment of the loan interest is treated as earned, in accordance with the Rule of 78's method.

(b) In general, the Rule of 78's method allocates interest over the term of a loan based, in part, on the sum of the periods' digits for the term of the loan. See Rev. Rul. 83-84, 1983-1 C.B. 97, for a description of the Rule of 78's method.

(c) In general, the constant yield method allocates interest and original issue discount over the term of a loan based on a constant yield. See § 1.1272-1(b) for a description of the constant yield method. The Rule of 78's method generally front-loads interest as compared to the constant yield method.

(d) Rev. Proc. 83-40 was obsoleted because, under §§ 1.446-2 and 1.1272-1 (which were effective for debt instruments issued on or after April 4, 1994), taxpayers generally must account for stated interest and original issue discount on a debt instrument (loan) by using a constant yield method. As a result, the Rule of 78's method is no longer an acceptable method of accounting for federal income tax purposes.

(3) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 15.04 is "71."

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

*.05 Film producer's treatment of certain creative property costs.*

(1) *Description of change.* This change applies to a taxpayer that wants to change the method of accounting for creative property costs to the safe harbor method provided by section 5 of Rev. Proc. 2004-36, 2004-1 C.B. 1063. This safe harbor method of accounting applies to a taxpayer engaged in the trade or business of film production and to creative property costs (as defined in section 2.01 of Rev. Proc. 2004-36) properly written off by the taxpayer under The American Institute of Certified Public Accountants Statement of Position (SOP) 00-2, "Accounting for Producers or Distributors of Film."

(2) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 15.05 is "85."

(3) *Contact information.* For further information regarding a change under this section, contact Bernard Harvey at (202) 317-7005 (not a toll-free number).

*.06 Deduction of incentive payments to health care providers.*

(1) *Description of change.* This change applies to a taxpayer that wants to change to the method of accounting for provider incentive payments under which those payments are included in discounted unpaid losses without regard to § 404, as provided in Rev. Proc. 2004-41, 2004-2 C.B. 90. A payment by a taxpayer to a health care provider is a "provider incentive payment," and thus eligible for this treatment, if (a) the taxpayer is taxable as an insurance company under Part II of subchapter L; (b) the payment is made pursuant to a written agreement the purpose of which is to encourage participating health care providers to provide quality health care to the



taxpayer's subscribers in a cost-efficient manner; (c) the taxpayer's liability for the payment is dependent on the attainment of one or more preestablished goals during a performance period consisting of not more than 12 consecutive months; (d) the terms of the arrangement pursuant to which the payment is made are established unilaterally by the taxpayer, and are not negotiated with the health care providers; (e) the taxpayer normally makes payments to health care providers under the arrangement within 12 months after the close of the performance period; (f) deferring the receipt of income by the health care provider or otherwise providing a tax benefit to the provider is not a principal purpose of the arrangement; (g) the taxpayer records a liability for the payment on its annual statement filed for state regulatory purposes, and includes this liability in the determination of discounted unpaid losses under § 846; and (h) the health care provider is not an employee, and is not providing health care as an agent, of the taxpayer. *See* Rev. Proc. 2004-41.

(2) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 15.06 is "90."

(3) *Contact information.* For further information regarding a change under this section, contact Rebecca L. Baxter at (202) 317-6995 (not a toll-free number).

*.07 Change by bank for uncollected interest.*

(1) *Description of change.* This change applies to a "bank" as defined in § 1.166-2(d)(4)(i) that: (a) uses an overall accrual method of accounting to determine its taxable income for federal income tax purposes; (b) is subject to supervision by Federal authorities, or by state authorities maintaining substantially equivalent standards; (c) has uncollected interest other than interest described in § 1.446-2(a)(2); and (d) has six or more years of collection experience. Under the safe harbor method of accounting provided by section 4 of Rev. Proc. 2007-33, 2007-1 C.B. 1289, a bank determines for each taxable year the amount of uncollected interest (other than interest described in § 1.446-2(a)(2)) for which it is considered to have a reasonable expectancy of payment by multiplying: (a) the total accrued (determined under § 1.446-2) but uncollected interest for the year, by (b) the bank's "recovery percentage" (determined under section 4.02 of Rev. Proc. 2007-33) for that year. Solely for purposes of this safe harbor, the bank is not considered to have a reasonable expectancy of payment for the excess, if any, of the accrued but uncollected interest over the expected collection amount determined using the bank's recovery percentage. The bank includes in gross income the portion of accrued but uncollected interest for which it has a reasonable expectancy of payment. The bank excludes from income the portion of accrued but uncollected interest for which it has no reasonable expectancy of payment.

(2) *Recovery percentage.* Subject to the limitations and conditions in Rev. Proc. 2007-33, sections 4.02(2), (3), and (4), a bank determines its recovery percentage for each taxable year by dividing: (a) total payments that the bank received on loans (including principal and interest) during the 5 taxable years immediately preceding the taxable year, by (b) total amounts that were due and payable to the bank on loans during the same 5 taxable years. The recovery percentage cannot exceed 100 percent and must be calculated to at least four decimal places. The data used in the recovery percentage must take into account acquisitions and dispositions. If a bank acquires the major portion of a trade or business of another person (predecessor) or the major portion of a separate unit of a trade or business of a predecessor, then in applying Rev. Proc. 2007-33 for any taxable year ending on or after the acquisition, the data from preceding taxable years of the predecessor attributable to the portion of the trade or business acquired, if available, must be used in determining the bank's recovery percentage. If a bank disposes of a major portion of a trade or business or the major portion of a separate unit of a trade or business, and the bank furnished the acquiring person the information necessary for the computations required by Rev. Proc. 2007-33, then in applying the revenue procedure for any taxable year ending on or after the disposition, the data from preceding taxable years attributable to the disposed portion of the trade or business may not be used in determining the bank's recovery percentage.

(3) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 15.07 is “108.”

(4) *Contact information.* For further information regarding a change under this section, contact K. Scott Brown at (202) 317-6945 (not a toll-free number).

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

(1) *Description of change.*

(a) *Applicability.* This change applies to a taxpayer that uses an overall accrual method of accounting but has identified a specific item or items of income or expense (or both) that are being accounted for on the cash method of accounting. This change does not apply to a taxpayer that is changing its overall method of accounting from cash to accrual. Such a taxpayer may be eligible to change to an overall accrual method using section 15.01 of this revenue procedure.

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

(i) a taxpayer that will not have all items of income and expense on an accrual method subsequent to the change under this section 15.08;

(ii) a cooperative organization described in § 501(c)(12), 521, or 1381;

(iii) an individual taxpayer, except for activities conducted as a sole proprietorship;

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

(v) a change in method of accounting for any payment liability described in § 1.461-4(g);

(vi) a change in the method of accounting for interest that is not taken into account under § 1.446-2;

(vii) a taxpayer that has included in its § 481(a) adjustment any amount of deferred compensation that is described under § 457A(d)(3) that is attributable to services performed before January 1, 2009; and

(viii) any change that is specifically provided in another section of this revenue procedure.

(2) *Definitions.*

(a) “Cash method of accounting” is the method identified by § 446(c)(1) and §§ 1.446-1(c)(1)(i), 1.451-1(a), and 1.461-1(a)(1).

(b) “Accrual method of accounting” is the method identified by § 446(c)(2) and §§ 1.446-1(c)(1)(ii), 1.451-1(a), and 1.461-1(a)(2).

(3) *Additional requirements.* To change a method of accounting under this section 15.08, a taxpayer must attach to its completed Form 3115 a full and complete description of each specific item for which the change in method of accounting is being made and how the accrual method of accounting applies to each item, and list the § 481(a) adjustment, if any, for each item associated with the change. The change is fully and completely described if each income and expense item is described with specificity and how the all-events test (and the economic performance requirement, if applicable) applies to each item is described under the facts and circumstances of the taxpayer’s trade or business. For example, a taxpayer that merely states that it is changing its accounting method for advertising expenses from the cash method to an accrual method, recites the regulations under § 1.461-1(a)(2), and enters the associated § 481(a) adjustment has failed to describe fully and completely the specific item for which the change in method of accounting is being made. In contrast, a taxpayer that states that it is changing its method of accounting for print advertising expenses from the cash method of accounting to an accrual method of accounting, describes all of the relevant facts related to the print advertising expenses, and explains how the all-events test applies to those facts and when economic performance occurs has fully and completely described the item and the change. See section 6.03 of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, for additional filing requirements.

(4) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 15.08 is “124.”

(5) *Contact information.* For further information regarding a change under this section, contact Douglas Kim at (202) 317-7003 (not a toll-free number).

*.09 Multi-year service warranty contracts.*

(1) *Description of change.*

(a) *Applicability.* This change applies to a manufacturer, wholesaler, or retailer of motor vehicles or other durable consumer goods that uses an overall accrual method of accounting, and wants to change to the service warranty income method described in section 5 of Rev. Proc. 97-38, 1997-2 C.B. 479. Under the service warranty income method, a qualifying taxpayer may, in certain specified and limited circumstances, include a portion of an advance payment related to the sale of a multi-year service warranty contract in gross income generally over the life of the service warranty obligation.

(b) *Inapplicability.* This change does not apply to a taxpayer not within the scope of Rev. Proc. 97-38.

(2) *Manner of making change and designated automatic accounting method change number.*

(a) This change is made on a cut-off basis and applies only to qualified advance payments for multi-year service warranty contracts on or after the beginning of the year of change. Accordingly, a § 481(a) adjustment is neither permitted nor required.

(b) In accordance with § 1.446-1(e)(3)(ii), the requirement of § 1.446-1(e)(3)(i) to file a standard Form 3115 is waived and pursuant to section 6.02(2) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, a

short Form 3115 is authorized for this change. The short Form 3115 (Rev. December 2018) must include the following information:

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

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

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

(iv) the information required under section 6.03 of Rev. Proc. 97-38, except that the statement under section 6.03(2) (that the taxpayer agrees to all of the terms and conditions of the revenue procedure) also should refer to Rev. Proc. 2015-13.

(3) *Additional requirement.* A taxpayer changing to the service warranty income method of accounting under this section 15.09 must satisfy the annual reporting requirement set forth in section 6.04 of Rev. Proc. 97-38.

(4) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 15.09 is “125.”

(5) *Contact information.* For further information regarding a change under this section, contact David Christensen at (202) 317-7011 (not a toll-free number).

*.10 Overall cash method for specified transportation industry taxpayers.*

(1) *Description of change.* This change applies to a “specified transportation industry taxpayer” with “average annual gross receipts” of more than the inflation-adjusted amount, as defined in section 15.10(2)(f) of this revenue procedure, and not in excess of \$50,000,000 that wants to change to the overall cash receipts and disbursement (cash) method. For a small business taxpayer, as defined in section 15.17(4)(a) of this revenue procedure, see section 15.17 of this revenue procedure for a change to the overall cash method.

(2) *Definitions.* For purposes of this section 15.10 the following definitions apply:

(a) *Specified transportation industry taxpayer.* A specified transportation industry taxpayer is a taxpayer that satisfies the following criteria for the year of change:

(i) The taxpayer reasonably identifies its “business” (as defined in section 15.10(2)(b) of this revenue procedure) as being described in one of the following NAICS subsector codes (first three digits of the six-digit NAICS codes):

(A) Air Transportation, Rail Transportation, Water Transportation, Truck Transportation, Transit and Ground Passenger Transportation, or Scenic and Sightseeing Transportation, within the meaning of NAICS subsector codes 481-485 and 487; or

(B) Support Activities for Transportation within the meaning of NAICS subsector code 488.

(ii) The taxpayer is not prohibited from using the overall cash method under § 448.

(b) *Business*. A taxpayer may use any reasonable method of applying the relevant facts and circumstances to determine its business. A business may consist of several activities, which may or may not be related. For example, a taxpayer engaged in transportation activities may provide various services such as transporting air cargo and then subsequently trucking the cargo throughout a metropolitan area to warehouses and wholesale/retail stores. However, each activity within a taxpayer's business must individually satisfy the description of a NAICS subsector code in section 15.10(2)(a)(i)(A) or (B) of this revenue procedure. For example, a sightseeing bus operator that sells box lunches in connection with its tours is not a "specified transportation industry taxpayer" because one of the two activities of its business (food sales) does not satisfy the description of a NAICS subsector code in section 15.10(2)(a)(i)(A) or (B) of this revenue procedure. While the sightseeing transportation activity satisfies the description of the NAICS subsector code in section 15.10(2)(a)(i)(A) of this revenue procedure, the food sales activity does not satisfy the description of any NAICS subsector code in section 15.10(2)(a)(i)(A) or (B) of this revenue procedure, and thus, the taxpayer's business fails to meet the criteria of section 15.10(2)(a)(i). Similarly, a train operator who operates a dining car where meals are served is not a "specified transportation industry taxpayer" because one of the two activities of its business (food service) does not satisfy the description of a NAICS subsector code in section 15.10(2)(a)(i)(A) or (B) of this revenue procedure. While the rail transportation activity satisfies the description of a NAICS subsector code in section 15.10(2)(a)(i)(A) of this revenue procedure, the food service activity does not satisfy the description of any NAICS subsector code in section 15.10(2)(a)(i)(A) or (B) of this revenue procedure, and thus, the taxpayer's business fails to meet the criteria of section 15.10(2)(a)(i).

(c) *Average annual gross receipts*. A taxpayer has average annual gross receipts of more than the inflation-adjusted amount and not in excess of \$50,000,000 if the taxpayer's average annual gross receipts for the three prior taxable-year period ending with the applicable prior taxable year are more than the inflation-adjusted amount and do not exceed \$50,000,000. If a taxpayer has not been in existence for three prior taxable years, the taxpayer must determine its average annual gross receipts for the number of years (including short taxable years) that the taxpayer has been in existence. See § 448(c)(3)(A).

(d) *Gross receipts*. Gross receipts is defined consistent with § 1.448-2(c)(2)(iv). Thus, gross receipts for a taxable year equal all receipts that must be recognized under the method of accounting actually used by the taxpayer for that taxable year for federal income tax purposes. See also § 448(c)(3)(C).

(e) *Aggregation of gross receipts*. For purposes of computing gross receipts under section 15.10(2)(d) of this revenue procedure, all taxpayers treated as a single employer under § 52(a) or (b) or § 414(m) or (o) (or that would be treated as a single employer under these sections if the taxpayers had employees) will be treated as a single taxpayer. However, when transactions occur between taxpayers that are treated as a single taxpayer by the previous sentence, gross receipts arising from these transactions will not be treated as gross receipts for purposes of the average annual gross receipts limitation. See § 448(c)(2) and § 1.448-2(c)(2)(ii).

(f) *Inflation-adjusted amount*. The inflation-adjusted amount is the dollar amount specified in § 448(c)(1), adjusted for inflation. See § 448(c)(4). For a taxable year beginning in 2019, 2020, or 2021, the inflation-adjusted amount is \$26,000,000. See Rev. Proc. 2018-57, 2018-49 I.R.B. 827, Rev. Proc. 2019-44, 2019-47 I.R.B. 1093, or Rev. Proc. 2020-45, 2020-46 I.R.B. 1016, as applicable. For a taxable year beginning in 2022, the inflation-adjusted amount is \$27,000,000. See Rev. Proc. 2021-45, 2021-48 I.R.B. 764.

(g) *Treatment of short taxable year.* In the case of a short taxable year, a taxpayer's gross receipts must be annualized by multiplying the gross receipts for the short taxable year by 12 and then dividing the result by the number of months in the short taxable year. See § 448(c)(3)(B) and § 1.448-2(c)(2)(iii).

(h) *Treatment of predecessors.* Any reference to a taxpayer in this section 15.10 includes a reference to any predecessor of that taxpayer. See § 448(c)(3)(D).

(i) *Cash method.* The "cash method" is the method identified by § 446(c)(1) and §§ 1.446-1(c)(1)(i), 1.451-1(a), and 1.461-1(a)(1).

(3) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 15.10 is "126."

(4) *Example.* Taxpayer *X* is an LLC and taxed for federal income tax purposes as a partnership. Taxpayer *X* does not have any C corporations as partners and Taxpayer *X* is not a tax shelter within the meaning of § 448(d)(3). Taxpayer *X*'s business consists of short-haul trucking among various cities within State *Y*, which satisfies the description of the NAICS subsector code 484. Taxpayer *X* determines that its 3-year average annual gross receipts for each prior taxable year have been more than the inflation-adjusted amount as defined in section 15.10(2)(f) of this revenue procedure and not in excess of \$50,000,000. Taxpayer *X* qualifies to change to the overall cash method using this section 15.10.

(5) *Contact information.* For further information regarding a change under this section, contact Megan McLaughlin at (202) 317-7007 (not a toll-free number).

.11 *Change to overall cash/hybrid method for certain banks.*

(1) *Description of change.*

(a) *Applicability.* This change applies to a bank described in section 15.11(2)(a) of this revenue procedure that wants to change to an overall cash/hybrid method described in section 15.11(2)(b) of this revenue procedure.

(b) *Inapplicability.* A bank's change to an overall cash/hybrid method under this section 15.11 does not include any change in the accounting treatment of an item for which the bank uses a special method (as described in section 15.11(2)(b) of this revenue procedure) before the change, or is required to use a special method, or will use a special method after the change. A bank may not change the accounting treatment of such an item under this section 15.11. Any change in the accounting treatment of such an item must be made under an applicable section of this revenue procedure, under the non-automatic change procedures of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, or under another guidance published in the Internal Revenue Bulletin, as appropriate.

(2) *Definitions.* The following definitions apply for purposes of this section 15.11.

(a) *Bank.* A bank is described in this section 15.11(2)(a) if the bank:

(i) is a bank as defined in § 581;

(ii) is an S corporation as defined in § 1361(a)(1), or a qualified subchapter S subsidiary as defined in § 1361(b)(3)(B); and



(iii) has average annual gross receipts (computed as described in section 15.11(5) of this revenue procedure) not in excess of \$50,000,000.

(b) *Overall cash/hybrid method.* An overall cash/hybrid method is the use of a combination of accounting methods under which some items of income or expense are reported on the cash receipts and disbursements method (cash method) and other items of income or expense are reported on methods permitted or required for the accounting treatment of special items (special methods).

(i) *Cash method.* The cash method is the method identified by § 446(c)(1) and §§ 1.446-1(c)(1)(i), 1.451-1(a), and 1.461-1(a)(1).

(ii) *Special methods.* A few of the special methods typically used by banks include those provided for the accounting treatment of the following items: securities held by a dealer in securities as defined in § 475(c)(1) (the mark-to-market method of § 475); securities held by a dealer in securities as defined in § 1.471-5 (inventories maintained under § 471 and § 1.446-1(c)(2)(i)); hedging transactions (§ 1.446-4); contracts to which § 1256 applies (§ 1256); original issue discount on debt instruments (§§ 163(e) and 1271-1275); interest income (including acquisition discount and original issue discount) on short-term obligations (§§ 1281-1283); and stripped debt instruments (§ 1286). For example, a bank that regularly purchases or originates mortgages in the ordinary course of its business and engages in more than negligible sales of those mortgages generally is a dealer in securities under § 475(c)(1) and § 1.475(c)-1(c) and thus must use the mark-to-market method of § 475 for mortgages and any other securities (as defined in § 475(c)(2)) held by the bank.

(3) *Additional condition of change.* To change to an overall cash/hybrid method under this section 15.11, a bank must comply with the following additional condition. In addition to complying with the terms and conditions set forth in section 7 of Rev. Proc. 2015-13, the bank must keep its books and records for the year of change and for subsequent taxable years on an overall cash/hybrid method allowed by this section 15.11. This condition is considered satisfied if the bank reconciles the results obtained under the method used in keeping its books and records and those obtained under the method used for federal income tax purposes pursuant to this section 15.11 and the bank maintains sufficient records to support such reconciliation. *See also* § 1.446-1(a)(4).

(4) *Additional filing requirement.* To change to an overall cash/hybrid method under this section 15.11, a bank must include with its completed Form 3115 a description of each specific item of the bank's income or expense that is affected by the change under this section 15.11 and, for each such item, identify the following: the method of accounting under which the bank reports that item for federal income tax purposes immediately before the change; and the amount of the § 481(a) adjustment associated with changing that item to the cash method under this section 15.11.

(5) *Computation of average annual gross receipts.* For purposes of section 15.11(2)(a)(iii) of this revenue procedure, a bank's average annual gross receipts are computed as described in this section 15.11(5).

(a) *Average annual gross receipts.* A bank has average annual gross receipts not in excess of \$50,000,000 if, for each prior taxable year ending on or after December 31, 2006, the bank's average annual gross receipts for the three prior taxable-year period ending with the applicable prior taxable year do not exceed \$50,000,000. If a bank has not been in existence for three prior taxable years, the bank must determine its average annual gross receipts for the number of years (including short taxable years) that the bank has been in existence. *See* § 448(c)(3)(A).

(b) *Gross receipts.* Gross receipts is defined consistent with § 1.448-2(c)(2)(iv). Thus, gross receipts for a taxable year equal all receipts that must be recognized under the method of accounting actually used by the bank for that taxable year for federal income tax purposes. *See also* § 448(c)(3)(C).

(c) *Aggregation of gross receipts.* For purposes of computing gross receipts under section 15.11(5)(b) of this revenue procedure, all taxpayers treated as a single employer under § 52(a) or (b) or § 414(m) or (o) (or that would be treated as a single employer under these sections if the taxpayers had employees) will be treated as a single taxpayer (that is, a single bank). However, when transactions occur between taxpayers that are treated as a single taxpayer by the previous sentence, gross receipts arising from these transactions will not be treated as gross receipts for purposes of the average annual gross receipts limitation. *See* § 448(c)(2) and § 1.448-2(c)(2)(ii).

(d) *Treatment of short taxable year.* In the case of a short taxable year, a bank's gross receipts must be annualized by multiplying the gross receipts for the short taxable year by 12 and then dividing the result by the number of months in the short taxable year. *See* § 448(c)(3)(B) and § 1.448-2(c)(2)(iii).

(e) *Treatment of predecessors.* Any reference to a bank or taxpayer in section 15.11(5) of this revenue procedure includes a reference to any predecessor of that bank or taxpayer. *See* § 448(c)(3)(D).

(6) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 15.11 is "127."

(7) *Contact information.* For further information regarding a change under this section, contact K. Scott Brown at (202) 317-6945 (not a toll-free number).

#### .12 *Change to overall cash method for farmers.*

##### (1) *Description of change.*

(a) *Applicability.* This change applies to a taxpayer engaged in the trade or business of farming that wants to change to the overall cash receipts and disbursement (cash) method. If a taxpayer is engaged in more than one trade or business, this change applies only to the taxpayer's trade or business of farming.

(b) *Inapplicability.* This change does not apply to a taxpayer that is required to use an accrual method pursuant to § 447, or prohibited from using the cash method by § 448.

##### (2) *Definitions.*

(a) Cash method of accounting is the method defined by § 446(c)(1) and §§ 1.446-1(c)(1)(i), 1.451-1(a), and 1.461-1(a)(1). *See also* §§ 1.61-4 and 1.162-12 for specific rules relating to farmers.

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

(3) *Certain eligibility rule temporarily inapplicable.* The eligibility rule in section 5.01(1)(e) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, does not apply to this change for a taxpayer's first, second, or third taxable year beginning after December 31, 2017.

(4) *Manner of making change.* Generally, a taxpayer changing its method of accounting under this section 15.12 must compute a § 481(a) adjustment. However, if the taxpayer is changing from the crop method, that portion of the change is made using a cut-off basis under which expenses reported on the crop method and not deducted prior to the year of change are deducted in the year the related crop is sold.

(5) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 15.12 is "128."

(6) *Contact information.* For further information regarding a change under this section, contact Sophia Wang at (202) 317-5100 (not a toll-free number).

*.13 Nonshareholder contributions to capital under § 118.*

(1) *Description of change.*

(a) *Water and sewerage disposal utilities under § 118(c) (as in effect on the day before the date of enactment of Public Law 115-97, 131 Stat. 2054 (Dec. 22, 2017) ("former § 118(c)").*

(i) This change applies to a regulated public utility described in former § 118(c) that wants to change its method of accounting for payments received from customers as customer connection fees, which are not contributions to the capital of the regulated public utility within the meaning of former § 118(c), from excluding the payments from gross income as nontaxable contributions to capital under § 118 to including the payments in gross income under § 61. *See* Rev. Rul. 2008-30, 2008-1 C.B. 1156.

(ii) This change applies to a regulated public utility described in former § 118(c) that wants to change its method of accounting for payments or property received that are contributions in aid of construction under former § 118(c) and § 1.118-2 and that meet the requirements of former § 118(c)(1)(B) and (c)(1)(C) from including the payments or the fair market value of the property in gross income under § 61 to excluding the payments or the fair market value of the property from income as nontaxable contributions to capital under § 118(a).

(b) *Other payments or property received.* This change applies to a taxpayer that wants to change its method of accounting for payments or property received (other than the payments received by a public utility described in former § 118(c) that are addressed in section 15.13(1)(a)(i) of this revenue procedure) that do not constitute contributions to the capital of the taxpayer within the meaning of § 118 and the regulations thereunder, from excluding the payments or the fair market value of the property from gross income as nontaxable contributions to capital under § 118 to including the payments or the fair market value of the property in gross income under § 61.

(2) *Inapplicability.* The change described in section 15.13(1)(a)(ii) of this revenue procedure does not apply to contributions made after December 22, 2017, the date of enactment of Public Law 115-97 (commonly referred to as the Tax Cuts and Jobs Act).

(3) *Additional requirement.* A taxpayer that is making a change described in section 15.13(1)(a) (i) or (1)(b) of this revenue procedure must complete Schedule E of Form 3115 for the depreciable property to which the change relates (as well as all other relevant portions of the Form 3115).

(4) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 15.13 is “129.”

(5) *Contact information.* For further information regarding a change under this section, contact David H. McDonnell at (202) 317-4137 (not a toll-free number).

.14 *Debt issuance costs.*

(1) *Description of change.* This change applies to a taxpayer that wants to change its method of accounting for capitalized debt issuance costs to comply with § 1.446-5, which provides rules for allocating the costs over the term of the debt. This change also applies to a taxpayer that wants to change its method of accounting for capitalized debt issuance costs from one permissible method to another permissible method under the last sentence in § 1.446-5(b)(2) if the total original issue discount determined for purposes of § 1.446-5 is *de minimis*.

(2) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 15.14 is “148.”

(3) *Contact information.* For further information regarding a change under this section, contact Charles W. Culmer at (202) 317-6945 (not a toll-free number).

.15 *Transfers of interties under the safe harbor described in Notice 2016-36 (§ 118).*

(1) *Description of change.*

(a) *Safe harbor applicable.* This change, as described in Notice 2016-36, 2016-25 I.R.B. 1029, applies to a utility that wants to change to the safe harbor method of accounting provided in section III.C of Notice 2016-36 for the treatment under § 118 of a transfer of an intertie, including a dual-use intertie, by a generator to a utility. Under this safe harbor method of accounting, such a transfer will not be treated as gross income under § 118(a) or a contribution in aid of construction (CIAC) under § 118(b) if all of the conditions specified in section III.C of Notice 2016-36 are met.

(b) *Safe harbor terminates.* This change, as described in Notice 2016-36, applies to a utility that is using the safe harbor method of accounting provided in section III.C of Notice 2016-36 and is required to terminate that safe harbor method of accounting because of the occurrence of an event specified in section IV of Notice 2016-36. The occurrence of such event will require the utility to recognize income as a consequence of the transfer of an intertie, including a dual-use intertie, to the utility by a generator.

(2) *Definitions.* For purposes of this section 15.15, the terms “utility,” “intertie,” “dual-use intertie,” and “generator” are defined in section III.B of Notice 2016-36.

(3) *Certain eligibility rules inapplicable.* The eligibility rules in sections 5.01(1)(d) and (f) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, do not apply to a utility making a change under this section 15.15.

(4) *Manner of making change.*

(a) The change in method of accounting under section 15.15(1)(a) of this revenue procedure is made with a § 481(a) adjustment.

(b) The change in method of accounting under section 15.15(1)(b) of this revenue procedure is made using a cut-off method and applies to a transfer of an intertie, including a dual-use intertie, by a generator to a utility made on or after the beginning of the taxable year in which the safe harbor method of accounting terminates.

(5) *Concurrent automatic change.* A utility making a change under this section 15.15 for more than one transfer of an intertie, including a dual-use intertie, for the same year of change should file a single Form 3115 for all such transfers. The single Form 3115 must provide a single net § 481(a) adjustment for all changes under section 15.15(1)(a) of this revenue procedure.

(6) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change to the methods of accounting under this section 15.15 is “226.”

(7) *Contact information.* For further information regarding a change under this section, contact Barbara Campbell at (202) 317-4137 (not a toll-free number).

.16 *Change to or from the net asset value (NAV) method.*

(1) *Description of change.* This change, as described in Rev. Proc. 2016-39, 2016-30 I.R.B. 164, applies to a taxpayer that holds shares in a money market fund (MMF) as defined in § 1.446-7(b)(4) (giving effect to § 1.446-7(c)(5), under which MMF holdings in different accounts are treated as different MMFs) and that wants to change its method of accounting for gain or loss on the shares from a realization method to the NAV method described in § 1.446-7 or from the NAV method to a realization method.

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

(3) *Definitions.*

(a) “Rule 2a-7” means Rule 2a-7 (17 CFR 270.2a-7) under the Investment Company Act of 1940.

(b) “Floating-NAV MMF” means an MMF that is required to value its assets using market factors and to round its price per share to the nearest basis point (the fourth decimal place, in the case of a fund with a \$1.0000 share price) under Rule 2a-7.

(c) “Stable-NAV MMF” means an MMF that is not a floating-NAV MMF.

(4) *Manner of making change.*

(a) A change to or from the NAV method is made on a cut-off basis. *See* § 1.446-7(c)(8). Accordingly, a § 481(a) adjustment is neither permitted nor required. A taxpayer making a change to or from the NAV method for shares in an MMF applies the new method only to the computation of gain or loss on the shares beginning with the year of change. Under § 1.446-7(b)(7)(ii), a taxpayer changing to the NAV method takes a starting basis (as defined in § 1.446-7(b)(7)) in those shares for the year of change equal to the aggregate adjusted basis of the taxpayer's shares in the MMF at the end of the immediately preceding taxable year. A taxpayer changing from the NAV method to a realization method for shares in an MMF must adjust the basis in the shares beginning on the first day of the year of change to account for gain or loss previously recognized under the NAV method. Accordingly, the taxpayer generally takes a basis in each MMF share at the beginning of the year of change equal to the fair market value of that share under § 1.446-7(b)(3) used in computing the ending value (as defined in § 1.446-7(b)(2)) of the shares in that MMF for the final computation period (as defined in § 1.446-7(b)(1)) of the taxable year prior to the year of change.

(b) *Short Form 3115 in lieu of a standard Form 3115.* In accordance with § 1.446-1(e)(3)(ii), the requirement of § 1.446-1(e)(3)(i) to file a standard Form 3115 is waived and, pursuant to section 6.02(2) of Rev. Proc. 2015-13, a short Form 3115 is authorized for a taxpayer changing from a realization method to the NAV method, or changing from the NAV method to a realization method, for shares in an MMF. Unless the change meets the requirements of section 15.16(4)(c) of this revenue procedure, the taxpayer must file a short Form 3115 (Rev. December 2018) that includes the following information:

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

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

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

(iv) a statement specifying whether the taxpayer is changing from a realization method to the NAV method or from the NAV method to a realization method; and

(v) a statement specifying the MMF or MMFs to which the change applies, if the change does not apply to all MMFs in which the taxpayer holds shares (and, to the extent applicable, whether the change applies only to shares of the MMF or MMFs held in a particular account).

(c) *No Form 3115 Required.* In accordance with § 1.446-1(e)(3)(ii), a taxpayer changing to the NAV method for shares in a stable-NAV MMF may change to the NAV method on a federal tax return without filing a Form 3115 if the following requirements are satisfied:

(i) the taxpayer has not used the NAV method for shares in the MMF for any taxable year prior to the year of change; and

(ii) prior to the year of change, either

(A) the taxpayer's basis in each share of the MMF has been at all times equal to the MMF's target share price, or

(B) the taxpayer has not realized any gain or loss with respect to shares in the MMF.



(5) *Multiple changes.* A taxpayer making multiple changes under this section 15.16 for the same year of change on a short Form 3115 should file a single short Form 3115. The short Form 3115 will be treated as applying to all shares that the taxpayer holds in any MMF unless the taxpayer specifies the MMFs to which the change applies. If the taxpayer specifies an MMF, the short Form 3115 will be treated as applying to all shares in that MMF held in any account by the taxpayer, unless the short Form 3115 specifies the accounts to which the change applies.

(6) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 15.16 is “227.”

(7) *Contact Information.* For further information regarding a change under this section, contact Grace Cho at (202) 317-6945 (not a toll-free number).

*.17 Small business taxpayer changing to overall cash method, or to a method of accounting in which a small business taxpayer uses an accrual method for purchases and sales of inventories and uses the cash method for computing all other items of income and expense.*

(1) *Description of change.* This change applies to a small business taxpayer, as defined in section 15.17(4)(a) of this revenue procedure, that wants to make a change in method of accounting described in section 15.17(2) of this revenue procedure. This change includes a change to account for any exempt construction contracts described in § 1.460-3(b)(1)(ii) under the cash method or, in the case of an exempt construction contract described in § 1.460-3(b)(1)(ii) that includes the sale of inventory, a method of accounting that uses an accrual method for purchases and sales of such inventory and the cash method for computing all other items of income and expense from such contract. A small business taxpayer may be required to use a method of accounting other than the cash method for one or more items of income or expense under certain provisions of the Code or regulations, including, for example §§ 475 and 1272.

(2) *Applicability.* This change applies to a small business taxpayer that wants to:

(a) change from an overall accrual method of accounting to the overall cash method of accounting for a trade or business, and is otherwise not prohibited from using the overall cash method or required to use another overall method of accounting;

(b) change from an overall accrual method of accounting for a trade or business to an accrual method for purchases and sales of inventories (inventories) and the cash method for computing all other items of income and expense, and is otherwise not prohibited from using the cash method under § 448 or required to use another overall method of accounting, such as an accrual method under § 447; or

(c) change from the overall cash method of accounting for a trade or business to an accrual method for purchases and sales of inventories (inventories) and the cash method for computing all other items of income and expense and is otherwise not prohibited from using the cash method under § 448 or required to use another overall method of accounting, such as an accrual method under § 447.

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

(a) *Banks changing to hybrid method.* This change does not apply to a bank described in section 15.11(2)(a) of this revenue procedure. However, such a bank may be eligible to change

to the overall cash/hybrid method under section 15.11 of this revenue procedure if it meets the requirements of that section.

(b) *Farmers changing to overall cash method.* This change does not apply to a farming business changing to the overall cash method. See, however, section 15.12 of this revenue procedure.

(4) *Special rules for open accounts receivable.* Notwithstanding § 1001 and the accompanying regulations, a small business taxpayer that uses the overall cash method for a trade or business includes amounts attributable to open accounts receivable, as defined in section 15.17(5)(c) of this revenue procedure, in income as the amounts are actually or constructively received on the receivables.

(5) *Definitions.*

(a) *Small business taxpayer.* “Small business taxpayer” means a taxpayer, other than a tax shelter under § 448(d)(3), proposed § 1.448-2(b)(2), or § 1.448-2(b)(2), as applicable, that meets the § 448(c) gross receipts test.

(b) *Section 448(c) gross receipts test.* The § 448(c) gross receipts test is met if a taxpayer has average annual gross receipts for the three prior taxable years of \$25,000,000 or less (adjusted for inflation), as described in § 448(c), proposed §§ 1.448-2(c), proposed § 1.460-3(b)(3), § 1.448-2(c) or § 1.460-3(b)(3), as applicable. For taxable years beginning in 2019, 2020 and 2021, the inflation-adjusted amount is \$26,000,000. See Rev. Proc. 2018-57, 2018-49 I.R.B. 827, Rev. Proc. 2019-44, 2019- 47 I.R.B. 1093, or Rev. Proc. 2020-45, 2020-46 I.R.B. 1016, as applicable. For a taxable year beginning in 2022, the inflation-adjusted amount is \$27,000,000. See Rev. Proc. 2021-45, 2021-48 I.R.B. 764.

(c) *Open accounts receivable.* For purposes of this section 15.17, an open accounts receivable is any receivable that is due in full in 120 days or less and that is not subject to § 475.

(6) *Eligibility rules.*

(a) *Eligibility rule inapplicable.* For a change described in section 15.17(2) of this revenue procedure, any prior change in method of accounting to an overall accrual method that was made in the taxpayer’s first § 448 year (as defined in section 15.01(1)(a) of this revenue procedure), a mandatory § 448 year (as defined in proposed § 1.448-2(g)(1) or § 1.448-2(g)(1), as applicable), or a mandatory § 447 year (as defined in section 15.01(1)(a) of this revenue procedure), as applicable, is disregarded for purposes of section 5.01(1)(e) of Rev. Proc. 2015-13.

(b) *Eligibility rule temporarily inapplicable.* The eligibility rule in section 5.01(1)(e) of Rev. Proc. 2015-13 does not apply to this change for a taxpayer’s first, second, or third taxable year beginning after December 31, 2017. In addition, the eligibility rule in section 5.01(1)(e) of Rev. Proc. 2015-13 does not apply to a taxpayer’s early application year, or, in the case of a taxpayer that does not apply § 1.448-2 in the early application year, the taxpayer’s first taxable year beginning on or after January 5, 2021. For purposes of this section 15.17, “early application year” means the taxable year beginning before January 5, 2021, in which a taxpayer first applies § 1.448-2.

(7) *Manner of making change.*

(a) *Acceleration of § 481(a) adjustment.* If a taxpayer making a change described in section 15.17(2)(a) or (b) of this revenue procedure has a § 481(a) adjustment remaining on a prior overall change in method of accounting to an accrual method, then it must take the remaining portion of such prior § 481(a) adjustment into account in the year of change;

(b) *Cut-off basis for exempt long-term contracts.* A change to account for exempt construction contracts described in § 1.460-3(b)(1)(ii) under this section 15.17 is made on a cut-off basis and applies only to contracts entered into on or after the first day of the year of change. Accordingly, a § 481(a) adjustment is neither permitted nor required.

(8) *Concurrent automatic changes.* A small business taxpayer making a change under this section 15.17 and a change under section 12.16, 22.18 and/or 22.19 of this revenue procedure for the same year of change may file a single Form 3115 for such changes, provided the taxpayer enters the designated automatic accounting method change numbers for each change on the appropriate line of Form 3115. See section 6.03(1)(b) of Rev. Proc. 2015-13 for information on making concurrent changes.

(9) *Designated automatic accounting method change number.*

(a) *Change to overall cash method.* The designated automatic accounting method change number for a change under section 15.17(2)(a) of this revenue procedure is “233.”

(b) *Change to a method of accounting that uses an accrual method for inventories, and the cash method for computing all other items of income and expense.* The designated automatic accounting method change number for a change under section 15.17(2)(b) or (c) of this revenue procedure is “259.”

(10) *Contact information.* For further information regarding a change under this section, contact Anna Gleysteen at (202) 317-7007 (not a toll-free number).

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## SECTION 16. TAXABLE YEAR OF INCLUSION (§ 451)

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.01 *Accrual of interest on nonperforming loans.*

(1) *Description of change.*

(a) This change applies to a taxpayer using an overall accrual method of accounting that is a bank as defined in § 581 (or whose primary business is making or managing loans) and wants to change its method of accounting to comply with § 451 and § 1.451-1(a) for qualified stated interest (as defined in § 1.1273-1(c)) on nonperforming loans.

(b) Section 1.451-1(a) requires income to be accrued when all the events have occurred that fix the right to receive the income and the amount thereof can be determined with reasonable accuracy. A taxpayer may not stop accruing qualified stated interest on a nonperforming loan for federal income tax purposes merely because payments on the loan are overdue by a certain length of time, such as 90 days, even if a federal, state, or other regulatory authority having

jurisdiction over the taxpayer permits or requires that the overdue interest not be accrued for regulatory purposes.

(c) Under § 451 and § 1.451-1(a), a taxpayer must continue accruing qualified stated interest on any nonperforming loan until either (i) the loan is worthless under § 166 and charged off as a bad debt, or (ii) the interest is determined to be uncollectible. In order for interest to be determined uncollectible, the taxpayer must substantiate, taking into account all the facts and circumstances, that it has no reasonable expectation of payment of the interest. This substantiation requirement is applied on a loan by loan basis.

(d) A taxpayer that changes its method of accounting under this section 16.01 must do so for all of its loans.

(2) *Section 481(a) adjustment.* In general, the § 481(a) adjustment for a method change under this section 16.01 represents the amount of qualified stated interest on the taxpayer's nonperforming loans outstanding as of the beginning of the year of change that should have been accrued under § 451 and § 1.451-1(a) and was not accrued. Interest for which the taxpayer, as of the beginning of the year of change, has no reasonable expectation of payment is not taken into account in determining the amount of the § 481(a) adjustment.

(3) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 16.01 is "36."

(4) *Contact information.* For further information regarding a change under this section, contact K. Scott Brown at (202) 317-6945 (not a toll-free number).

#### .02 *Advance rentals.*

(1) *Description of change.* This change applies to a taxpayer that wants to change its method of accounting for advance rentals (other than advance rentals subject to § 467 and the regulations thereunder) to include such advance rentals in gross income in the taxable year received. *See* § 1.61-8(b).

(2) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 16.02 is "37."

(3) *Contact information.* For further information regarding a change under this section, contact Daniel Cassano at (202) 317-7011 (not a toll-free number).

#### .03 *State or local income or franchise tax refunds.*

(1) *Description of change.* This change applies to a taxpayer using an overall accrual method of accounting that receives a state or local income or franchise tax refund and wants to accrue the refund in the taxable year the taxpayer receives payment or notice that the claim has been approved, whichever is earlier, as provided in Rev. Rul. 2003-3, 2003-1 C.B. 252.

(2) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 16.03 is "38."

(3) *Contact information.* For further information regarding a change under this section, contact Daniel Cassano at (202) 317-7011 (not a toll-free number).

*.04 Capital Cost Reduction Payments.*

(1) *Description of change.* This change applies to a taxpayer that purchases motor vehicles subject to leases and assumes the associated leases from the vehicles' dealers and wants to use the safe harbor method of accounting for capital cost reduction (CCR) payments specified in Rev. Proc. 2002-36, 2002-1 C.B. 993.

(2) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 16.04 is "39."

(3) *Contact information.* For further information regarding a change under this section, contact Bill Ruane at (202) 317-4718 (not a toll-free number).

*.05 Credit card annual fees.*

(1) *Description of change.* This change applies to a taxpayer that wants to change its method of accounting for credit card annual fees as described in Rev. Rul. 2004-52, 2004-1 C.B. 973, either to a method that satisfies the all events test in accordance with Rev. Rul. 2004-52 or to the Ratable Inclusion Method for Credit Card Annual Fees that is described in section 4 of Rev. Proc. 2004-32, 2004-1 C.B. 988. Rev. Rul. 2004-52 holds that credit card annual fees are not interest for federal income tax purposes and that such fees are includible in income by the card issuer when the all events test under § 451 is satisfied. Rev. Proc. 2004-32 provides additional guidance for taxpayers seeking to change their methods of accounting for such fees, including guidance with respect to the Ratable Inclusion Method for Credit Card Annual Fees. However, a taxpayer may make either change under this revenue procedure only if the taxpayer uses an overall accrual method of accounting for federal income tax purposes and issues credit cards to, and receives annual fees from, cardholders under agreements that allow each cardholder to use a credit card to access a revolving line of credit to make purchases of goods and services and, if so authorized, to obtain cash advances.

(2) *Manner of making change.* In completing its Form 3115 to make this change, a taxpayer must identify the specific method to which the taxpayer is changing.

(3) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 16.05 to a method that satisfies the all events test in accordance with Rev. Rul. 2004-52 is "80." The designated automatic accounting method change number for a change under this section 16.05 to the Ratable Inclusion Method for Credit Card Annual Fees is "81."

(4) *Contact information.* For further information regarding a change under this section, contact Kate Sleeth at (202) 317-7053 (not a toll-free number).

*.06 Advance payments.*

(1) *Description of change.*

(a) *Applicability.* This change applies to a taxpayer using or changing to an overall accrual method of accounting that receives advance payments, as defined in Rev. Proc. 2004-34, 2004-1 C.B. 991, as modified and clarified by Rev. Proc. 2011-18, 2011-5 I.R.B. 443, and Rev. Proc. 2013-29, 2013-33 I.R.B. 141, and as modified by Rev. Proc. 2011-14, 2011-4 I.R.B. 330, and wants to change to either the full inclusion or deferral method, as described in Rev. Proc. 2004-34, other than a taxpayer changing to a method described in section 16.08 of this revenue procedure. *See also* Notice 2018-35, 2018-18 I.R.B. 520, and Announcement 2004-48, 2004-1 C.B. 998.

(b) *Inapplicability.*

(i) *In general.* This change does not apply to a taxpayer that wants to use the Deferral Method for payments described in section 5.02(4)(a) of Rev. Proc. 2004-34 (other than allocable payments described in section 5.02(4)(c) of Rev. Proc. 2004-34) or for payments for which a method under section 5.02(3)(b)(i) or (iii) of Rev. Proc. 2004-34 applies. The taxpayer must request any such change in method of accounting using the non-automatic change procedures in Rev. Proc. 2015-13, 2015-5 I.R.B. 419. *See* section 8.03 of Rev. Proc. 2004-34.

(ii) *Limited time to make change.* This change does not apply to taxable years beginning on or after January 1, 2021.

(2) *Certain eligibility rule temporarily inapplicable.* The eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, does not apply to a taxpayer that changes to a method of accounting provided under section 16.06(1)(a) of this revenue procedure for the taxpayer's first or second taxable year ending on or after May 9, 2018.

(3) *Concurrent automatic change to an overall accrual method.* A taxpayer making both a change to its method of accounting for advance payments under this section 16.06 and a change to an overall accrual method under section 15.01 of this revenue procedure for the same year of change must file a single Form 3115 for both changes and enter the designated automatic accounting method change numbers for both changes on the appropriate line on that Form 3115. *See* section 6.03(1)(b) of Rev. Proc. 2015-13 for information on making concurrent changes.

(4) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under section 16.06(1)(a) of this revenue procedure to use the full-inclusion method is "83." The designated automatic accounting method change number for a change under section 16.06(1)(a) of this revenue procedure to use the deferral method is "84."

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

.07 *Retainages.*

(1) *Description of change.*

(a) *Applicability.* This change applies to a taxpayer using an overall accrual method of accounting that wants to change its method of accounting for treating retainages to a method consistent with the holding in Rev. Rul. 69-314, 1969-1 C.B. 139. A taxpayer changing its method of accounting for retainages under this section 16.07 must treat all retainages, that is both receivables and payables, in the same manner.



(b) *Inapplicability.* This change does not apply to retainages (receivables and payables) for long-term contracts that must be accounted for under the percentage-of-completion method (PCM) under § 460. Nor does this change apply to long-term contracts otherwise accounted for under the PCM or long-term contracts accounted for under exempt percentage-of-completion method or the completed contract method. For the treatment of retainages under such methods, see §§ 1.460-4(b)(4)(i)(A) and 1.460-4(d)(3).

(2) *Manner of making change.*

(a) Except as provided in section 16.07(2)(b) of this revenue procedure, a taxpayer changing its method of accounting under this section 16.07 must take into account a § 481(a) adjustment.

(b) For retainages received and paid in connection with long term contracts that are exempt construction contracts (as defined in § 1.460-3(b)(1)) accounted for using the taxpayer's overall accrual method of accounting, this change is made on a cut-off basis and applies only to long-term contracts entered into on or after the beginning of the year of change. See § 1.460-1(c)(2) for a description of when a contract is treated as "entered into." Accordingly, a § 481(a) adjustment is neither permitted nor required.

(3) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 16.07 for retainages not received under long-term contracts is "130." The designated automatic method change number for a change under this section 16.07 for retainages received under long-term contracts is "217." A taxpayer making a change under this section 16.07 that has both types of retainages must file a single Form 3115 and enter both change numbers on the appropriate line on Form 3115.

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

*.08 Change in applicable financial statements (AFS) for purposes of applying certain revenue recognition methods of accounting.*

(1) *Description of change.*

(a) *Applicability.*

(i) This change applies to a taxpayer that has an applicable financial statement (AFS), as defined in section 4.06 of Rev. Proc. 2004-34, 2004-1 C.B. 991, as modified and clarified by Rev. Proc. 2011-18, 2011-5 I.R.B. 443, and Rev. Proc. 2013-29, 2013-33 I.R.B. 141, and as modified by Rev. Proc. 2011-14, 2011-4 I.R.B. 330, that: (A) receives advance payments, as defined in section 4 of Rev. Proc. 2004-34, (B) uses the deferral method described in section 5.02(3)(a) of Rev. Proc. 2004-34 for including those advance payments in gross income in accordance with its AFS, (C) changes the manner in which it recognizes advance payments in revenues in its AFS, and (D) wants to change its method of accounting to use the new AFS method of recognizing advance payments in revenues in its AFS for determining the extent to which advance payments are included in gross income under Rev. Proc. 2004-34. *See also* Notice 2018-35, 2018-18 I.R.B. 520.

(ii) This change applies to a taxpayer that has an AFS, as defined in proposed § 1.451-8(b)(2) (REG-104554-18; 84 FR 47191), that: (A) receives advance payments, as defined in proposed § 1.451-8(b)(1); (B) uses the deferral method described in proposed § 1.451-8(c); (C) changes the manner in which it recognizes advance payments in revenues in its AFS; and (D) wants to

change its method of accounting to use the new AFS method of recognizing advance payments in revenues in its AFS for determining the extent to which advance payments are included in income under proposed § 1.451-8(c).

(iii) This change applies to a taxpayer with an AFS, as defined in § 451(b)(3), that: (A) includes amounts in income in accordance with § 451(b); (B) changes the manner in which the item, or portion thereof, is taken into account in revenue in its AFS, as defined in § 451(b)(3), including, if applicable, a change in the manner in which transaction price is allocated to performance obligations; and (C) wants to change its method of accounting to use the new AFS method of taking into account the item, or portion thereof, in revenue in its AFS for purposes of § 451(b)(1)(A), including, if applicable, a change in the manner in which transaction price is allocated for purposes of § 451(b)(4).

(iv) This change applies to a taxpayer with an AFS, as defined in proposed § 1.451-3(c)(1) (REG-104870-18; 84 FR 47205), that: (A) includes amounts in income in accordance with proposed § 1.451-3; (B) changes the manner in which the item, or portion thereof, is taken into account as revenue in its AFS, including, if applicable, a change in the manner in which transaction price is allocated to performance obligations; and (C) wants to change its method of accounting to use the new AFS method of taking into account the item, or portion thereof, in revenue in its AFS for purposes of proposed § 1.451-3(b), including, if applicable, a change in the manner in which transaction price is allocated for purposes of proposed § 1.451-3(g).

(v) This change applies to a taxpayer with an AFS, as defined in § 1.451-3(a)(5), that: (A) includes amounts in income in accordance with § 1.451-3; (B) changes the manner in which the item, or portion thereof, is taken into account as AFS revenue, as defined in § 1.451-3(a)(4), including, if applicable, a change in the manner in which transaction price is allocated to performance obligations; and (C) wants to change its method of accounting to use the new AFS method of taking into account the item, or portion thereof, in AFS revenue for purposes of § 1.451-3(b)(1), including, if applicable, a change in the manner in which transaction price is allocated for purposes of § 1.451-3(d).

(vi) This change applies to a taxpayer with an AFS, as defined in § 1.451-3(a)(5), that: (A) receives an advance payment, as defined in § 1.451-8(a)(1); (B) uses the deferral method described in § 1.451-8(c); (C) changes the manner in which it recognizes advance payments in AFS revenue, as defined in § 1.451-8(a)(4), including, if applicable, a change in the manner in which payments are allocated to performance obligations; and (D) wants to change its method of accounting to use the new AFS method of recognizing advance payments in AFS revenue for purposes of determining the extent to which advance payments are included in income under § 1.451-8, including, if applicable, a change in the manner in which payments are allocated for purposes of § 1.451-8(c)(8).

(b) *Inapplicability.*

(i) *Changes relating to Rev. Proc. 2004-34.* The change described in section 16.08(1)(a)(i) of this revenue procedure does not apply to:

(A) a taxpayer that uses a present method of accounting for advance payments that is not the deferral method described in section 5.02(3)(a) of Rev. Proc. 2004-34. For example, this change does not apply to a taxpayer that uses the full inclusion method under section 5.01 of Rev. Proc. 2004-34;

(B) a taxpayer that wants to change its method for allocating payments under section 5.02(4) of Rev. Proc. 2004-34; or

(C) taxable years beginning on or after January 1, 2021.

(ii) *Changes relating to § 451(b), proposed § 1.451-3, or proposed § 1.451-8.* A change described in section 16.08(1)(a)(ii), (iii) or (iv) of this revenue procedure does not apply to:

(A) a taxpayer whose present method of accounting does not comply with § 451(b) or proposed § 1.451-3, as applicable, for a change described in section 16.08(1)(a)(iii) or (iv) of this revenue procedure;

(B) a taxpayer whose present method is not the deferral method under proposed § 1.451-8(c), for a change described in section 16.08(1)(a)(ii) of this revenue procedure. For example, this change does not apply to a taxpayer that uses the full inclusion method under § 451(c)(1)(A) or proposed § 1.451-8(a), or the non-AFS deferral method under proposed § 1.451-8(d);

(C) a taxpayer that wants to change its method for allocating payments under § 451(c)(1)(D) or proposed § 1.451-8(c)(6);

(D) a taxpayer that wants to change its method for allocating transaction price between performance obligations that are accounted for under § 451(b) or proposed § 1.451-3, and performance obligations that are accounted for under a special method of accounting, as defined in § 451(b)(2) and proposed § 1.451-3(c)(5); or

(E) taxable years beginning on or after January 1, 2021.

(iii) *Changes relating to § 1.451-3 or § 1.451-8.* A change described in section 16.08(1)(a)(v) or (vi) of this revenue procedure does not apply to:

(A) a taxpayer whose present method of accounting is not described in § 1.451-3, for a change described in section 16.08(1)(a)(v) of this revenue procedure. A taxpayer that wants to change to a method of accounting described in § 1.451-3 must use section 16.10(2)(a)(v) of this revenue procedure to make such change;

(B) a taxpayer whose present method of accounting for advance payments is not the deferral method under § 1.451-8(c), for a change described in section 16.08(1)(a)(vi) of this revenue procedure. For example, this change does not apply to a taxpayer that uses the full inclusion method under § 1.451-8(b) or the non-AFS deferral method under § 1.451-8(d). However, this change does apply to a taxpayer that uses both the cost offset method under § 1.451-8(e) and the deferral method under § 1.451-8(c);

(C) a taxpayer that wants to change its method for allocating payments described in § 1.451-8(c)(8)(iii); or

(D) a taxpayer that wants to change its method for allocating transaction price for contracts described in § 1.451-3(d)(5).

(c) *Restatements of AFS.* A taxpayer's restatement of its AFS for financial accounting presentation does not affect the propriety of the taxpayer's method of accounting for revenue recognized in the prior taxable year(s). For example, if the taxpayer properly uses the deferral method described

in § 1.451-8(c) for including advance payments in gross income in accordance with its AFS, the taxpayer satisfies the requirement of section 16.08(1)(a)(vi) of this revenue procedure even if the AFS for that taxable year is later restated and may change its method of accounting under this section 16.08 if it is otherwise eligible.

(2) *Manner of making change.*

(a) *Cut-off basis or a § 481(a) adjustment.*

(i) *Cut-off basis for certain changes.*

(A) *In general.* Except as provided in section 16.08(2)(a)(i)(B) of this revenue procedure, a change made under section 16.08(1)(a)(i), (ii), or (vi) of this revenue procedure is made on a cut-off basis and applies to advance payments received by the taxpayer on or after the beginning of the year of change. Accordingly, any advance payments received prior to the year of change (prior advance payments) are accounted for under the taxpayer's former method of accounting, and any advance payments received in the year of change and in subsequent taxable years are accounted for under the taxpayer's new method of accounting. A taxpayer that changes its method of allocating payments for purposes of § 1.451-8(c)(8)(i) must allocate any payments received prior to the year of change using the taxpayer's former method of accounting. Accordingly, a § 481(a) adjustment is neither permitted nor required.

(B) *Section 481(a) adjustment for certain changes.* If a taxpayer makes a change under section 16.08(1)(a)(i), (ii), or (vi) of this revenue procedure, and the AFS treatment of prior advance payments in the year of change or a subsequent taxable year is relevant for purposes of determining the amount of such payments that is required to be included in gross income in the year of change or a subsequent taxable year, the taxpayer must implement the change with a § 481(a) adjustment as provided in sections 7.02 and 7.03 of Rev. Proc. 2015-13.

(ii) *Cut-off basis or § 481(a) adjustment for certain changes.* A taxpayer that makes a change under section 16.08(1)(a)(iii) or (iv) of this revenue procedure as a result of adopting the New Standards, as defined in section 16.09(1) of this revenue procedure, in the year of change may implement the change with either a § 481(a) adjustment as provided in sections 7.02 and 7.03 of Rev. Proc. 2015-13, or on a cut-off basis. If the taxpayer implements the change on a cut-off basis,

(A) the change applies to contracts entered into on or after the beginning of the year of change;

(B) all changes made under section 16.08(1)(a)(iii) or (iv) of this revenue procedure for the same year of change must be implemented using a cut-off basis; and

(C) a § 481(a) adjustment is neither permitted nor required.

(iii) *Computing § 481(a) adjustments when the year of change is a year in which the taxpayer implements a change in accounting principle with a retained earnings adjustment.* If the year of change is a year in which the taxpayer implements a change in accounting principle for AFS purposes, including a change in the method of applying an accounting principle for AFS purposes, and the change in accounting principle is implemented with a retained earnings adjustment that is taken into account during the year of change, the taxpayer is required to treat such adjustment as being taken into account in the taxable year prior to the year of change for purposes of computing

the § 481(a) adjustment. An AFS change to adopt the New Standards, as defined in section 16.09(1) of this revenue procedure, is an example of a change in accounting principle.

(iv) *Example. Computing a § 481(a) adjustment when the taxpayer presently uses the AFS cost offset method - related accounts.* *B* is in the trade or business of selling computers. *B* uses an accrual method of accounting and computes Federal income tax on a calendar-year basis and has an AFS, as defined in § 1.451-3(a)(5). *B* is not under examination within the meaning of section 3.18 of Rev. Proc. 2015-13. *B* does not receive advance payments. For 2021, *B* makes two changes in method of accounting to comply with § 1.451-3. Specifically, pursuant to section 16.10(2)(a)(iii)(A) of this revenue procedure, *B* changes its method of accounting for gross income from the sale of computers to apply the AFS income inclusion rule and, pursuant to section 16.10(2)(a)(iii)(C) of this revenue procedure, changes its method of accounting to apply the AFS cost offset method. For 2022, *B* changes the manner in which income from the sale of computers is taken into account as AFS revenue, as defined in § 1.451-3(a)(4), and changes its method of accounting under section 16.08(1)(a)(v) of this section to use the new AFS method. However, *B* continues to use the AFS cost offset method. In computing the § 481(a) adjustment resulting from the change to the new method of computing AFS revenue for 2022 under section 16.08(1)(a)(v) of this revenue procedure, *B* must take into account its continued use of the AFS cost offset method. See section 3.15 of Rev. Proc. 2015-13.

(b) In accordance with § 1.446-1(e)(3)(ii), the requirement of § 1.446-1(e)(3)(i) to file a Form 3115 is waived and a statement in lieu of a Form 3115 is authorized for a change made under this section 16.08. Notwithstanding the definition of Form 3115 in section 3.07 of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, the statement in lieu of a Form 3115 that is permitted under this section 16.08 is considered a Form 3115 for purposes of the automatic consent procedures of Rev. Proc. 2015-13. However, the requirement to file the duplicate copy, under section 6.03(1)(a) of Rev. Proc. 2015-13, is waived. The statement attached to the taxpayer's return for the year of change must include the following information for each applicant:

(i) the designated automatic accounting change number for this change, which is "153;"

(ii) the applicant's name, employer identification number (or social security number in the case of an individual), and type of applicant, as would be provided had a Form 3115 been required;

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

(iv) the type of AFS used by the applicant, as defined in applicable guidance, and which change the applicant is making under section 16.08(1)(a) of this revenue procedure. See section 4.06 of Rev. Proc. 2004-34, § 451(b)(3), proposed § 1.451-8(b)(2), proposed § 1.451-3(c)(1), § 1.451-3(a)(5); and/or § 1.451-8(a)(5), as applicable;

(v) a detailed and complete description of each item affected by the change in AFS revenue recognition and the line number (or schedule) where the affected item is reflected on the federal income tax return for the year of change, and if applicable, the § 481(a) adjustment for each change; and

(vi) a detailed description of the basis used for AFS revenue recognition (that is, the method the taxpayer uses in its AFS) both before and after the AFS change.

(c) *Concurrent automatic change.* A taxpayer may make more than one change under this section 16.08 on the same statement in lieu of a Form 3115 for the same year of change. The taxpayer must separately provide all of the information required for each change on that statement.

(3) *Certain eligibility rule inapplicable.* The eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13 does not apply to this change.

(4) *No audit protection.* A taxpayer does not receive audit protection under section 8.01 of Rev. Proc. 2015-13 for this change. *See* section 8.02(2) of Rev. Proc. 2015-13.

(5) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 16.08 is “153.”

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

*.09 Changes in the timing of recognition of income due to the New Standards.*

(1) *Description of change.* On May 28, 2014, the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) jointly announced new financial accounting standards for revenue recognition entitled “Revenue from Contracts with Customers (Topic 606)” (New Standards). *See* FASB Update No. 2014-09, and IASB International Financial Reporting Standard (IFRS) 15. Under the New Standards, a taxpayer generally recognizes revenue for financial accounting purposes when the taxpayer satisfies a performance obligation by transferring a promised good or service to a customer, as described in the New Standards.

(2) *Applicability.* This change applies to a taxpayer that wants to change its method of accounting for the recognition of income for federal income tax purposes to a method under the New Standards for: (a) identifying performance obligations, (b) allocating transaction price to performance obligations, and/or (c) considering performance obligations satisfied. A taxpayer may request a change under this section 16.09 only if the taxpayer’s new method of accounting is otherwise permissible for federal income tax purposes and the change in method of accounting is made for the taxable year in which the taxpayer adopts the New Standards for financial accounting purposes.

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

(a) a change in the manner in which the taxpayer identifies contracts or determines the transaction price, including the inclusion and exclusion of variable consideration in the transaction price, under the New Standards;

(b) a change in method of accounting for recognizing income that is made in a year that is different from the year that the taxpayer adopts the New Standards;

(c) a change in method of accounting that does not comply with § 451 or other guidance;

(d) any change in method of accounting that qualifies under another automatic change described in the List of Automatic Changes provided in this revenue procedure (or any successor), even if it is described in section 16.09(2) of this revenue procedure, and otherwise satisfies the requirements of paragraphs 5.01(1)(a)-(d) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419 (or any successor). The taxpayer must request such change(s) in method of accounting by applying the automatic change procedures in section 6 of Rev. Proc. 2015-13 (or any successor) and the respective section of Rev. Proc. 2022-14 (or any successor);



(e) any change in the method of accounting for income from a long-term contract, as defined in § 460(f), unless the long-term contract is excepted from required use of the percentage-of-completion method by § 460(e)(1); or

(f) an item of gross income that is required to be accounted for under § 451(b) or § 451(c). Accordingly, a taxpayer that wants to make a change in method of accounting for an item of gross income to comply with § 451(b), the proposed § 451(b) regulations (REG-104870-18; 84 FR 47205) (proposed § 1.451-3), the proposed § 451(c) regulations (REG-104554-18; 84 FR 47191) (proposed § 1.451-8), § 1.451-3 and/or § 1.451-8, as applicable, in the year in which it adopts the New Standards is not permitted to do so under this section 16.09. See, however, sections 16.06, 16.08, or 16.10, as applicable, of this revenue procedure.

(4) *Time for making change.* The change under this section 16.09 may only be made for a taxable year ending on or before May 10, 2022.

(5) *Manner of making change.*

(a) *Cut-off basis or § 481(a) adjustment.* A taxpayer making a change under this section 16.09 may implement the change with either a § 481(a) adjustment as provided in sections 7.02 and 7.03 of Rev. Proc. 2015-13, or on a cut-off basis. If the taxpayer implements the change on a cut-off basis, (i) the taxpayer must allocate any payments received prior to the year of change using the taxpayer's former method of accounting, (ii) all changes made under this section 16.09 must be implemented using a cut-off basis, and (iii) a § 481(a) adjustment is neither permitted nor required. Changes under this section 16.09 with regard to taxpayers who are members of consolidated groups generally are governed by this section 16.09 rather than by § 1.1502-17(b) (2) (applicable to changes in the application of the timing rules of § 1.1502-13 in accounting for intercompany transactions (within the meaning of § 1.1502-13(b)(1)(i)). See § 1.1502-17(a) and (b)(1).

(b) *Reduced filing requirement.* A taxpayer making a change under this section 16.09 is required to complete only the following information on Form 3115 (Rev. December 2018):

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

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

(iii) Part I;

(iv) Part II, all lines except lines 13,16c, and 19; and

(v) Part IV, all lines. For a taxpayer making a change under this section 16.09 using a § 481(a) adjustment, the statement required for Line 26 of Form 3115 should list a description of each change, the § 481(a) adjustment for each change (or a statement that the change is being made on a cut-off basis) and, if applicable, a description of where the item's § 481(a) adjustment is reflected on the federal income tax return (line number (or schedule)).

In addition, the requirement to file the duplicate copy, under section 6.03(1)(a) of Rev. Proc. 2015-13, is waived.

(6) *Certain eligibility rule inapplicable.* The eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13 does not apply to this change for a taxable year ending on or before May 10, 2022.

(7) *No ruling on method used.* The consent granted under section 9 of Rev. Proc. 2015-13 for a change made under this section 16.09 is not a determination by the Commissioner that the new method of accounting is a permissible method of accounting and does not create any presumption that the allocation method is a permissible method of accounting under any provision of the Code. Further, the consent granted under section 9 of Rev. Proc. 2015-13 for a change made under this section 16.09 is not a determination that the amount of income included in taxable income using an allocation method described in the New Standards is correct. The director will ascertain whether the new method of accounting is a permissible method of accounting and whether the allocation method is permissible under the Code (for example, a method that is permitted under § 451).

(8) *Concurrent automatic change.* A taxpayer that wants to make one or more changes in method of accounting under this section 16.09 may file a single Form 3115 that includes all of the changes, must separately state the § 481(a) adjustment for each change made under this section, and may not net the § 481(a) adjustments with § 481(a) adjustments from other changes.

(9) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 16.09 is “231.”

(10) *Contact information.* For further information regarding a change under this section, contact Sharon Horn at (202) 317-7003 (not a toll-free number).

#### .10 *Changes in the timing of income recognition under § 451(b) and (c).*

##### (1) *Description of change.*

(a) *In general.* This change applies to an accrual method taxpayer with an applicable financial statement (AFS) that wants to make certain changes in method of accounting described in section 16.10(2)(a) of this revenue procedure. This change also applies to a taxpayer without an AFS that wants to make certain changes in method of accounting described in section 16.10(2)(b) of this revenue procedure.

(b) *Applicable terms.* For this section 16.10, the term “AFS” is defined under proposed § 1.451-3(c)(1) (REG-104870-18; 84 FR 47205) for a taxpayer making a change to apply proposed § 1.451-3 and/or proposed § 1.451-8 (REG-104554-18; 84 FR 47191), as applicable, or under § 1.451-3(b)(5) for a taxpayer making a change to apply § 1.451-3 and/or § 1.451-8, as applicable. Additionally, because a change to comply with §§ 1.451-3, 1.451-8, and/or 1.1275-2(l), as applicable, is a change in method of accounting to which the provisions of § 446 and the accompanying regulations apply, the item being changed to comply with §§ 1.451-3, 1.451-8, and/or 1.1275-2(l), as applicable, is determined by applying § 446 and the accompanying regulations. See §§ 1.451-3(l)(1) and 1.451-8(g)(2). In that regard, while §§ 451(b) and (c) and the final regulations use the term “item of gross income” to generally refer to income that arises under a specific contract, the term “item of gross income” is not synonymous with the terms “item” or “material item” as used throughout the regulations under § 446.

##### (2) *Applicability.*

(a) *Taxpayer with an AFS.* This change applies to an accrual method taxpayer with an AFS that:

(i) for a taxable year beginning before January 1, 2021, wants to change to a method of accounting under proposed § 1.451-3 (including a change for a specified credit card fee under proposed § 1.451-3(i) and proposed § 1.1275-2(l));

(ii) for a taxable year beginning before January 1, 2021, wants to change to a method of accounting for advance payments under proposed § 1.451-8(a) or (c);

(iii) wants to make one of the following changes under § 1.451-3:

(A) a change to comply with the AFS income inclusion rule in § 1.451-3(b) under which the taxpayer determines the amount of an item of gross income that is treated as “taken into account as AFS revenue” by making the AFS revenue adjustments provided in § 1.451-3(b)(2)(i) (including a change for specified credit card fees under §§ 1.451-3(j)(2) and 1.1275-2(l));

(B) a change to comply with the AFS income inclusion rule in § 1.451-3(b) under which the taxpayer determines the amount of the item of gross income that is “taken into account as AFS revenue” by making the AFS revenue adjustments provided in § 1.451-3(b)(2)(ii) (including a change for specified credit card fees under §§ 1.451-3(j)(2) and 1.1275-2(l)) (Alternative AFS Revenue Method);

(C) except as provided in section 16.10(2)(a)(iii)(E) of this section, a change to apply the AFS cost offset method in § 1.451-3(c) to determine the amount of an item of gross income from the sale of inventory that is required to be included in gross income under the AFS income inclusion rule in § 1.451-3(b);

(D) a change from applying a cost offset method, including the AFS cost offset method in § 1.451-3(c), to not applying a cost offset method to determine the amount of an item of gross income from the sale of inventory that is required to be included in gross income under the AFS income inclusion rule in § 1.451-3(b);

(E) a change to comply with § 1.451-3(c)(5)(ii) as a result of a concurrent cost-offset related inventory method change, as defined in section 5.06 of Rev. Proc. 2015-13 (or successor), or because the taxpayer determines its cost of goods in progress offset by reference to costs that the taxpayer has impermissibly capitalized and/or allocated under its present method of accounting for inventory. This section 16.10(2)(a)(iii)(E) applies whether the taxpayer presently uses a cost offset method, including the AFS cost offset method under § 1.451-3(c), or is proposing to make, for the same year of change, a change to begin using the AFS cost offset method pursuant to section 16.10(2)(a)(iii)(C) of this revenue procedure;

(F) a change to comply with the transaction price allocation rules in § 1.451-3(d); or

(G) a change to a method of accounting described in § 1.451-3(h)(4) when a taxpayer’s AFS covers mismatched reportable periods; or

(iv) wants to make one of the following changes in method of accounting for advance payments under § 1.451-8:

(A) a change to the full inclusion method provided in § 1.451-8(b);

(B) a change to the deferral method provided in § 1.451-8(c);

(C) a change to the specified goods § 451(c) method described in § 1.451-8(f) to treat payments that otherwise qualify for the specified good exception, as defined in § 1.451-8(a)(1)(ii)(H), as advance payments and account for such payments either under the full inclusion method provided in § 1.451-8(b) or under the deferral method provided in § 1.451-8(c);

(D) except as provided in section 16.10(2)(a)(iv)(F) of this revenue procedure, a change to apply the advance payment cost offset method in § 1.451-8(e) to determine the amount of an advance payment from the sale of inventory that is required to be included in gross income under either the full inclusion method in § 1.451-8(b) or the deferral method in § 1.451-8(c), as applicable;

(E) a change from applying a cost offset method, including the advance payment cost offset method in § 1.451-8(e), to not applying a cost offset method to determine the amount of an advance payment from the sale of inventory that is required to be included in gross income under either the full inclusion method in § 1.451-8(b) or the deferral method in § 1.451-8(c), as applicable;

(F) a change to comply with § 1.451-8(e)(8)(ii) as a result of a concurrent cost-offset related inventory method change, as defined in section 5.06 of Rev. Proc. 2015-13 (or successor), or because the taxpayer presently determines its cost of goods in progress offset by reference to costs that the taxpayer has impermissibly capitalized and/or allocated under its present method of accounting for inventory. This section 16.10(2)(a)(iv)(F) applies whether the taxpayer presently uses a cost offset method, including the advance payment cost offset method under § 1.451-8(e), or is proposing to make, for the same year of change, a change to begin using the advance payment cost offset method pursuant to section 16.10(2)(a)(iv)(D) of this revenue procedure;

(G) a change to a method of accounting described in § 1.451-8(c)(7), which refers to the methods described in § 1.451-3(h)(4), when a taxpayer's AFS covers mismatched reporting periods; or

(H) a change to comply with the payment allocation rules in § 1.451-8(c)(8).

(b) *Taxpayer without an AFS.* This change applies to a taxpayer that does not have an AFS that:

(i) for a taxable year beginning after December 31, 2017, and before January 1, 2021, wants to change to a method of accounting for advance payments under proposed § 1.451-8(a) or (d); or

(ii) wants to make one of the following changes in method of accounting for advance payments under § 1.451-8:

(A) a change to the full inclusion method provided in § 1.451-8(b);

(B) a change to the deferral method provided in § 1.451-8(d)(3);

(C) except as provided in section 16.10(2)(b)(ii)(E) of this revenue procedure, a change to apply the advance payment cost offset method in § 1.451-8(e) to determine the amount of an advance

payment from the sale of inventory that is required to be included in gross income under either the full inclusion method in § 1.451-8(b) or the deferral method in § 1.451-8(d)(3), as applicable;

(D) a change from applying a cost offset method, including the advance payment cost offset method in § 1.451-8(e), to not applying a cost offset method to determine the amount of an advance payment from the sale of inventory that is required to be included in gross income under either the full inclusion method in § 1.451-8(b) or the deferral method in § 1.451-8(d)(3), as applicable;

(E) a change to comply with § 1.451-8(e)(8)(ii) as a result of a concurrent cost-offset related inventory method change, as defined in section 5.06 of Rev. Proc. 2015-13 (or successor), or because the taxpayer determines its cost of goods in progress offset by reference to costs that the taxpayer has impermissibly capitalized and/or allocated under its present method of accounting for inventory. This section 16.10(2)(b)(ii)(E) applies whether the taxpayer presently uses a cost offset method, including the advance payment cost offset method under § 1.451-8(e), or is proposing to make, for the same year of change, a change to begin using the advance payment cost offset method pursuant to section 16.10(2)(b)(ii)(C) of this revenue procedure; or

(F) a change to a payment allocation method described in § 1.451-8(d)(4)(ii).

(3) *Inapplicability.* Section 16.10(2) of this revenue procedure does not apply to:

(a) a change in method of accounting to use a special method of accounting, as defined in proposed § 1.451-3(c)(5) or § 1.451-3(a)(13), as applicable;

(b) a change in method of allocating transaction price between item(s) of gross income that are accounted for under proposed § 1.451-3 or § 1.451-3, as applicable, and item(s) of gross income that are accounted for under a special method of accounting, as defined in proposed § 1.451-3(c)(5) or § 1.451-3(a)(14), as applicable, including a change to comply with § 1.451-3(d)(5);

(c) a change described in section 16.10(2)(a)(iii)(E), section 16.10(2)(a)(iv)(F) or section 16.10(2)(b)(ii)(E) of this revenue procedure, as applicable, if, immediately after such change is made, the taxpayer's method of accounting for cost offsets does not otherwise comply with the AFS cost offset method under § 1.451-3(c) and/or the advance payment cost offset method under § 1.451-8(e), as applicable;

(d) a change described in section 16.10(2)(a)(iii)(E), section 16.10(2)(a)(iv)(F) or section 16.10(2)(b)(ii)(E) of this revenue procedure, including a change to comply with § 1.451-3(c)(5)(ii) or § 1.451-8(e)(8)(ii) because the taxpayer determines its cost of goods in progress offset by reference to costs that the taxpayer has impermissibly capitalized and/or allocated under its present method of accounting for inventory, unless the taxpayer makes, for the same year of change, the cost-offset related inventory method change(s), as defined in section 5.06 of Rev. Proc. 2015-13;

(e) a change to use the AFS cost offset method if the taxpayer receives advance payments from the sale of inventory and does not also make a change to apply the advance payment cost offset method, or a change to use the advance payment cost offset method if the taxpayer is required to include gross income from the sale of inventory under § 1.451-3 and does not also make a change to apply the AFS cost offset method;

(f) a change to use the deferral method in § 1.451-8(c) for allocable payments described in § 1.451-8(c)(8)(iii)(A) (other than allocable payments described in § 1.451-8(c)(8)(iii)(B));

(g) a taxpayer that presently uses the deferral method in § 1.451-8(c) for allocable payments described in § 1.451-8(c)(8)(iii)(A) that wants to change its payment allocation method to an allocation method that is not described in § 1.451-8(c)(8)(iii)(B);

(h) a change to use the deferral method in § 1.451-8(d)(3) for allocable payments described in § 1.451-8(d)(4)(i) other than either allocable payments described in § 1.451-8(d)(4)(ii) or allocable payments that are wholly attributable to two or more items described in § 1.451-8(a)(1)(i)(C);

(i) a taxpayer that presently uses the deferral method in § 1.451-8(d)(3) for allocable payments described in § 1.451-8(d)(4)(i) that wants to change its payment allocation method to an allocation method that is not described in § 1.451-8(d)(4)(ii);

(j) a taxpayer without an AFS that wants to change its method of accounting for advance payments to the deferral method under proposed § 1.451-8(d)(3) or § 1.451-8(d)(3) under which the taxpayer determines the extent to which an advance payment is earned by using the following: (i) a statistical basis if adequate data are available to the taxpayer; or (ii) the use of any other basis that in the opinion of the Commissioner results in a clear reflection of income;

(k) a change in method of accounting for specified fees, as defined in proposed § 1.451-3(i)(2) or § 1.451-3(j)(2), as applicable, other than specified credit card fees;

(l) a change in method of accounting that qualifies under another automatic change provided in this revenue procedure including, for example, a change described in section 16.08 of this revenue procedure;

(m) a change in method of accounting for a liability, as defined in § 1.446-1(c)(1)(ii)(B);

(n) a change in a taxpayer's mismatched reporting periods method described in § 1.451-3(h)(4) if the taxpayer uses the deferral method for advance payments under § 1.451-8(c) and does not also change to the same mismatched reporting periods method for purposes of accounting for advance payments pursuant to § 1.451-8(c)(7) for the same year of change; or, if applicable, a change in a taxpayer's mismatched reporting periods method pursuant to § 1.451-8(c)(7) if the taxpayer uses the deferral method for advance payments under § 1.451-8(c) and does not also change to the same mismatched reporting periods method for purposes of § 1.451-3(h)(4) for the same year of change;

(o) a change in method of accounting for payments within the scope of the specified good exception, as defined in § 1.451-8(a)(1)(ii), if the proposed method of accounting is to include such payments in gross income under § 1.451-3 in one or more taxable years following the taxable year of receipt; and

(p) a taxpayer that makes one or more changes under section 16.10(2)(a)(iii) or (iv) of this revenue procedure for a taxable year that begins before January 1, 2021, unless the taxpayer complies with all the requirements in §§ 1.451-3(m)(3), 1.451-8(h)(2), and 1.1275-2(l)(2)(ii), as applicable.

(4) *Manner of making change.*

(a) *Short Form 3115.* A taxpayer making a change under this section 16.10 for its early application year, as defined in section 16.10(4)(c)(i) of this revenue procedure, or in the case



of a taxpayer that does not apply § 1.451-3 and/or § 1.451-8, as applicable, for a taxable year beginning before January 1, 2021, for its first taxable year beginning on or after January 1, 2021, is required to complete the following information on Form 3115 (Rev. December 2018), and the and the requirement to file the duplicate copy, under section 6.03(1)(a) of Rev. Proc. 2015-13 is waived:

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

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

(iii) Part I;

(iv) Part II, all lines except lines 13, 16c, and 19; and

(v) Part IV, all lines. For a taxpayer making a change under this section 16.10, the statement required for Line 26 of Form 3115 should list the § 481(a) adjustment(s).

(vi) Schedule B, all lines except line 1e.

(b) *Special rules relating to § 481(a) adjustment or cut-off basis.*

(i) *Section 481(a) adjustment period for changes relating to specified credit card fees.* In the case of income from a specified credit card fee, the § 481(a) adjustment period for any qualified change in method of accounting described in this section 16.10(4)(b)(i) is six taxable years, including the year of change and next five taxable years. For purposes of the preceding sentence, a qualified change in method of accounting is a change in method of accounting for income from a specified credit card fee to a method that is required by § 451(b), as added by § 13221 of Public Law 115-97, 131 Stat. 2054 (Dec. 22, 2017), commonly referred to as the Tax Cuts and Jobs Act (TCJA), for such income, but only for the taxpayer's first taxable year beginning after December 31, 2018. Section 16.10(4)(b)(ii) of this revenue procedure may not be used for a change relating to specified credit card fees.

(ii) *Cut-off basis or § 481(a) adjustment.*

(A) *In general.* Changes under this section 16.10 with regard to taxpayers who are members of consolidated groups generally are governed by this section 16.10, rather than by § 1.1502-17(b)(2) (applicable to changes in the application of the timing rules of § 1.1502-13 in accounting for intercompany transactions (within the meaning of § 1.1502-13(b)(1)(i))). *See* § 1.1502-17(a) and (b)(1).

(B) *Cut-off basis or § 481(a) adjustment for changes made under section 16.10(2)(a)(i) of this revenue procedure when taxpayer is also adopting the New Standards.* Except as otherwise provided in this section 16.10(4)(b)(ii), a taxpayer making a change described in section 16.10(2)(a)(i) of this revenue procedure may implement the change with either a § 481(a) adjustment as provided in sections 7.02 and 7.03 of Rev. Proc. 2015-13 or on a cut-off basis provided the year of change is the same year that the taxpayer adopts the New Standards, as defined in section 16.09 of this revenue procedure. A taxpayer described in section 16.10(4)(c)(i)(B) or (C) of this revenue procedure that uses the streamlined procedures provided in section 16.10(4)(c) of this revenue procedure may not make a change in method of accounting on a cut-off basis. If the taxpayer makes a change described in section 16.10(2)(a)(i) of this revenue procedure for the taxable year

in which it adopts the New Standards and chooses to implement such change on a cut-off basis, (1) the change applies to contracts entered into on or after the beginning of the year of change, (2) all changes made under section 16.10(2)(a)(i) of this revenue procedure must be implemented using a cut-off basis, and (3) a § 481(a) adjustment is neither permitted nor required.

(C) *Cut-off basis or § 481(a) adjustment for certain changes under proposed § 1.451-8(c).* Except as otherwise provided in this section 16.10(4)(b)(ii), a taxpayer that changes its method of accounting for advance payments to the deferral method under proposed § 1.451-8(c) (as described in section 16.10(2)(a)(ii) of this revenue procedure), may implement the change with either a § 481(a) adjustment as provided in sections 7.02 and 7.03 of Rev. Proc. 2015-13 or on a cut-off basis. A taxpayer described in section 16.10(4)(c)(i)(B) of this revenue procedure that uses the streamlined procedures provided in section 16.10(4)(c) of this revenue procedure may not make a change in method of accounting on a cut-off basis. If the taxpayer implements the change on a cut-off basis, (1) the change applies to contracts entered into on or after the beginning of the year of change, (2) all changes made under section 16.10(2)(a)(ii) of this revenue procedure to comply with proposed § 1.451-8(c) must be implemented using a cut-off basis, and (3) a § 481(a) adjustment is neither permitted nor required.

(D) *Computing § 481(a) adjustments when the year of change is a year in which the taxpayer implements a change in accounting principle with a retained earnings adjustment.* If the year of change is a year in which the taxpayer implements a change in accounting principle for AFS purposes, including a change in the method of applying an accounting principle for AFS purposes, and the change in accounting principle is implemented with a retained earnings adjustment that is taken into account during the year of change, the taxpayer is required to treat such adjustment as being taken into account in the taxable year prior to the year of change for purposes of computing the § 481(a) adjustment. An AFS change to adopt the New Standards, as defined in section 16.09(1) of this revenue procedure, is an example of a change in accounting principle.

(iii) *Netting of the § 481(a) adjustment.*

(A) *Required netting for changes made under § 1.451-3 related to inventory sales.* A taxpayer that makes a change described in section 16.10(2)(a)(iii)(C) or (D) of this revenue procedure and one or more changes described in section 16.10(2)(a)(iii)(A), (B), and/or (G) of this revenue procedure for gross income from inventory sales for the same year of change must provide a single net § 481(a) adjustment for all such changes. The § 481(a) adjustment period described in section 7.03 of Rev. Proc. 2015-13 is determined based on the net § 481(a) adjustment.

(B) *Required netting for changes made under § 1.451-8 related to inventory sales for taxpayers with an AFS.* A taxpayer that makes a change described in section 16.10(2)(a)(iv)(D) or (E) of this revenue procedure and one or more changes described in section 16.10(2)(a)(iv)(A), (B), (C), and/or (G) of this revenue procedure for advance payments from the sale of inventory for the same year of change must provide a single net § 481(a) adjustment for all such changes. The § 481(a) adjustment period described in section 7.03 of Rev. Proc. 2015-13 is determined based on the net § 481(a) adjustment.

(C) *Required netting for changes made under § 1.451-8 related to inventory sales for taxpayers without an AFS.* A taxpayer that makes a change described in section 16.10(2)(b)(ii)(C) or (D) of this revenue procedure and one or more changes in method of accounting described in section 16.10(2)(b)(ii)(A) or (B) of this revenue procedure for advance payments from the sale of inventory for the same year of change must provide a single net § 481(a) adjustment for all such changes. The § 481(a) adjustment period described in section 7.03 of Rev. Proc. 2015-13 is determined based on the net § 481(a) adjustment.

(D) *Required netting for non-automatic method changes under § 1.451-3 and/or § 1.451-8 related to inventory sales.* The rules in section 16.10(4)(b)(iii) of this revenue procedure generally will apply to a non-automatic change under § 1.451-3 and/or § 1.451-8 for which the netting rules of section 16.10(4)(b)(iii) of this revenue procedure would otherwise apply if the taxpayer were eligible to make the change under section 16.10 of this revenue procedure.

(iv) *Special § 481(a) adjustment rules for cost offset method change(s) under § 1.451-3 and/or § 1.451-8 made with corresponding cost-offset related inventory method change(s).*

(A) *Required netting rule for changes described in section 16.10(2)(a)(iii)(E).* A taxpayer that makes more than one method change under section 16.10(2)(a)(iii)(E) of this revenue procedure for the same year of change must provide a single net § 481(a) adjustment for all such changes. The § 481(a) adjustment period for this net § 481(a) adjustment is determined by applying the rules in section 16.10(4)(b)(iv)(D) of this revenue procedure.

(B) *Required netting rule for changes described in section 16.10(2)(a)(iv)(F).* A taxpayer that makes more than one method change under section 16.10(2)(a)(iv)(F) of this revenue procedure for the same year of change must provide a single net § 481(a) adjustment for all such changes. The § 481(a) adjustment period for this net § 481(a) adjustment is determined by applying the rules in section 16.10(4)(b)(iv)(D) of this revenue procedure.

(C) *Required netting rule for changes described in section 16.10(2)(b)(ii)(E).* A taxpayer that makes more than one method change under section 16.10(2)(b)(ii)(E) of this revenue procedure for the same year of change must provide a single net § 481(a) adjustment for all such changes. The § 481(a) adjustment period for this net § 481(a) adjustment is determined by applying the rules in section 16.10(4)(b)(iv)(D) of this revenue procedure.

(D) *Special § 481(a) adjustment period.* For purposes of sections 7.02 and 7.03 of Rev. Proc. 2015-13, the § 481(a) adjustment period for a cost offset change described in section 16.10(2)(a)(iii)(E), section 16.10(2)(a)(iv)(F), or section 16.10(2)(b)(ii)(E) of this revenue procedure, whether the § 481(a) adjustment is positive or negative, is the same as the § 481(a) adjustment period for the corresponding cost-offset related inventory method change, as defined in section 5.06 of Rev. Proc. 2015-13. The rules of section 7.02 and 7.03 of Rev. Proc. 2015-13, including the short period rule and the accelerated adjustment period rules, apply to determine the § 481(a) adjustment period for the § 481(a) adjustment for the cost-offset related inventory method change, which is used to determine the § 481(a) adjustment period for a positive or negative § 481(a) adjustment for the corresponding cost offset change described in section 16.10(2)(a)(iii)(E), section 16.10(2)(a)(iv)(F), or section 16.10(2)(b)(ii)(E) of this revenue procedure. If the taxpayer must net the § 481(a) adjustments for cost offset changes under section 16.10(4)(b)(iv)(A), (B) or (C) of this revenue procedure, as applicable, the § 481(a) adjustment period for any such net § 481(a) adjustment is the same as the § 481(a) adjustment period for the corresponding cost-offset related inventory method changes, determined by netting the § 481(a) adjustments from such corresponding cost-offset related inventory method changes. The requirement that the taxpayer net the § 481(a) adjustments for such corresponding cost-offset related inventory method changes is solely for purposes of determining the § 481(a) adjustment period for the net § 481(a) adjustment determined under section 16.10(4)(b)(iv)(A), (B), or (C), as applicable. This section 16.10(4)(b)(iv)(D) does not apply if, after applying the netting rules in section 16.10(4)(b)(iv)(A), (B), or (C), as applicable, the § 481(a) adjustment for the corresponding cost offset change(s) is zero. For example, if the taxpayer makes a cost-offset related inventory method change that is implemented on a cut-off basis and the § 481(a) adjustment for the taxpayer's corresponding change described in section 16.10(2)(a)(iii)(E), section 16.10(2)(a)(iv)(F), or section 16.10(2)(b)(ii)(E) of this revenue procedure is zero as a result, this section 16.10(4)(b)(iv)(D) does not apply.

(v) *Examples.* For each of the following examples, the taxpayer uses an accrual method of accounting, is on a calendar year, and has an AFS, as defined in § 1.451-3(a)(5). The taxpayer implements § 1.451-3 and, if applicable, § 1.451-8, beginning with its 2021 taxable year.

(A) *Example 1. Netting rules.* *A* is engaged in a single trade or business of selling and servicing computers. *A* is not under examination within the meaning of section 3.18 of Rev. Proc. 2015-13. *A* does not receive advance payments. For 2021, *A* makes multiple changes in method of accounting to apply § 1.451-3. Specifically, *A* changes its method of accounting for gross income from the sale of computers to apply the AFS income inclusion rule pursuant to section 16.10(2)(a)(iii)(A) of this revenue procedure and to apply the AFS cost offset method pursuant to section 16.10(2)(a)(iii)(C) of this revenue procedure. *A* also changes its method of accounting for gross income from computer services to apply the AFS income inclusion rule pursuant to section 16.10(2)(a)(iii)(A) of this revenue procedure. Since *A* made a change described in section 16.10(2)(a)(iii)(C) of this revenue procedure and a change described in section 16.10(2)(a)(iii)(A) of this revenue procedure for gross income from computer sales for the same year of change, *A* must net the § 481(a) adjustments resulting from these changes in the manner required by section 16.10(4)(b)(iii)(A) of this revenue procedure. The § 481(a) adjustment resulting from *A*'s change in method of accounting for income from computer services under section 16.10(2)(a)(iii)(A) of this revenue procedure is not netted with the § 481(a) adjustments resulting from the computer sales method changes.

(B) *Example 2. Special § 481(a) adjustment period under section 16.10(4)(b)(iv) of this revenue procedure.* The facts are the same as in *Example 1*. For 2022, *A* changes its inventory method under section 12.01 of this revenue procedure and, as a result, also changes its cost offset method to comply with § 1.451-3(c)(5)(ii) pursuant to section 16.10(2)(a)(iii)(E) of this revenue procedure. The cost-offset related inventory method change under section 12.01 of this revenue procedure results in a positive § 481(a) adjustment that is spread over four taxable years under section 7.01 and 7.03 of Rev. Proc. 2015-13. The cost offset method change under section 16.10(2)(a)(iii)(E) of this revenue procedure results in a negative § 481(a) adjustment. Section 16.10(4)(b)(iv)(D) of this revenue procedure requires *A* to spread the negative § 481(a) adjustment over four taxable years consistent with the § 481(a) adjustment period for the concurrent cost-offset related inventory method change under section 12.01 of this revenue procedure.

(c) *Streamlined method change procedures for certain taxpayers.*

(i) *Applicability.* The procedures described in this section 16.10(4)(c) may be used by a taxpayer to make a change in method of accounting described in section 16.10(2)(a)(iii)(A), (B), (F), and/or (G), section 16.10(2)(a)(iv)(A), (B), (C), (G), and/or (H), or section 16.10(2)(b)(ii)(A), (B), and/or (F) of this revenue procedure for the taxpayer's early application year, provided the taxpayer meets the requirements in this section 16.10(4)(c). For purposes of this section 16.10, a taxpayer's "early application year" means the taxable year beginning before January 1, 2021, in which a taxpayer first applies § 1.451-3 and/or § 1.451-8, as applicable. In addition, in the case of a taxpayer that does not apply § 1.451-3 and/or § 1.451-8 for a taxable year beginning before January 1, 2021, the procedures described in this section 16.10(4)(c) may be used to make a change in method of accounting described in section 16.10(2)(iii)(A), (B), (F), and/or (G), section 16.10(2)(a)(iv)(A), (B), (C), (G), and/or (H), or section 16.10(2)(b)(ii)(A), (B), and/or (F) of this revenue procedure, for the taxpayer's first taxable year beginning on or after January 1, 2021, provided the taxpayer meets the requirements in section 16.10(4)(c). A taxpayer may not use the streamlined procedures for any change in method of accounting described in section 16.10(2) of this revenue procedure if the taxpayer is also making a change in method of accounting described in sections 16.10(2)(a)(iii)(C), (D), and/or (E), sections 16.10(2)(a)(iv)(D), (E), and/or (F), or sections 16.10(2)(b)(ii)(C), (D), and/or (E) of this revenue procedure for the same year of change. In addition, a taxpayer may not use the streamlined procedures if one or more of the inapplicability rules provided in section 16.10(3) of this revenue procedure applies to the change. A taxpayer that is otherwise permitted to use the streamlined method change procedures in this section 16.10(4)(c) may use these streamlined procedures if the taxpayer meets one of the following requirements:

(A) the taxpayer, other than a tax shelter, as defined in § 448(d)(3), meets the § 448(c) gross receipts test (a "small business taxpayer") for the year of change. The taxpayer meets the § 448(c) gross receipts test if the taxpayer has average annual gross receipts for the three prior taxable years of \$25,000,000 or less (adjusted for inflation). *See* § 448(c)(4). For a taxable year beginning in 2019, 2020, or 2021, the inflation-adjusted amount is \$26,000,000. *See* Rev. Proc. 2018-57,

2018-49 I.R.B. 827, Rev. Proc. 2019-44, 2019-47 I.R.B. 1093, or Rev. Proc. 2020-45, 2020-46 I.R.B. 1016, as applicable. For a taxable year beginning in 2022, the inflation-adjusted amount is \$27,000,000. See Rev. Proc. 2021-45, 2021-48 I.R.B. 764;

(B) the taxpayer is making one or more changes described in section 16.10(2)(a)(iii)(A), (B), (F), and/or (G) of this revenue procedure, and the § 481(a) adjustment required by each of the changes is zero. A taxpayer that meets this requirement is permitted to make the changes described in section 16.10(2)(a)(iii)(A), (B), (F), and/or (G) of this revenue procedure under the streamlined method change procedures. Notwithstanding any provisions of this section 16.10, a taxpayer making more than one change in method of accounting under section 16.10(2)(a)(iii)(A), (B), (F), and/or (G) of this revenue procedure for the same year of change is not permitted to net the § 481(a) adjustments to determine if the taxpayer meets the requirements to use the streamlined method change procedures. See section 16.10(7)(a) of this revenue procedure for more information on making concurrent changes; or

(C) the taxpayer is making one or more changes described in section 16.10(2)(a)(iv)(A), (B), (C), (G), and/or (H), or section 16.10(2)(b)(ii)(A), (B), and/or (F) of this revenue procedure, and the § 481(a) adjustment required by each of the changes is zero. A taxpayer that meets this requirement is permitted to make the changes described in section 16.10(2)(a)(iv)(A), (B), (C), (G), and/or (H), or section 16.10(2)(b)(ii)(A), (B), and/or (F) of this revenue procedure under the streamlined method change procedures. Notwithstanding any provisions of this section 16.10, a taxpayer making more than one change in method of accounting under section 16.10(2) for the same year of change is not permitted to net the § 481(a) adjustments to determine if the taxpayer meets the requirements to use the streamlined method change procedures. See section 16.10(7)(a) of this revenue procedure for more information on making concurrent changes.

(ii) *No Form 3115 required.* In accordance with § 1.446-1(e)(3)(ii), the requirement of § 1.446-1(e)(3)(i) to file a Form 3115 is waived for a taxpayer making a change in method of accounting under this section 16.10 using the streamlined method change procedures. Thus, a taxpayer using the streamlined method change procedures is not required to file a Form 3115 and is not required to attach a separate statement when making a change under this section 16.10.

(d) *Certain cost offset changes made on an amended return.*

(i) *In general.* Notwithstanding section 6.03(1)(a) of Rev. Proc. 2015-13, a taxpayer making a change described in section 16.10(2)(a)(iii)(E), section 16.10(2)(a)(iv)(F), or section 16.10(2)(b)(ii)(E) of this revenue procedure, as applicable, which corresponds to a cost-offset related inventory method change filed under the non-automatic change procedures of Rev. Proc. 2015-13 for the same year of change may make the corresponding cost offset change described in section 16.10(2)(a)(iii)(E), section 16.10(2)(a)(iv)(F), or section 16.10(2)(b)(ii)(E) on an amended federal income tax return for the cost offset year of change (as defined in section 16.10(4)(d)(ii) of this revenue procedure) provided:

(A) the taxpayer received consent for the cost-offset related inventory method change filed under the non-automatic change procedures for the year of change after the time the taxpayer was required to file the original Form 3115 for the corresponding cost offset change under section 16.10(2)(a)(iii)(E), section 16.10(2)(a)(iv)(F), or section 16.10(2)(b)(ii)(E) of this revenue procedure, as applicable, in accordance with section 6.03(1)(a)(i)(A) of Rev. Proc. 2015-13 for the cost offset year of change;

(B) the taxpayer timely signs and returns the Consent Agreement for the non-automatic corresponding cost-offset related inventory method change in accordance with section 11.03(2)



(c)(i) of Rev. Proc. 2015-13, and timely implements such non-automatic change in accordance with section 11.03(2)(c)(ii)(A) or (B) of Rev. Proc. 2015-13;

(C) the taxpayer implements the corresponding cost offset method change described in section 16.10(2)(a)(iii)(E), section 16.10(2)(a)(iv)(F), or section 16.10(2)(b)(ii)(E) of this revenue procedure, as applicable, on the same amended federal income tax return that the taxpayer implements the cost-offset related inventory method change described in section 16.10(4)(d)(i)(A) of this revenue procedure; and

(D) the taxpayer's amended federal income tax return for the year of change includes any adjustments to taxable income or tax liability resulting from the change(s) in method of accounting for the cost-offset related inventory method change(s) specified in the letter ruling and the corresponding cost offset method change(s).

(ii) *Cost offset year of change.* For purposes of this section 16.10(4)(d), a taxpayer's cost offset year of change is the same year of change that the taxpayer received consent under the non-automatic change procedures for the cost-offset inventory related change.

(iii) *Filing requirements.* Notwithstanding section 6.03(1)(a) of Rev. Proc. 2015-13, a taxpayer making a change under section 16.10(2)(a)(iii)(E), section 16.10(2)(a)(iv)(F), or section 16.10(2)(b)(ii)(E) of this revenue procedure in accordance with section 16.10(4)(d) of this revenue procedure must attach the original Form 3115 to the taxpayer's timely filed amended federal income tax return for the cost offset year of change and must file the duplicate copy (with signature) of the Form 3115 with the IRS in Ogden, UT, no later than the date the taxpayer timely files the amended federal income tax return that implements the cost-offset related inventory method described in section 16.10(4)(d)(i)(A) of this revenue procedure, as provided in section 11.03(2)(c)(ii)(A) or (B) of Rev. Proc. 2015-13.

(5) *Eligibility rules inapplicable.*

(a) *Eligibility rule temporarily inapplicable for changes under sections 16.10(2)(a)(i), (2)(a)(ii), or (2)(b)(i) of this revenue procedure.* Except as otherwise provided in section 16.10(5)(c) of this revenue procedure, the eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13 does not apply to a change under section 16.10(2)(a)(i), (a)(ii) or (2)(b)(i) of this revenue procedure for a taxpayer's first, second or third taxable year beginning after December 31, 2017, provided the taxable year begins before January 1, 2021.

(b) *Eligibility rule temporarily inapplicable for changes under sections 16.10(2)(a)(iii), (2)(a)(iv), or (2)(b)(ii) of this revenue procedure.* Except as otherwise provided in section 16.10(5)(c) of this revenue procedure, for a taxpayer that applies § 1.451-3 and/or § 1.451-8, as applicable, for a taxable year beginning before January 1, 2021, the eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13 does not apply to a change under section 16.10(2)(a)(iii), (2)(a)(iv), or (2)(b)(ii) of this revenue procedure for a taxpayer's early application year, as defined in section 16.10(4)(c)(i) of this revenue procedure. Except as otherwise provided in this section 16.10(5), for a taxpayer that does not apply § 1.451-3 and/or § 1.451-8 for a taxable year beginning before January 1, 2021, the eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13 does not apply to a change under section 16.10(2)(a)(iii), (2)(a)(iv), or (2)(b)(ii) of this revenue procedure for a taxpayer's first taxable year beginning on or after January 1, 2021.

(c) *Changes related to specified credit card fees.* The eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13 does not apply to a specified credit card fee change made under section 16.10(2)(a)(i) of this revenue procedure for a taxpayer's first or second taxable year beginning after



December 31, 2018, provided the taxable year begins before January 1, 2021. In addition, for a taxpayer that applies § 1.451-3 and § 1.1275-2(l) for specified credit card fees for a taxable year beginning before January 1, 2021, the eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13 does not apply to a specified credit card fee change under section 16.10(2)(a)(iii) of this revenue procedure for the taxpayer's early application year, as defined in section 16.10(4)(c)(i) of this revenue procedure. For a taxpayer that does not apply § 1.451-3 and § 1.1275-2(l) for specified credit card fees for a taxable year beginning before January 1, 2021, the eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13 does not apply to a specified credit card fee change under section 16.10(2)(a)(iii) of this revenue procedure for the taxpayer's first taxable year beginning on or after January 1, 2021.

(d) *Certain cost offset method changes.* The eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13 does not apply to a change under section 16.10(2)(a)(iii)(E), section 16.10(2)(a)(iv)(F) or section 16.10(2)(b)(ii)(E) of this revenue procedure.

(e) *Certain changes with § 481(a) adjustment of zero disregarded for eligibility rule.* A change made under section 16.10(2)(a)(iii)(A), (B), (F) and/or (G), section 16.10(2)(a)(iv)(A), (B), (C), (G) and/or (H), or section 16.10(2)(b)(ii)(A), (B), and/or (F) of this revenue procedure will be disregarded for purposes of section 5.01(1)(f) of Rev. Proc. 2015-13 if the change meets the following requirements:

(i) the change is made for the taxpayer's early application year, as defined in section 16.10(4)(c)(i) of this revenue procedure or, in the case of a taxpayer that does not apply § 1.451-3 and/or § 1.451-8 for a taxable year beginning before January 1, 2021, for the taxpayer's first taxable year beginning on or after January 1, 2021, and

(ii) the § 481(a) adjustment required to implement the change is zero.

Notwithstanding any provisions of this section 16.10, a taxpayer that makes more than one change in method of accounting described in this section 16.10(5)(e) for the same year of change is not permitted to net the § 481(a) adjustments from such changes to determine if the requirement in section 16.10(5)(e)(ii) of this revenue procedure is satisfied.

(f) *Example. Application of section 5.01(1)(f) of Rev. Proc. 2015-13.* B, a calendar year taxpayer, is engaged in a single trade or business of selling computers. B is not under examination within the meaning of section 3.18 of Rev. Proc. 2015-13. B does not receive advance payments. B presently recognizes gross income from the sale of computers in the taxable year it begins manufacturing the computer without regard to whether there is a contract with a customer, and does not apply a cost offset method. For 2020, B makes a change in method of accounting for gross income from the sale of computers under section 16.10(2)(a)(iii)(A) of this revenue procedure to apply the AFS income inclusion rule under § 1.451-3(b). Unless a waiver of eligibility applies, section 5.01(1)(f) of Rev. Proc. 2015-13 applies to prevent B from automatically changing its method of accounting for gross income from the sale of computers under section 16.10(2)(a)(iii)(C) of this revenue procedure to apply the AFS cost offset method under § 1.451-3(c) for any of the four taxable years succeeding the 2020 year of change (taxable year 2021 through 2024) because the 2020 change was for the same item.

(6) *Audit protection.*

(a) *Streamlined procedures.* A taxpayer making a change in method of accounting under this section 16.10 using the streamlined method change procedures provided in section 16.10(4)(c) of this revenue procedure does not receive audit protection under section 8.01 of Rev. Proc. 2015-13.

(b) *Taxpayers under examination.*

(i) *In general – certain audit protection exception temporarily inapplicable.* Except as otherwise provided in this section 16.10(6)(b)(ii) and (iii) of this revenue procedure, for a taxpayer's first, second or third taxable year beginning after December 31, 2017, and before January 1, 2021, section 8.02(1) of Rev. Proc. 2015-13 does not apply to a change in method of accounting made under section 16.10(2)(a)(i), (2)(a)(ii) or (2)(b)(i) of this revenue procedure. In addition, except as otherwise provided in section 16.10(6)(b)(ii) and (iii) of this revenue procedure, for a taxpayer that applies § 1.451-3 and/or § 1.451-8, as applicable, for a taxable year beginning before January 1, 2021, section 8.02(1) of Rev. Proc. 2015-13, does not apply to change a method of accounting made under section 16.10(2)(a)(iii), (2)(a)(iv) or (2)(b)(ii) of this revenue procedure for a taxpayer's early application year, as defined in section 16.10(4)(c)(i) of this revenue procedure. Except as otherwise provided in section 16.10(6)(b)(ii) and (iii) of this revenue procedure, for a taxpayer that does not apply § 1.451-3 or § 1.451-8 for a taxable year beginning before January 1, 2021, section 8.02(1) of Rev. Proc. 2015-13 does not apply to a change in method of accounting made under section 16.10(2)(a)(iii), (2)(a)(iv), or (2)(b)(ii) of this revenue procedure for a taxpayer's first taxable year beginning on or after January 1, 2021. In addition, except as otherwise provided in section 16.10(4) of this revenue procedure, section 8.02(1) of Rev. Proc. 2015-13 continues to apply for purposes of determining the § 481(a) adjustment period provided in section 7.03(3)(b) of Rev. Proc. 2015-13.

(ii) *Changes related to specified credit card fees.* Except as otherwise provided in section 16.10(6)(b)(iii) of this revenue procedure, for a taxpayer's first or second taxable year beginning after December 31, 2018, and before January 1, 2021, section 8.02(1) of Rev. Proc. 2015-13 does not apply to a change under section 16.10(2)(a)(i) of this revenue procedure for specified credit card fees. In addition, except as otherwise provided in section 16.10(6)(b)(iii) of this revenue procedure, for a taxpayer that applies § 1.451-3 and § 1.1275-2(l) to specified credit card fees for a taxable year beginning before January 1, 2021, section 8.02(1) of Rev. Proc. 2015-13 does not apply to a change for specified credit card fees under section 16.10(2)(a)(iii) of this revenue procedure for the taxpayer's early application year, as defined in section 16.10(4)(c)(i) of this revenue procedure. Except as otherwise provided in section 16.10(6)(b)(iii) of this revenue procedure, for a taxpayer that does not apply § 1.451-3 and § 1.1275-2(l) to specified credit card fees for a taxable year beginning before January 1, 2021, section 8.02(1) of Rev. Proc. 2015-13 does not apply to a change for specified credit card fees under section 16.10(2)(a)(iii) of this revenue procedure for the taxpayer's first taxable year beginning on or after January 1, 2021. In addition, except as otherwise provided in section 16.10(4)(b)(i) of this revenue procedure, section 8.02(1) of Rev. Proc. 2015-13 continues to apply for purposes of determining the § 481(a) adjustment period provided in section 7.03(3)(b) of Rev. Proc. 2015-13.

(iii) *Exception.* Sections 16.10(6)(b)(i) and (ii) of this revenue procedure do not apply to a taxpayer that uses the streamlined method change procedures under section 16.10(4)(c) of this revenue procedure.

(iv) *No audit protection for certain cost offset changes.* For a taxpayer under examination that makes a change in method of accounting under section 16.10(2)(a)(iii)(E), section 16.10(a)(iv)(F), or section 16.10(2)(b)(ii)(E) of this revenue procedure, the taxpayer does not receive audit protection under section 8.01 of Rev. Proc. 2015-13 for such change if, at the time of filing, the taxpayer's method of accounting for the item being changed by the corresponding cost-offset related inventory method change, as defined in section 5.06 of Rev. Proc. 2015-13 (or successor), is an issue under consideration for the taxable year under examination. However, if the taxpayer ultimately receives audit protection for the corresponding cost-offset related inventory method change under section 8.02(1)(f) of Rev. Proc. 2015-13, then the preceding sentence does not apply and the normal audit protection rules in section 8 of Rev. Proc. 2015-13 apply.

(7) *Concurrent automatic changes.*

(a) *Changes under this section 16.10.* A taxpayer that wants to make one or more concurrent changes in method of accounting under this section 16.10 may file a single Form 3115 that includes all of the changes. Except as otherwise required by section 16.10(4)(b)(iii) of this revenue procedure, the taxpayer may not net the § 481(a) adjustment from one change with the § 481(a) adjustment from another change, and must separately state the § 481(a) adjustment for each change. If a taxpayer makes a concurrent change in method of accounting to allocate transaction price and/or payments under section 16.10(2)(a)(i), (iii), or (iv) or section 16.10(2)(b)(ii) of this revenue procedure, the taxpayer is required to make the allocation change before any other change described in section 16.10(2)(a)(i), (iii), or (iv) or section 16.10(2)(b)(ii) of this revenue procedure, as applicable.

(b) *Concurrent cost offset change and cost-offset related inventory method change.* See section 6.03(1)(b) of Rev. Proc. 2015-13 for a taxpayer that makes one or more change(s) under section 16.10(2)(a)(iii)(E), (a)(iv)(F), or (b)(ii)(E) of this revenue procedure and one or more cost-offset related inventory method change(s), as defined in section 5.06 of Rev. Proc. 2015-13, under this revenue procedure in the same year of change. Additionally, such taxpayer is required to implement the cost-offset related inventory method change(s) under this revenue procedure before it implements the corresponding change(s) under section 16.10(2)(a)(iii)(E), (a)(iv)(F), or (b)(ii)(E) of this revenue procedure, as applicable. A taxpayer that makes a change under section 16.10(2)(a)(iii)(C) and (E) and/or section 16.10(2)(a)(iv)(D) and (F), or section 16.10(2)(b)(ii)(C) and (E) of this revenue procedure, as applicable, for the same year of change is required to implement the change under section 16.10(2)(a)(iii)(C), 16.10(2)(a)(iv)(D), or 16.10(2)(b)(ii)(C) of this revenue procedure, as applicable, before it implements any cost-offset related inventory method change(s), as defined in section 5.06 of Rev. Proc. 2015-13, and the change(s) under section 16.10(2)(a)(iii)(E), 16.10(2)(a)(iv)(F), or 16.10(2)(b)(ii)(E) of this revenue procedure, as applicable.

(8) *Limited Applicability.* Notwithstanding the inapplicability rules in section 16.10(3) of this revenue procedure, the changes described in section 16.10(2)(a)(iii)(A) and (B) of this revenue procedure are applicable only for taxable years beginning before January 1, 2021, and for a taxpayer's first, second or third taxable year beginning after December 31, 2020.

(9) *Designated automatic accounting method change number.* See the following tables for the designated automatic method change number (DCN) for the changes in method of accounting under this section 16.10.

(a) Changes under proposed §§ 1.451-3 and 1.451-8.

**Timing of Income Recognition - Taxpayer with an AFS:**

Description of change	SECTION # in REV. PROC. 2022-14	DESIGNATED CHANGE NUMBER (DCN)
Changes to proposed § 1.451-3	16.10(2)(a)(i)	242
Changes to account for advance payments under proposed § 1.451-8(a) or (c)	16.10(2)(a)(ii)	242

**Timing of Income Recognition - Taxpayer without an AFS:**

Description of change	SECTION # in REV. PROC. 2022-14	DESIGNATED CHANGE NUMBER (DCN)
Changes to account for advance payments under proposed § 1.451-8(a) or (d)	16.10(2)(b)(i)	242

(b) Changes under the final regulations of §§ 1.451-3 and 1.451-8.

Description of change	SECTION # in REV. PROC. 2022-14	DESIGNATED CHANGE NUMBER (DCN)
Changes related to § 1.451-3 other than cost offset	16.10(2)(a)(iii)(A), (B), (F), (G)	250
Changes related to cost offset under § 1.451-3, except concurrent cost-offset related inventory method changes	16.10(2)(a)(iii)(C), (D)	251
Changes related to the deferral method for advance payments - § 1.451-8 other than cost offset	16.10(2)(a)(iv)(B), (C), (G) and (H), 16.10(2)(b)(ii)(B) or (F)	252
Changes related to cost offset under § 1.451-8, except concurrent cost-offset related inventory method changes	16.10(2)(a)(iv)(D), (E), 16.10(2)(b)(ii)(C) or (D)	253
Changes related to full-inclusion method under § 1.451-8(b)	16.10(2)(a)(iv)(A) and (C), 16.10(2)(b)(ii)(A)	254
Changes related to cost offsets resulting from concurrent cost-offset related inventory changes	16.10(2)(a)(iii)(E), 16.10(2)(a)(iv)(F), and 16.10(2)(b)(ii)(E)	255

(10) *Contact information.* For further information regarding a change under this section, contact Sharon Horn at (202) 317-7003 (not a toll-free number). For further information regarding a change under this section for OID and specified fees (including specified credit card fees), contact Deepan Patel at (202) 317-3423 (not a toll-free number).

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**SECTION 17. OBLIGATIONS ISSUED AT DISCOUNT (§ 454)**


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

(1) *Description of change.* This change applies to a taxpayer that uses the overall cash receipts and disbursements (cash) method of accounting and that wants to change its method of accounting for interest income on Series E, EE, or I U.S. savings bonds. However, this change only applies to a taxpayer that previously made an election under § 454 to report as interest income the increase in redemption price on a bond occurring in a taxable year, and that now wants to report this income in the taxable year in which the bond is redeemed, disposed of, or finally matures, whichever is earliest.

(2) *Manner of making change and designated automatic accounting method change number.*

(a) This change is made on a cut-off basis and is effective for any increase in redemption price occurring after the beginning of the year of change for all Series E, EE and I U.S. savings bonds held by the taxpayer on or after the beginning of the year of change. Accordingly, a § 481(a) adjustment is neither permitted nor required.

(b) In accordance with § 1.446-1(e)(3)(ii), the requirement of § 1.446-1(e)(3)(i) to file a Form 3115 is waived and a statement in lieu of a Form 3115 is authorized for this change. Notwithstanding the definition of Form 3115 in section 3.07 of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, the statement in lieu of a Form 3115 that is permitted under this section 17.01 is considered a Form 3115 for purposes of the automatic consent procedures of Rev. Proc. 2015-13. However, the requirement to file the duplicate copy, under section 6.03(1)(a) of Rev. Proc. 2015-13, is waived. The statement must include the following information:

(i) the designated automatic accounting method change number for this change, which is “131”;

(ii) the taxpayer’s name and employer identification number or social security number, as applicable;

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

(iv) the Series E, EE or I U.S. savings bonds for which this change in accounting method is requested;

(v) a statement that the taxpayer will report all interest on any U.S. savings bonds acquired during or after the year of change when the interest is realized upon disposition, redemption, or final maturity, whichever is earliest; and

(vi) a statement that the taxpayer will report all interest on the U.S. savings bonds acquired before the year of change when the interest is realized upon disposition, redemption, or final maturity, whichever is earliest, with the exception of any interest income previously reported in prior taxable years.

(3) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 17.01 is “131.”

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

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SECTION 18. PREPAID SUBSCRIPTION INCOME (§ 455)

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.01 *Prepaid subscription income.*

(1) *Description of change.* This change applies to a taxpayer using an overall accrual method of accounting that wants to change its method of accounting for prepaid subscription income to

the method described in § 455 and the regulations thereunder, including an eligible taxpayer that wants to make the “within 12 months” election under § 1.455-2.

(2) *Manner of making change and designated automatic accounting method change number.*

(a) *Cut-off basis.* This change is made on a cut-off basis and applies only to prepaid subscription income received on or after the beginning of the year of change. The taxpayer must continue to account for prepaid subscription income received prior to the year of change under the taxpayer’s present method of accounting. Accordingly, a § 481(a) adjustment is neither permitted nor required.

(b) *Short Form 3115 in lieu of a standard Form 3115.* In accordance with § 1.446-1(e)(3)(ii), the requirement of § 1.446-1(e)(3)(i) to file a standard Form 3115 is waived and, pursuant to section 6.02(2) of Rev. Proc. 2015-13, a short Form 3115 is authorized for a change described in section 18.01(a) of this revenue procedure. The requirement in § 1.455-6 to file a statement requesting consent is satisfied by filing such short Form 3115. The short Form 3115 (Rev. December 2018) must include the following information:

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

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

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

(iv) the information described in § 1.455-6(a), as required by § 1.455-6(b); and

(v) if the taxpayer wants to make a “within 12 months” election under § 1.455-6(c), the information described in section § 1.455-6(c)(2).

(c) *Section 455 election made with consent.* The consent granted in section 9 of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, satisfies the consent required under § 455(c)(3) and § 1.455-6(b).

(3) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 18.01 is “132.”

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

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## SECTION 19. SPECIAL RULES FOR LONG-TERM CONTRACTS (§ 460)

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.01 *Small business taxpayer exceptions from requirement to account for certain long-term contracts under § 460 or to capitalize costs under § 263A for certain home construction contracts.*

(1) *Description of change.* This change applies to a taxpayer that (a) wants to change its method of accounting for exempt long-term construction contracts described in § 460(e)(1)(B) from the percentage-of-completion method of accounting described in § 1.460-4(b) to an exempt contract



method of accounting described in § 1.460-4(c); or (b) chooses to stop capitalizing costs under § 263A for home construction contracts described in § 460(e)(1)(A) and meets the requirements of § 460(e)(1)(B)(i) and (ii).

(2) *Inapplicability.* A taxpayer can use a method of accounting for its exempt long-term contracts that is different from the method used for contracts that are not exempt. Thus, a taxpayer must use the percentage-of-completion method of accounting for nonresidential long-term construction contracts that do not meet the requirements of § 460(e)(1)(B), proposed §1.460-3(b)(1)(ii), or §1.460-3(b)(1)(ii), as applicable, in the first taxable year it enters into such a contract, but must continue to use its exempt contract method of accounting for its existing exempt long-term construction contracts. Similarly, in the first taxable year that a taxpayer enters into a nonresidential long-term construction contract that meets the requirements of § 460(e)(1)(B), proposed §1.460-3(b)(1)(ii), or §1.460-3(b)(1)(ii), as applicable, the taxpayer can use a permissible exempt contract method of accounting for such a contract. Rev. Rul. 92-28, 1992-1 C.B. 153. Accordingly, only a taxpayer who previously adopted the percentage-of-completion method of accounting for exempt long-term construction contracts and wants to change to another permissible exempt contract method of accounting is required to request consent to change under this section 19.01. Similarly, a taxpayer that enters into a home construction contract described in § 460(e)(1)(A) and that meets the requirements of § 460(e)(1)(B)(i) and (ii) requires consent to change its method of accounting to not capitalize costs under § 263A only if the taxpayer has previously applied § 263A to home construction contracts exempt from the capitalization requirement under § 460(e)(1).

(3) *Manner of making change.* This change is made on a cut-off basis and applies only to long-term construction contracts entered into on or after the first day of the year of change. Accordingly, a § 481(a) adjustment is neither permitted nor required.

(4) *Certain eligibility rule temporarily inapplicable.* The eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, does not apply to this change for a taxpayer's first, second, or third taxable year ending after December 31, 2017.

(5) *Reduced filing requirement.* A taxpayer is required to complete only the following information on Form 3115 (Rev. December 2018) to make this change:

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

(6) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 19.01 is "236."

(7) *Contact information.* For further information regarding changes under this section, contact Innessa Glazman at (202) 317-7006 (not a toll-free number).

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## SECTION 20. TAXABLE YEAR INCURRED (§ 461)

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*In general.* Applicable provisions of the Code, regulations and other guidance published in the Internal Revenue Bulletin may prescribe the manner in which a taxpayer takes into account a liability that has been incurred. For example, for a taxpayer with inventories and subject to § 263A, the taxpayer must include direct and indirect costs in inventory costs, which may be recovered through cost of goods sold. *See* § 1.263A-1(e)(2)(i)(B). A taxpayer may not rely on any provision in this section 20 to take a current year deduction if another applicable provision requires the taxpayer to take the liability into account in a year other than the year incurred.

### .01 *Timing of incurring liabilities for employee compensation.*

#### (1) *Self-insured employee medical benefits.*

##### (a) *Description of change.*

(i) *Applicability.* This change applies to a taxpayer using an overall accrual method of accounting that wants to change its method of accounting for self-insured liabilities (including any amounts not covered by insurance, such as a “deductible” amount under an insurance policy) relating to employee medical expenses (including liabilities resulting from medical services provided to retirees whom the employer reimburses for the cost of medical services, or for whom the employer directly pays a 3<sup>rd</sup> party medical provider, no later than the 15<sup>th</sup> day of the 3<sup>rd</sup> calendar month after the end of the taxable year of the retirement, and to employees and former employees who have filed claims under a workers’ compensation act) that are not paid from a welfare benefit fund within the meaning of § 419(e) to a method as follows:

(A) If the taxpayer has a liability to pay an employee for medical expenses incurred by the employee, the taxpayer will treat the liability as incurred in the taxable year in which the employee files the claim with the employer. *See United States v. General Dynamics Corp.*, 481 U.S. 239 (1987), 1987-2 C.B. 134.

(B) If the taxpayer has a liability to pay a 3<sup>rd</sup> party for medical services provided to its employees, the taxpayer will treat the liability as incurred in the taxable year in which the services are provided.

(ii) *Inapplicability.* This change does not apply to a taxpayer that is required under § 263A and the regulations thereunder to capitalize the costs with respect to which the taxpayer wants to change its method of accounting under this section 20.01(1) if the taxpayer is not capitalizing these costs, unless the taxpayer concurrently changes its method to capitalize these costs in conjunction with a change to a UNICAP method under section 12.01, 12.02, 12.08, or 12.12 of this revenue procedure (as applicable).

(b) *Concurrent automatic change.* A taxpayer making both this change and a change to a UNICAP method described in section 20.01(1)(a)(ii) of this revenue procedure under section 12.01, 12.02, 12.08, or 12.12 of this revenue procedure (as applicable) for the same year of

change should file a single Form 3115 for both changes, in which case the taxpayer must enter the designated automatic accounting method change numbers for both changes on the appropriate line on that Form 3115. See section 6.03(1)(b) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, for information on making concurrent changes.

(c) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 20.01(1) is “42.”

(2) *Bonuses.*

(a) *Description of change.*

(i) *Applicability.* This change applies to a taxpayer using an overall accrual method of accounting that wants to change its method of accounting to treat bonuses as incurred in the taxable year in which all events have occurred that establish the fact of the liability to pay a bonus and the amount of the liability can be determined with reasonable accuracy (*see* § 1.446-1(c)(1)(ii)). Specifically, a taxpayer may change its method of accounting under this section 20.01(2) to one of the following methods:

(A) If all the events that establish the fact of the liability to pay a bonus have occurred by the end of the taxable year in which the related services are provided, and the bonus is received by the employee no later than the 15<sup>th</sup> day of the 3<sup>rd</sup> calendar month after the end of the taxable year in which the related services are provided, the taxpayer will treat the bonus liability as incurred in that taxable year. *See* Rev. Rul. 55-446, 1955-2 C.B. 531, as modified by Rev. Rul. 61-127, 1961-2 C.B. 36.

(B) If all the events that establish the fact of the liability to pay a bonus occur in the taxable year subsequent to the taxable year in which the related services are provided, the taxpayer will treat the bonus liability as incurred in such subsequent taxable year.

(ii) *Inapplicability.* This change does not apply to a taxpayer that is required under § 263A and the regulations thereunder to capitalize the costs with respect to which the taxpayer wants to change its method of accounting under this section 20.01(2) if the taxpayer is not capitalizing these costs, unless the taxpayer concurrently changes its method to capitalize these costs in conjunction with a change to a UNICAP method under section 12.01, 12.02, 12.08, or 12.12 of this revenue procedure (as applicable).

(b) *Concurrent automatic change.* A taxpayer making both this change and a change to a UNICAP method described in section 20.01(2)(a)(ii) of this revenue procedure under section 12.01, 12.02, 12.08, or 12.12 of this revenue procedure (as applicable) for the same year of change should file a single Form 3115 for both changes, in which case the taxpayer must enter the designated automatic accounting method change numbers for both changes on the appropriate line on that Form 3115. See section 6.03(1)(b) of Rev. Proc. 2015-13 for information on making concurrent changes.

(c) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 20.01(2) is “133.”

(3) *Vacation pay, sick pay, and severance pay.*

(a) *Description of change.*

(i) *Applicability.* This change applies to a taxpayer using an overall accrual method of accounting that wants to change its method of accounting to treat vacation pay, sick pay, and severance pay as incurred in the taxable year in which all events have occurred that establish the fact of the liability to pay vacation pay, sick pay, and severance pay and the amount of the liability can be determined with reasonable accuracy (*see* § 1.446-1(c)(1)(ii)). Specifically, a taxpayer may change its method of accounting under this section 20.01(3) to one of the following methods:

(A) If all the events that establish the fact of the liability to pay vacation pay, sick pay, and severance pay have occurred by the end of the taxable year in which the related services are provided, the vacation pay, sick pay, and severance pay vests in the taxable year the related services are provided, and the vacation pay, sick pay, and severance pay is received by the employee no later than the 15<sup>th</sup> day of the 3<sup>rd</sup> calendar month after the end of the taxable year in which the related services are provided, the taxpayer will treat the vacation pay, sick pay, and severance pay liability as incurred in the taxable year in which the related services are provided.

(B) If all the events that establish the fact of the liability to pay vacation pay, sick pay, and severance pay occur in the taxable year subsequent to the taxable year in which the related services are provided, the taxpayer will treat the vacation pay, sick pay, and severance pay liability as incurred in such subsequent taxable year.

(ii) *Inapplicability.* This change does not apply to a taxpayer that is required under § 263A and the regulations thereunder to capitalize the costs with respect to which the taxpayer wants to change its method of accounting under this section 20.01(3) if the taxpayer is not capitalizing these costs, unless the taxpayer concurrently changes its method to capitalize these costs in conjunction with a change to a UNICAP method under section 12.01, 12.02, 12.08, or 12.12 of this revenue procedure (as applicable).

(b) *Concurrent automatic change.* A taxpayer making both this change and a change to a UNICAP method described in section 20.01(3)(a)(ii) of this revenue procedure under section 12.01, 12.02, 12.08, or 12.12 of this revenue procedure (as applicable) for the same year of change should file a single Form 3115 for both changes, in which case the taxpayer must enter the designated automatic accounting method change numbers for both changes on the appropriate line on that Form 3115. See section 6.03(1)(b) of Rev. Proc. 2015-13 for information on making concurrent changes.

(c) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 20.01(3) is “134.”

(4) *Commissions.*

(a) *Description of change.*

(i) *Applicability.* This change applies to a taxpayer using an overall accrual method of accounting that wants to change its method of accounting to treat commissions as incurred in the taxable year in which all events have occurred that establish the fact of the liability to pay a commission, and the amount of the liability can be determined with reasonable accuracy (*see* § 1.446-1(c)(1)(ii)). Specifically, a taxpayer may change its method of accounting under this section 20.01(4) to one of the following methods:

(A) If all the events that establish the fact of the liability to pay a commission have occurred by the end of the taxable year in which the related services are provided, and the commission is received by the employee no later than the 15<sup>th</sup> day of the 3<sup>rd</sup> calendar month after the end of the taxable year in which the related services are provided, the taxpayer will treat the commission liability as incurred in that taxable year.

(B) If all the events that establish the fact of the liability to pay a commission occur in the taxable year subsequent to the taxable year in which the related services are provided, the taxpayer will treat the commission liability as incurred in such subsequent taxable year.

(ii) *Inapplicability.* This change does not apply to a taxpayer that is required under § 263A and the regulations thereunder to capitalize the costs with respect to which the taxpayer wants to change its method of accounting under this section 20.01(4) if the taxpayer is not capitalizing these costs, unless the taxpayer concurrently changes its method to capitalize these costs in conjunction with a change to a UNICAP method under section 12.01, 12.02, 12.08, or 12.12 of this revenue procedure (as applicable).

(b) *Concurrent automatic change.* A taxpayer making both this change and a change to a UNICAP method described in section 20.01(4)(a)(ii) of this revenue procedure under section 12.01, 12.02, 12.08, or 12.12 of this revenue procedure (as applicable) for the same year of change should file a single Form 3115 for both changes, in which case the taxpayer must enter the designated automatic accounting method change numbers for both changes on the appropriate line on that Form 3115. See section 6.03(1)(b) of Rev. Proc. 2015-13 for information on making concurrent changes.

(c) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 20.01(4) is “249.”

(5) *Contact information.* For further information regarding a change under this section, contact Maria Castillo-Valle or Alicia Lee-Won at (202) 317-7003 (not a toll-free number).

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

(1) *Background.* A taxpayer using an overall accrual method of accounting generally incurs a liability in the taxable year that all the events have occurred that establish the fact of the liability, the amount of the liability can be determined with reasonable accuracy, and economic performance has occurred with respect to the liability. See § 1.446-1(c)(1)(ii). Under § 1.461-4(g)(6), if the liability of the taxpayer is to pay a tax, economic performance occurs as the tax is paid to the government authority that imposed the tax.

(2) *Description of change.*

(a) *Applicability.* This change applies to a taxpayer using an overall accrual method of accounting that wants to change its method of accounting to:

(i) treat liabilities (for which the all events test of § 461(h)(4) is otherwise met) for real property taxes, personal property taxes, state income taxes, or state franchise taxes as incurred in the taxable year in which the taxes are paid, under § 461 and § 1.461-4(g)(6);

(ii) account for real property taxes, personal property taxes, state income taxes, or state franchise taxes under the recurring item exception method under § 461(h)(3) and § 1.461-5(b)(1); or

(iii) revoke an election under § 461(c) (ratable accrual election).

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

(i) a taxpayer's liability for a tax subject to the limitation on acceleration of accrual of taxes under § 461(d); or

(ii) a taxpayer that is required under § 263A and the regulations thereunder to capitalize the costs with respect to which the taxpayer wants to change its method of accounting under this section 20.02 if the taxpayer is not capitalizing these costs, unless the taxpayer concurrently changes its method to capitalize these costs in conjunction with a change to a UNICAP method under section 12.01, 12.02, 12.08, or 12.12 of this revenue procedure (as applicable).

(3) *Concurrent automatic change*. A taxpayer making both this change and a change to a UNICAP method described in section 20.02(2)(b)(ii) of this revenue procedure under section 12.01, 12.02, 12.08, or 12.12 of this revenue procedure (as applicable) for the same year of change should file a single Form 3115 for both changes, in which case the taxpayer must enter the designated automatic accounting method change numbers for both changes on the appropriate line on that Form 3115. See section 6.03(1)(b) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, for information on making concurrent changes.

(4) *Designated automatic accounting method change number*. The designated automatic accounting method change number for a change under this section 20.02 is "43."

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

.03 *Timing of incurring liabilities under a workers' compensation act, tort, breach of contract, or violation of law*.

(1) *Description of change*.

(a) *Applicability*. This change applies to a taxpayer using an overall accrual method of accounting that wants to change its method of accounting for self-insured liabilities (including any amounts not covered by insurance, such as a "deductible" amount under an insurance policy) arising under any workers' compensation act or out of any tort, breach of contract, or violation of law, to treating the liability for the workers' compensation, tort, breach of contract, or violation of law as being incurred in the taxable year in which all the events have occurred that establish the fact of the liability, the amount of the liability can be determined with reasonable accuracy, and payment is made to the person to which the liability is owed. See § 461 and § 1.461-4(g)(1) and (2). If the taxpayer has self-insured liabilities resulting from medical services provided to employees who have filed claims under a workers compensation act, the taxpayer may change its method of accounting for those liabilities under section 20.01(1) of this revenue procedure (if the taxpayer is otherwise eligible).

(b) *Inapplicability*. This change does not apply to a taxpayer that is required under § 263A and the regulations thereunder to capitalize the costs with respect to which the taxpayer wants to



change its method of accounting under this section 20.03 if the taxpayer is not capitalizing these costs, unless the taxpayer concurrently changes its method to capitalize these costs in conjunction with a change to a UNICAP method under section 12.01, 12.02, 12.08, or 12.12 of this revenue procedure (as applicable).

(2) *Concurrent automatic change.* A taxpayer making both this change and change to either a method provided in section 20.01(1) of this revenue procedure for self-insured employee medical expenses or a UNICAP method described in section 20.03(1)(b) of this revenue procedure under section 12.01, 12.02, 12.08, or 12.12 of this revenue procedure (as applicable) for the same year of change should file a single Form 3115, in which case the taxpayer must enter the designated automatic accounting method change numbers for each change on the appropriate line on that Form 3115. See section 6.03(1)(b) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, for information on making concurrent changes.

(3) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 20.03 is “44.”

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

*.04 Timing of incurring certain liabilities for payroll taxes.*

(1) *Description of change.*

(a) *Applicability.* This change applies to:

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

(A) FICA and FUTA taxes to a method consistent with the holding in Rev. Rul. 96-51, 1996-2 C.B. 36. Rev. Rul. 96-51 permits an accrual method employer to take into account in Year 1, under the all events test of § 461, its otherwise deductible FICA and FUTA taxes imposed with respect to year-end wages properly accrued in Year 1, but paid in Year 2, if the requirements of the recurring item exception are met; and

(B) state unemployment taxes and, in the event the taxpayer is an employer within the meaning of the Railroad Retirement Tax Act (RRTA) (*see* § 3231(a)), RRTA taxes to a method under which the taxpayer may take into account in Year 1 its otherwise deductible state unemployment taxes and railroad retirement taxes (if applicable) imposed with respect to year-end wages properly accrued in Year 1, but paid in Year 2, if the requirements of the recurring item exception are met (including the requirement that, as of the end of the taxable year, all events have occurred that establish the fact of the liability and the amount of the liability can be determined with reasonable accuracy, *see* § 1.461-5(b));

(ii) an accrual method employer that utilizes a method of accounting for FICA and FUTA taxes that is consistent with the holding in Rev. Rul. 96-51 and wants to change its method of accounting for state unemployment taxes and, in the event the employer is an employer within the meaning of RRTA (*see* § 3231(a)), RRTA taxes to a method under which the taxpayer may take into account in Year 1 its otherwise deductible state unemployment taxes and railroad retirement taxes (if applicable) imposed with respect to year-end wages properly accrued in Year 1, but paid in Year 2,

if the requirements of the recurring item exception are met (including the requirement that, as of the end of the taxable year, all events have occurred that establish the fact of the liability and the amount of the liability can be determined with reasonable accuracy, *see* § 1.461-5(b)); or

(iii) a taxpayer using an overall accrual method of accounting that wants to change its method of accounting for FICA and FUTA taxes to the safe harbor method provided in Rev. Proc. 2008-25, 2008-1 C.B. 686. Rev. Proc. 2008-25 provides that for purposes of the recurring item exception, a taxpayer will be treated as satisfying the requirement in § 1.461-5(b)(1)(i) for its payroll tax liability in the same taxable year in which all events have occurred that establish the fact of the related compensation liability and the amount of the related compensation liability can be determined with reasonable accuracy.

(b) *Inapplicability.* This change does not apply to a taxpayer that is required under § 263A and the regulations thereunder to capitalize the costs with respect to which the taxpayer wants to change its method of accounting under this section 20.04 if the taxpayer is not capitalizing these costs, unless the taxpayer concurrently changes its method to capitalize these costs in conjunction with a change to a UNICAP method under section 12.01, 12.02, 12.08, or 12.12 of this revenue procedure (as applicable).

(2) *Recurring item exception.* A taxpayer that previously has not changed to or adopted the recurring item exception for FICA taxes, FUTA taxes, state unemployment taxes, and RRTA taxes (if applicable) must change to the recurring item exception method for FICA taxes, FUTA taxes, state unemployment taxes, and RRTA taxes (if applicable) as specified in § 461(h)(3) as part of this change.

(3) *Concurrent automatic change.* A taxpayer making both this change and a change to a UNICAP method described in section 20.04(1)(b) of this revenue procedure under section 12.01, 12.02, 12.08, or 12.12 of this revenue procedure (as applicable) for the same year of change should file a single Form 3115 for both changes, in which case the taxpayer must enter the designated automatic accounting method change numbers for both changes on the appropriate line on that Form 3115. See section 6.03(1)(b) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, for information on making concurrent changes.

(4) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under section 20.04(1)(a)(i) or (ii) of this revenue procedure is “45.” The designated automatic accounting method change number for a change under section 20.04(1)(a)(iii) of this revenue procedure is “113.”

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

#### .05 *Cooperative advertising.*

(1) *Description of change.* This change applies to a taxpayer using an overall accrual method of accounting that wants to change its method of accounting for cooperative advertising costs to a method consistent with the holding in Rev. Rul. 98-39, 1998-2 C.B. 198. Rev. Rul. 98-39 generally provides that, under the all events test of § 461, an accrual method manufacturer’s liability to pay a retailer for cooperative advertising services is incurred in the year in which the services are performed, provided the manufacturer is able to reasonably estimate this liability, and even though the retailer does not submit the required claim form until the following year.

(2) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 20.05 is “46.”

(3) *Contact information.* For further information regarding a change under this section, contact Vincent Brodbeck at (202) 317-5100 (not a toll-free number).

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

(1) *Description of change.* This change applies to a taxpayer using an overall accrual method of accounting that is currently treating the mere execution of a contract for services or insurance as establishing the fact of the liability under § 461 and wants to change from that method of accounting for liabilities for services or insurance to comply with Rev. Rul. 2007-3, 2007-1 C.B. 350, that is, all the events needed to establish the fact of the liability occur when (a) the event fixing the liability, whether that be the required performance or other event occurs or (b) payment is due, whichever happens earliest.

(2) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 20.06 is “106.”

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

*.07 Rebates and allowances.*

(1) *Description of change.*

(a) *Applicability.* This change applies to taxpayer using an overall accrual method of accounting that wants to change its method of accounting for treating its liability for rebates and allowances to the recurring item exception method under § 461(h)(3) and § 1.461-5.

(b) *Inapplicability.* This change does not apply to a taxpayer’s liability to pay a refund.

(2) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 20.07 is “135.”

(3) *Contact information.* For further information regarding a change under this section, contact Hyowon Lee at (202) 317-5100 (not a toll-free number).

*.08 Ratable accrual of real property taxes.*

(1) *Description of change.* This change applies to a taxpayer using an overall accrual method of accounting that wants to change its method of accounting for real property taxes to the method described in § 461(c) and § 1.461-1(c)(1) (ratable accrual election). This change applies to real property taxes that relate to a definite period of time. This change does not apply to a taxpayer’s first taxable year in which the taxpayer incurs real property taxes, in which case the change is made using the provisions of § 1.461-1(c)(3)(i).

(2) *Manner of making change and designated automatic accounting method change number.*

(a) *Cut-off basis.* This change is made on a cut-off basis and applies only to real property taxes accrued on or after the beginning of the year of change. Any real property taxes accrued prior to the year of change are accounted for under the taxpayer's former method of accounting. See § 1.461-1(c)(6), *Examples (2) – (5)*. Accordingly, a § 481(a) adjustment is neither permitted nor required.

(b) *Short Form 3115 in lieu of a standard Form 3115.* In accordance with § 1.446-1(e)(3)(ii), the requirement in § 1.461-1(e)(3)(i) to file a standard Form 3115 is waived and, pursuant to section 6.02(2) of Rev. Proc. 2015-13, a short Form 3115 is authorized with respect to a taxpayer making a change under this section 20.08. The taxpayer's short Form 3115 (Rev. December 2018) must include all of the following information:

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

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

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

(iv) the information described in § 1.461-1(c)(3)(ii)(a) through (f).

(c) *Section 461 election made with consent.* The consent granted under section 9 of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, satisfies the consent required under § 461(c)(2)(B) and § 1.461-1(c)(3)(ii).

(3) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 20.08 is "149."

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

*.09 California Franchise Taxes.*

(1) *Description of change.* This change applies to a taxpayer using an overall accrual method of accounting that wants to change its method of accounting for California franchise taxes to a method consistent with the holding in Rev. Rul. 2003-90, 2003-2 C.B. 353. Rev. Rul. 2003-90 provides that for taxable years beginning on or after January 1, 2000, a taxpayer that uses an accrual method of accounting incurs a liability for California franchise tax for federal income tax purposes in the taxable year following the taxable year in which the California franchise tax is incurred under the Cal. Rev. & Tax Code, as amended.

(2) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 20.09 is "154."

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

*.10 Gift cards issued as a refund for returned goods.*

(1) *Description of change.*

(a) *Applicability.* This change applies to a taxpayer using an overall accrual method of accounting that sells goods at retail and that wants to change its method of accounting for gift cards (as defined by section 4.02 of Rev. Proc. 2011-17, 2011-5 I.R.B. 441) issued as a refund for returned goods to treat the transaction as (1) the payment of a cash refund in the amount of the gift card, and (2) the sale of a gift card in the amount of the gift card.

(b) *Treatment of proceeds of the deemed sale.* A taxpayer must treat the proceeds of the deemed sale of a gift card in accordance with the method of accounting it otherwise employs for sales of gift cards.

(2) *Concurrent automatic change.* A taxpayer making both this change and an automatic change to the deferral method for advance payments under Rev. Proc. 2004-34 (*see* section 16.06 of this revenue procedure) for the same taxable year of change must file a single Form 3115 for both changes and enter the designated automatic accounting method change numbers for both changes on the appropriate line on that Form 3115. *See* section 6.03(1)(b) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, for information on making concurrent changes.

(3) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 20.10 is “156.”

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

.11 *Timing of incurring liabilities under the recurring item exception to the economic performance rules.*

(1) *Description of change.* This change applies to a taxpayer using an overall accrual method of accounting that wants to conform to any of the holdings in Rev. Rul. 2012-1, 2012-2 I.R.B. 255, which clarifies the treatment of certain liabilities under the recurring item exception to the economic performance requirement under § 461(h)(3) by addressing the application of the “not material” and “better matching” requirements, and distinguishes contracts for the provision of services from insurance and warranty contracts.

(2) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 20.11 is “161.”

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

.12 *Economic performance safe harbor for ratable service contracts.*

(1) *Description of change.* This change applies to an accrual method taxpayer that wants to change its treatment of Ratable Service Contracts to conform to the safe harbor method provided by Rev. Proc. 2015-39, 2015-33 I.R.B. 195.

(2) *Designated automatic accounting method change number.* The designated automatic accounting method change number for changes in methods of accounting under this section 20.12 is “220.”

(3) *Contact information.* For further information regarding a change under this section, contact David Christensen at (202) 317-7011 or Douglas Kim at (202) 317-7003 (not toll-free numbers).

.13 *Timing of incurring inventory costs.*

(1) *Applicability.* This change applies to an accrual method taxpayer that wants to change its method of accounting for one or more inventory costs to treat such costs as incurred in accordance with § 1.461-1(a)(2) and § 1.461-4(d)(4) if:

(a) under the taxpayer’s present method of accounting, the taxpayer takes one or more inventory costs into account in a taxable year prior to the taxable year in which such costs are incurred under § 461 and the regulations thereunder, and recovers such costs in a taxable year prior to the taxable year in which ownership of inventory is transferred to the customer to offset income inclusions under § 451(b) and/or § 451(c);

(b) in the case of a taxpayer with an applicable financial statement (AFS), as defined in section 16.10(1)(b) of this revenue procedure, the taxpayer makes, for the same year of change, a change in method of accounting for income from the sale of inventory under section 16.10(2)(a)(iii) of this revenue procedure and, to the extent the taxpayer receives advance payments for the sale of inventory, section 16.10(2)(a)(iv) of this revenue procedure, or in the case of a taxpayer that does not have an AFS, the taxpayer makes, for the same year of change, a change in method of accounting for advance payments from the sale of inventory under section 16.10(2)(b)(ii) of this revenue procedure;

(c) the taxpayer makes, for the same year of change, a change in method of accounting for such inventory costs under section 12.01, 12.02, 22.04, 22.10, 22.17, or 22.18 of this revenue procedure, as applicable; and

(d) the taxpayer makes the change for its inventory costs under this section 20.13 for its early application year, as defined in section 16.10(4)(c)(i) of this revenue procedure, or if a taxpayer does not apply § 1.451-3 and/or § 1.451-8, as applicable, for a taxable year beginning before January 1, 2021, for the taxpayer’s first taxable year beginning on or after January 1, 2021.

(2) *Inapplicability.* This section 20.13 does not apply to a taxpayer that is not on a permissible method of accounting for its inventory as required under § 471 and § 263A, as applicable, unless the taxpayer changes to a permissible method of accounting under § 471 or § 263A, as applicable, for the same year of change.

(3) *Eligibility rule inapplicable.* The eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13 does not apply to a change described in section 20.13(1) of this revenue procedure.

(4) *No ruling on method used.* The consent granted under section 9 of Rev. Proc. 2015-13 for a change made under this section 20.13 is not a determination by the Commissioner that the proposed method of accounting is a permissible method of accounting under § 1.461-1(a)(2) and § 1.461-4(d)(4), and does not create a presumption that the proposed method of accounting is a permissible method of accounting under a provision of the Code. The director will ascertain



whether the proposed method is permissible and in accordance with § 1.461-1(a)(2) and § 1.461-4(d)(4).

(5) *Concurrent automatic change.* A taxpayer that is making a change described in section 20.13(1) of this revenue procedure and one or more changes described in section 12.01, 12.02, 22.04, 22.10, 22.17, or 22.18 of this revenue procedure for the same year of change must timely file a single Form 3115 for all such changes and must enter the designated automatic accounting change numbers for all such changes on the appropriate line of Form 3115. If the taxpayer is making a change described in section 20.13(1) of this revenue procedure for one or more inventory costs, and a change described in section 12.01, 12.02, 22.04, 22.10, 22.17, or 22.18 of this revenue procedure for the same year of change, the taxpayer may provide a single net § 481(a) adjustment for all such changes. See section 6.03(1)(b) of Rev. Proc. 2015-13 for information on making concurrent changes.

(6) *Designated automatic accounting method change number.* The designated automatic method change number (DCN) for a change to the method of accounting under this section 20.13 is “256.”

(7) *Contact information.* For further information regarding a change under this section, contact Douglas Kim at (202) 317-7003 (not a toll-free number).

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## SECTION 21. RENT (§ 467)

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.01 *Change from an improper method of inclusion of rental income or expense to inclusion in accordance with the rent allocation.*

(1) *Description of change.*

(a) *Applicability.* This change applies to a taxpayer that:

(i) is a party to § 467 rental agreements (within the meaning of § 1.467-1(c)(1) for rental agreements entered into after May 18, 1999, and § 467(d) for all other agreements); and

(ii) except as provided in section 21.01(1)(b)(ii) of this revenue procedure, wants to change its method of accounting for its fixed rent (as defined in § 1.467-1(d)(2)) to the rent allocation method provided in § 1.467-1(d)(2)(iii).

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

(i) rental agreements for which taxpayers are required to use the constant rental accrual method, as described in § 1.467-3(a), or the proportional rental accrual method, as described in § 1.467-2(a), for their fixed rent; and

(ii) rental agreements that provide a specific allocation of fixed rent as described in § 1.467-1(c)(2)(ii)(A)(2) that allocate rent to periods other than when such rents are payable.

(2) *Additional requirements.* The taxpayer must attach to its Form 3115 a copy of one of its § 467 rental agreements to be covered by this automatic change (or at least the pages of the agreement relating to the manner in which rent is allocated).

(3) *Audit protection limited.* Any audit protection under section 8 of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, does not apply to this change for any § 467 rental agreement determined by the Commissioner to be a disqualified leaseback or long-term agreement described in § 1.467-3(b).

(4) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 21.01 is “136.”

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

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## SECTION 22. INVENTORIES (§ 471)

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### .01 *Cash discounts.*

(1) *Description of change.* This change applies to a taxpayer that wants to change its method of accounting for cash discounts (that is, discounts granted for timely payment) when they approximate a fair interest rate, from a method of consistently including the price of the goods before discount in the cost of the goods and including in gross income any discounts taken (the “gross invoice method”), to a method of reducing the cost of the goods by the cash discounts and deducting as an expense any discounts not taken (the “net invoice method”), or *vice versa*. See Rev. Rul. 73-65, 1973-1 C.B. 216.

(2) *Inapplicability.* This change does not apply to a taxpayer that accounts for inventory, or proposes to account for inventory, under § 471(c), proposed § 1.471-1(b), or § 1.471-1(b), as applicable. For taxable years beginning on or after January 5, 2021, a taxpayer is required to comply with § 1.471-1(b).

(3) *Computation of § 481(a) adjustment for changes to net invoice method.* In the case of a taxpayer changing from the gross invoice method to the net invoice method, a negative § 481(a) adjustment is required to prevent duplications arising from the fact that the gross invoice method reported income upon timely payment for some or all of the goods that remain in inventory, and a positive § 481(a) adjustment is required to prevent omissions arising from the fact that the gross invoice method included the invoice price, unadjusted for the cash discounts, of some or all goods in cost of goods sold and the discount will be earned by payment in a subsequent taxable year. The net § 481(a) adjustment is computed by deducting the “Applicable Discount” at the beginning of the year of change from the “Available Discount” at the beginning of the year of change. The Available Discount is equal to the difference between the accounts payable balance under the gross invoice method and the net invoice method. The Applicable Discount is equal to the difference between the beginning inventory value under the gross invoice method and the net invoice method.

*Example.* Taxpayer’s accounts payable balance at the beginning of the year of change was \$1,000 under the gross invoice method and \$980 under the net invoice method. Taxpayer’s inventory value was \$3,000 under the gross invoice method and \$2,955 under the net invoice method. The Available Discount is \$20 (\$1,000 - \$980) and the Applicable Discount is \$45 (\$3,000 - \$2,955). Thus, Taxpayer’s net § 481(a) adjustment is a negative \$25 (\$20 - \$45).

(4) *Computation of § 481(a) adjustment for changes to gross invoice method.* In the case of a taxpayer changing from the net invoice method to the gross invoice method, a positive § 481(a) adjustment is required to prevent omissions arising from the fact that the net invoice method did not report income upon timely payment for some or all of the goods that remain in inventory, and a negative § 481(a) adjustment is required to prevent duplications arising from the fact that the net invoice method included the invoice price, adjusted for the cash discounts, of some or all goods in cost of goods sold and the discount will be earned by payment in a subsequent taxable year. The net § 481(a) adjustment can be computed by deducting the “Available Discount” at the beginning of the year of change from the “Applicable Discount” at the beginning of the year of change. The Available Discount is equal to the difference between the accounts payable balance under the gross invoice method and the net invoice method. The Applicable Discount is equal to the difference between the beginning inventory value under the gross invoice method and the net invoice method.

*Example.* Taxpayer’s accounts payable balance at the beginning of the year of change was \$980 under the net invoice method and \$1,000 under the gross invoice method. Taxpayer’s inventory value was \$2,955 under the net invoice method and \$3,000 under the gross invoice method. The Applicable Discount is \$45 (\$3,000 - \$2,955) and the Available Discount is \$20 (\$1,000 - \$980). Thus, Taxpayer’s net § 481(a) adjustment is a positive \$25 (\$45 - \$20).

(5) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 22.01 is “48.”

(6) *Contact information.* For further information regarding a change under this section, contact Andrew Braden at (202) 317-7007 (not a toll-free number).

.02 *Estimating inventory “shrinkage”* .

(1) *Description of change.* This change applies to a taxpayer that wants to change to a method of accounting for estimating inventory shrinkage in computing ending inventory, using:

(a) the “retail safe harbor method” described in section 4 of Rev. Proc. 98-29, 1998-1 C.B. 857, as modified by this revenue procedure; or

(b) a method other than the retail safe harbor method, provided (i) the taxpayer’s present method of accounting does not estimate inventory shrinkage, and (ii) the taxpayer’s proposed method of accounting (that estimates inventory shrinkage) clearly reflects income under § 446(b).

(2) *Inapplicability.* This change does not apply to a taxpayer that accounts for inventory, or proposes to account for inventory, under § 471(c), proposed § 1.471-1(b), or § 1.471-1(b), as applicable. For taxable years beginning on or after January 5, 2021, a taxpayer is required to comply with § 1.471-1(b).

(3) *Additional requirements.* If the taxpayer wants to change to a method of accounting for inventory shrinkage other than the retail safe harbor method, the taxpayer must attach to its Form 3115 a statement setting forth a detailed description of all aspects of the proposed method of estimating inventory shrinkage (including, for last-in, first-out (LIFO) taxpayers, the method of determining inventory shrinkage for, or allocating inventory shrinkage to, each LIFO pool). The director or national office subsequently may review whether the proposed method clearly reflects the taxpayer’s income under § 446(b), notwithstanding any provision of Rev. Proc. 2015-13, 2015-5 I.R.B. 419 (or successor). If the director or the national office determines that the proposed method of accounting does not clearly reflect the taxpayer’s income, the taxpayer will

be treated as having made a change in method of accounting without obtaining the consent of the Commissioner as required by § 446(e). *See* sections 2.01(3) and 2.03 of Rev. Proc. 2015-13.

(4) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 22.02 is “49.”

(5) *Contact information.* For further information regarding a change under this section, contact Andrew Braden at (202) 317-7007 (not a toll-free number).

*.03 Qualifying volume-related trade discounts.*

(1) *Description of change.* This change applies to a taxpayer that wants to change its method of accounting to treat qualifying volume-related trade discounts as a reduction in the cost of merchandise purchased at the time the discount is recognized in accordance with § 1.471-3(b). A “qualifying volume-related trade discount” means a discount satisfying the following criteria:

(a) the taxpayer receives or earns the discount based solely upon the purchase of a particular volume of the merchandise to which the discount relates;

(b) the taxpayer is neither obligated nor expected to perform or provide any services in exchange for the discount; and

(c) the discount is not a reimbursement of any expenditure incurred or to be incurred by the taxpayer.

(2) *Inapplicability.* This change does not apply to a taxpayer that accounts for inventory, or proposes to account for inventory, under § 471(c), proposed § 1.471-1(b), or § 1.471-1(b), as applicable. For taxable years beginning on or after January 5, 2021, a taxpayer is required to comply with § 1.471-1(b).

(3) *Section 481(a) adjustment.* The net § 481(a) adjustment attributable to the change is computed in a manner similar to the computation of a net § 481(a) adjustment in the case of a change to the net invoice method of accounting for cash discounts. *See* section 22.01(2) of this revenue procedure.

(4) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 22.03 is “53.”

(5) *Contact information.* For further information regarding a change under this section, contact Andrew Braden at (202) 317-7007 (not a toll-free number).

*.04 Impermissible methods of identification and valuation of inventories.*

(1) *Description of change.*

(a) *Applicability.* This change applies to a taxpayer that wants to change from an impermissible method of identifying or valuing inventories to a permissible method of identifying or valuing inventories. For example, a taxpayer:

(i) using last-in, first-out (LIFO) as its inventory-identification method may change its inventory-valuation method from below cost to cost;

(ii) using an impermissible method of accounting described in §§ 1.471-2(f)(1) through (5) may change to a permissible method of accounting that corrects the impermissible method described in §§ 1.471-2(f)(1) through (5);

(iii) using a method that is not in accordance with § 1.471-2(c) may change to a permissible method of valuing “subnormal goods” under § 1.471-2(c);

(iv) changing from a gross profit method. For this purpose, a gross profit method is a method in which the taxpayer estimates the cost of goods sold by reducing its gross sales by a percentage “mark-up” from cost. The estimated cost of goods sold is subtracted from the sum of the beginning inventory and purchases and the result is used as the ending inventory; or

(v) changing from a method of determining market that is not in accordance with § 1.471-4. For this purpose, an example of a method of determining market that is not in accordance with § 1.471-4 is where a taxpayer, under ordinary circumstances, determines the market value of purchased merchandise using judgment factors, and not using the prevailing current bid price on the inventory date for the particular merchandise in the volume in which it is usually purchased by the taxpayer.

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

(i) any change for real property or improvements to the real property because real property is not inventoriable property under § 1.471-1;

(ii) a taxpayer who meets the definition of a “dealer in securities” under both § 1.471-5 and § 475 because such dealer is required to account for securities, as defined in § 475, under § 475 and may not use the rules described in § 1.471-5 for those securities;

(iii) any change described in another section of this revenue procedure or in other guidance published in the Internal Revenue Bulletin, or to any change within the last-in, first-out (LIFO) inventory method. For example, this change does not apply to a taxpayer that wants to change to a rolling-average method (but see section 22.13 of this revenue procedure) or to a taxpayer that accounts for inventory, or proposes to account for inventory, under § 471(c), proposed § 1.471-1(b), or § 1.471-1(b), as applicable. For taxable years beginning on or after January 5, 2021, a taxpayer is required to comply with § 1.471-1(b);

(iv) any change to a method of allocating costs to inventory under § 471 or any change to a method under § 263A (but see sections 12.01 and 12.02 of this revenue procedure); or

(v) a taxpayer that is currently deducting inventories (but see section 22.17 of this revenue procedure).

(c) *Permissible method defined.* For purposes of this change, a permissible method is an inventory method of identification or valuation, or both, specifically permitted by the Code, the regulations, or other guidance published in the Internal Revenue Bulletin, or a decision of the United States Supreme Court. However, an otherwise permissible inventory method is not permissible under

this section 22.04 for a specific taxpayer if that taxpayer is prohibited from using that method or if that taxpayer is required to use a different method.

(d) *Eligibility rule temporarily inapplicable for certain changes related to cost offset method.* The eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13 does not apply to a method change under this section 22.04 if:

(i) the taxpayer made or requested to make a change during any of the five taxable years ending with the year of change to recover inventory costs in a taxable year prior to the taxable year in which ownership of the inventory is transferred to the customer to offset inclusions under § 451(b) and/or § 451(c), as applicable;

(ii) in the case of a taxpayer with an applicable financial statement (AFS), as defined in section 16.10(1)(b) of this revenue procedure, the taxpayer makes, for the same year of change, a change in method of accounting for income from the sale of inventory under section 16.10(2)(a)(iii) of this revenue procedure and, to the extent the taxpayer receives advance payments for the sale of inventory, section 16.10(2)(a)(iv) of this revenue procedure, or in the case of a taxpayer that does not have an AFS, the taxpayer concurrently changes its method of accounting for advance payments from the sale of inventory under section 16.10(2)(b)(ii) of this revenue procedure; and

(iii) the taxpayer makes the change under this section 22.04 for its early application year, as defined in section 16.10(4)(c)(i) of this revenue procedure, or if a taxpayer does not apply § 1.451-3 and/or § 1.451-8, as applicable, for a taxable year beginning before January 1, 2021, for the taxpayer's first taxable year beginning on or after January 1, 2021.

(2) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 22.04 is "54."

(3) *Contact information.* For further information regarding a change under this section, contact Andrew Braden at (202) 317-7007 (not a toll-free number).

#### .05 *Core Alternative Valuation Method.*

##### (1) *Description of change.*

(a) *Applicability.* This change applies to a remanufacturer and rebuilder of motor vehicle parts and a reseller of remanufactured and rebuilt motor vehicle parts that use the cost or market, whichever is lower (LCM), inventory valuation method to value their inventory of cores held for remanufacturing or sale and wants to use the Core Alternative Valuation (CAV) method specified in Rev. Proc. 2003-20, 2003-1 C.B. 445.

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

(i) values its inventory of cores at cost, including a taxpayer using the LIFO inventory method, unless the taxpayer concurrently changes, under section 6.02 of Rev. Proc. 2003-20, from cost to the LCM method for its cores, including labor and overhead related to the cores in raw materials, work-in-process, and finished goods; or



(ii) accounts for inventory, or proposes to account for inventory, under § 471(c), proposed § 1.471-1(b), or § 1.471-1(b), as applicable. For taxable years beginning on or after January 5, 2021, a taxpayer is required to comply with § 1.471-1(b).

(2) *Concurrent automatic change.* A taxpayer making both this change and (i) a change from the cost method to the LCM method under section 22.10 of this revenue procedure, or (ii) a change from the LIFO inventory method to a permitted method for identification under (and as determined and defined in) section 23.01(1)(b) of this revenue procedure for the same year of change, should file a single Form 3115 for both changes, provided the taxpayer enters the designated automatic accounting method change numbers for both changes on the appropriate line on that Form 3115. See section 6.03(1)(b) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, for information on making concurrent changes.

(3) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 22.05 is “55.”

(4) *Contact information.* For further information regarding a change under this section, contact Andrew Braden at (202) 317-7007 (not a toll-free number).

*.06 Replacement cost for automobile dealers’ parts inventory.*

(1) *Description of change.* This change applies to a taxpayer that is engaged in the trade or business of selling vehicle parts at retail, that is authorized under an agreement with one or more vehicle manufacturers or distributors to sell new automobiles or new light, medium, or heavy-duty trucks, and that wants to use the replacement cost method described in section 4 of Rev. Proc. 2002-17, 2002-1 C.B. 676, as modified by Rev. Proc. 2006-14, 2006-1 C.B. 350, for its vehicle parts inventory. See Rev. Proc. 2002-17 for further information regarding this change.

(2) *Inapplicability.* This change does not apply to a taxpayer that accounts for inventory, or proposes to account for inventory, under § 471(c), proposed § 1.471-1(b), or § 1.471-1(b), as applicable. For taxable years beginning on or after January 5, 2021, a taxpayer is required to comply with § 1.471-1(b).

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

(4) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 22.06 is “63.”

(5) *Contact information.* For further information regarding a change under this section, contact Andrew Braden at (202) 317-7007 (not a toll-free number).

*.07 Replacement cost for heavy equipment dealers’ parts inventory.*

(1) *Description of change.* This change applies to a heavy equipment dealer that is engaged in the trade or business of selling heavy equipment parts at retail, that is authorized under an agreement with one or more heavy equipment manufacturers or distributors to sell new heavy equipment, and that wants to use the replacement cost method described in section 4 of Rev. Proc. 2006-14, 2006-1 C.B. 350, for its heavy equipment parts inventory.

(2) *Inapplicability.* This change does not apply to a taxpayer that accounts for inventory, or proposes to account for inventory, under § 471(c), proposed § 1.471-1(b), or § 1.471-1(b), as applicable. For taxable years beginning on or after January 5, 2021, a taxpayer is required to comply with § 1.471-1(b).

(3) *Manner of making the change.* This change is made on a cut-off basis and applies only to the computation of ending inventories after the beginning of the year of change. Accordingly, a § 481(a) adjustment is neither permitted nor required.

(4) *Concurrent automatic change.* A taxpayer making both this change and another automatic change in method of accounting under § 263A (*see* section 12 of this revenue procedure) for the same year of change may file a single Form 3115 for both changes, provided the taxpayer enters the designated automatic accounting method change numbers for both changes on the appropriate line on that Form 3115, and complies with the ordering rules of § 1.263A-7(b)(2).

(5) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 22.07 is “96.”

(6) *Contact information.* For further information regarding a change under this section, contact Andrew Braden at (202) 317-7007 (not a toll-free number).

*.08 Rotable spare parts.*

(1) *Description of change.* This change applies to a taxpayer that is using the safe harbor method of accounting to treat its rotatable spare parts as depreciable assets in accordance with Rev. Proc. 2007-48, 2007-2 C.B. 110, as modified by this revenue procedure, and wants to change its method of accounting to treat its rotatable spare parts as inventoriable items. This change also applies to a taxpayer who is treating its rotatable spare parts as depreciable assets in a manner similar to the safe harbor method described in Rev. Proc. 2007-48, and wants to change its method of accounting to treat its rotatable spare parts as inventoriable items. A taxpayer changing its method of accounting for rotatable spare parts under this section 22.08, must use a proper inventory method to identify and value its rotatable spare parts.

(2) *Inapplicability.* This change does not apply to a taxpayer that accounts for inventory, or proposes to account for inventory, under § 471(c), proposed § 1.471-1(b), or § 1.471-1(b), as applicable. For taxable years beginning on or after January 5, 2021, a taxpayer is required to comply with § 1.471-1(b).

(3) *Eligibility rule inapplicable.* The eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, does not apply to a taxpayer that is required to make the change in method of accounting pursuant to section 5.06 of Rev. Proc. 2007-48.

(4) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 22.08 is “110.”

(5) *Contact information.* For further information regarding a change under this section, contact Stephen Rothandler at (202) 317-7003 (not a toll-free number).

*.09 Advance Trade Discount Method.*

(1) *Description of change.* This change applies to a taxpayer that wants to use the Advance Trade Discount Method described in Rev. Proc. 2007-53, 2007-2 C.B. 233.

(2) *Applicability.* This change in method of accounting applies to a taxpayer using an overall accrual method of accounting that is required to use an inventory method of accounting, that maintains inventories as provided in § 471 and the regulations thereunder, and that receives advance trade discounts as defined in section 4.03 of Rev. Proc. 2007-53.

(3) *Inapplicability.* This change does not apply to a taxpayer that accounts for inventory, or proposes to account for inventory, under § 471(c), proposed § 1.471-1(b), or § 1.471-1(b), as applicable. For taxable years beginning on or after January 5, 2021, a taxpayer is required to comply with § 1.471-1(b).

(4) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 22.09 is “111.”

(5) *Contact information.* For further information regarding a change under this section, contact Andrew Braden at (202) 317-7007 (not a toll-free number).

.10 *Permissible methods of identification and valuation of inventories.*

(1) *Description of change.*

(a) *Applicability.* This change applies to a taxpayer that wants to change from one permissible method of identifying or valuing inventories to another permissible method of identifying or valuing inventories. For example, a taxpayer using the first-in, first-out (FIFO) method as its inventory-identification method may change its inventory-valuation method from cost to cost or market, whichever is lower (LCM), or a taxpayer valuing “subnormal” goods at cost may change its valuation method to another permissible method of valuing “subnormal goods” under § 1.471-2(c).

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

(i) any change for real property or improvements to the real property because real property is not inventoriable property under § 1.471-1;

(ii) a taxpayer who meets the definition of a “dealer in securities” under both § 1.471-5 and § 475 because such dealer is required to account for securities, as defined in § 475, under § 475 and may not use the rules described in § 1.471-5 for those securities;

(iii) any change described in another section of this revenue procedure or in other guidance published in the Internal Revenue Bulletin, or to any change within the last-in, first-out (LIFO) inventory method. For example, this change does not apply to a taxpayer that wants to change to a rolling-average method (but see section 22.13 of this revenue procedure) or to a taxpayer that accounts for inventory, or proposes to account for inventory, under § 471(c), proposed § 1.471-1(b), or § 1.471-1(b), as applicable. For taxable years beginning on or after January 5, 2021, a taxpayer is required to comply with § 1.471-1(b); or

(iv) any change to a method of allocating costs to inventory under § 471 or any change to a method under § 263A (but see sections 12.01 and 12.02 of this revenue procedure).

(c) *Permissible method defined.* For purposes of this change, a permissible method is an inventory method of identification or valuation, or both, specifically permitted for inventories by the Code, the regulations, or other guidance published in the Internal Revenue Bulletin, or a decision of the United States Supreme Court. However, an otherwise permissible inventory method is not permissible under this section 22.10 for a specific taxpayer if that taxpayer is prohibited from using that method or if that taxpayer is required to use a different method.

(d) *Eligibility rule temporarily inapplicable.* The eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13 does not apply to a method change under this section 22.10 if:

(i) the taxpayer made or requested to make a change during any of the five taxable years ending with the year of change to recover inventory costs in a taxable year prior to the taxable year in which ownership of the inventory is transferred to the customer to offset inclusions under § 451(b) and/or 451(c), as applicable;

(ii) in the case of a taxpayer with an applicable financial statement (AFS), as defined in section 16.10(1)(b) of this revenue procedure, the taxpayer makes, for the same year of change, a change in method of accounting for income from the sale of inventory under section 16.10(2)(a)(iii) of this revenue procedure and, to the extent the taxpayer receives advance payments for the sale of inventory, section 16.10(2)(a)(iv) of this revenue procedure, or in the case of a taxpayer that does not have an AFS, the taxpayer concurrently changes its method of accounting for advance payments from the sale of inventory under section 16.10(2)(b)(ii) of this revenue procedure; and

(iii) the taxpayer makes the change under this section 22.10 for its early application year, as defined in section 16.10(4)(c)(i) of this revenue procedure, or if a taxpayer does not apply § 1.451-3 and/or § 1.451-8, as applicable, for a taxable year beginning before January 1, 2021, for the taxpayer's first taxable year beginning on or after January 1, 2021.

(e) *Permissible method determination.* The eligibility waiver under section 22.10(1)(d) of this revenue procedure is not a determination by the Commissioner that the taxpayer's present method of accounting described in section 22.10(1)(d)(i) of this revenue procedure is a permissible method of accounting. The method of accounting described in section 22.10(1)(d)(i) of this revenue procedure is not a permissible method of accounting for any taxable year in which §§ 1.451-3 and 1.451-8 are applicable.

(2) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 22.10 is "137."

(3) *Contact information.* For further information regarding a change under this section, contact Andrew Braden at (202) 317-7007 (not a toll-free number).

.11 *Change in the official used vehicle guide utilized in valuing used vehicles.*

(1) *Description of change.* Used vehicles taken in trade as part payment on the sale of vehicles by a dealer may be valued for inventory purposes at valuations comparable to those listed in an official used vehicle guide as the average wholesale prices for comparable vehicles. *See* Rev. Rul. 67-107, 1967-1 C.B. 115. This change applies to:

(a) a taxpayer that wants to change from not using an official used vehicle guide to using an official used vehicle guide for valuing used vehicles; or

(b) a taxpayer that wants to change to a different official used vehicle guide for valuing used vehicles.

(2) *Inapplicability.* This change does not apply to a taxpayer that accounts for inventory, or proposes to account for inventory, under § 471(c), proposed § 1.471-1(b), or § 1.471-1(b), as applicable. For taxable years beginning on or after January 5, 2021, a taxpayer is required to comply with § 1.471-1(b).

(3) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 22.11 is “138.”

(4) *Contact information.* For further information regarding a change under this section, contact Andrew Braden at (202) 317-7007 (not a toll-free number).

*.12 Invoiced advertising association costs for new vehicle retail dealerships.*

(1) *Description of change.* This change applies to a taxpayer that is engaged in the trade or business of retail sales of new automobiles or new light-duty trucks (“dealership”) that wants to discontinue capitalizing certain advertising costs as acquisition costs under § 1.471-3(b). The change applies to advertising costs that meet the following criteria: (a) the dealership must pay this advertising fee when acquiring vehicles from the manufacturer; (b) the advertising costs are separately coded and included in the manufacturer’s invoice cost of the new vehicle; (c) the advertising cost is a flat fee per vehicle or a fixed percentage of the invoice price; and (d) the fees collected by the manufacturer are paid to local advertising associations that promote and advertise the manufacturer’s products in the dealership’s market area. Under the proposed method, the dealership will exclude advertising costs that meet the above criteria from the cost of new vehicles and deduct the advertising costs under § 162 as the advertising services are provided to the dealership. *See* § 1.461-4(d)(2)(i).

(2) *Inapplicability.* This change does not apply to a taxpayer that accounts for inventory, or proposes to account for inventory, under § 471(c), proposed § 1.471-1(b), or § 1.471-1(b), as applicable. For taxable years beginning on or after January 5, 2021, a taxpayer is required to comply with § 1.471-1(b).

(3) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 22.12 is “139.”

(4) *Contact information.* For further information regarding a change under this section, contact Andrew Braden at (202) 317-7007 (not a toll-free number).

*.13 Rolling-average method of accounting for inventories.*

(1) *Description of change.* This change applies to a taxpayer that uses a rolling-average method to value inventories for financial accounting purposes and wants to use the same rolling-average method to value inventories for federal income tax purposes in accordance with Rev. Proc. 2008-43, 2008-30 C.B. 186, as modified by Rev. Proc. 2008-52, 2008-2 C.B. 587 (*see* section 13).

(2) *Inapplicability.* This change does not apply to a taxpayer that accounts for inventory, or proposes to account for inventory, under § 471(c), proposed § 1.471-1(b), or § 1.471-1(b), as applicable. For taxable years beginning on or after January 5, 2021, a taxpayer is required to comply with § 1.471-1(b). See, however, section 22.17 of this revenue procedure for certain changes.

(3) *Manner of making change.* This change is made on a cut-off basis and is applied only to the computation of ending inventories after the beginning of the year of change. However, if the taxpayer's books and records contain sufficient information to compute a § 481(a) adjustment, the taxpayer may choose to implement the change with a § 481(a) adjustment as provided in sections 7.02 and 7.03 of Rev. Proc. 2015-13, 2015-5 I.R.B. 419.

(4) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 22.13 is "114."

(5) *Contact information.* For further information regarding a change under this section, contact Andrew Braden at (202) 317-7007 (not a toll-free number).

*.14 Sales-Based Vendor Chargebacks.*

(1) *Description of change.* This change, as described in Rev. Proc. 2014-33, 2014-22 I.R.B. 1060, applies to a taxpayer that wants to change its method of accounting to treat sales-based vendor chargebacks as a reduction in cost of goods sold in accordance with § 1.471-3(e)(1).

(2) *Inapplicability.* This change does not apply to a taxpayer that accounts for inventory, or proposes to account for inventory, under § 471(c), proposed § 1.471-1(b), or § 1.471-1(b), as applicable. For taxable years beginning on or after January 5, 2021, a taxpayer is required to comply with § 1.471-1(b).

(3) *Concurrent automatic changes.* A taxpayer making both this change and the change described in section 12.10 of this revenue procedure for the same taxable year of change may file a single Form 3115 for both changes, provided the taxpayer enters the designated automatic change numbers for both changes on the appropriate line on the Form 3115, and complies with the ordering rules of § 1.263A-7(b)(2). See section 6.03(1)(b) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, for information on making concurrent changes.

(4) *Designated automatic accounting method change number.* The designated automatic accounting method change number for changes in methods of accounting under this section 22.14 is "203."

(5) *Contact information.* For further information regarding a change under this section, contact Andrew Braden at (202) 317-7007 (not a toll-free number).

*.15 Certain changes to the cost complement of the retail inventory method.*

(1) *Description of change.* This change, as described in Rev. Proc. 2014-48, 2014-36 I.R.B. 527, applies to a taxpayer using the retail inventory method that wants to make one of the following changes:



(a) From adjusting to not adjusting the numerator of the cost complement by the amount of an allowance, discount, or price rebate that is required under § 1.471-3(e) to reduce only cost of goods sold;

(b) From adjusting to not adjusting the denominator of the cost complement for temporary markups and markdowns;

(c) In the case of a retail LCM taxpayer, to computing the cost complement using a method described in § 1.471-8(b)(3), including changes from a method described in § 1.471-8(b)(3) to another method described in § 1.471-8(b)(3); or

(d) In the case of a retail cost taxpayer, from not adjusting to adjusting the denominator of the cost complement for permanent markups and markdowns.

(2) *Inapplicability.* This change does not apply to a taxpayer that accounts for inventory, or proposes to account for inventory, under § 471(c), proposed § 1.471-1(b), or § 1.471-1(b), as applicable. For taxable years beginning on or after January 5, 2021, a taxpayer is required to comply with § 1.471-1(b).

(3) *Effective date.* This section 22.15 is effective for taxable years beginning after December 31, 2014.

(4) *Multiple changes.* A taxpayer making multiple changes under this section 22.15 for the same year of change should file a single Form 3115.

(5) *Manner of making change.* A taxpayer making a change under this section 22.15 for its first or second taxable year beginning after December 31, 2014, may use either a § 481(a) adjustment as provided in sections 7.02 and 7.03 of Rev. Proc. 2015-13 or implement the change on a cut-off basis. If the taxpayer uses a cut-off basis, the change applies only to the computation of ending inventories after the beginning of the year of change, and a § 481(a) adjustment is neither permitted nor required if a change is made on a cut-off basis.

(6) *Designated automatic accounting method change number.* The designated automatic accounting method change number for changes in methods of accounting under this section 22.15 is “204.”

(7) *Contact information.* For further information regarding a change under this section, contact Andrew Braden at (202) 317-7007 (not a toll-free number).

*.16 Certain changes within the retail inventory method .*

(1) *Description of change.* This change applies to a taxpayer using the retail inventory method that wants to change from including to not including temporary markups and markdowns in determining the retail selling prices of goods on hand at the end of the taxable year.

(2) *Inapplicability.* This change does not apply to a taxpayer that accounts for inventory, or proposes to account for inventory, under § 471(c), proposed § 1.471-1(b), or § 1.471-1(b), as applicable. For taxable years beginning on or after January 5, 2021, a taxpayer is required to comply with § 1.471-1(b).

(3) *Designated automatic accounting method change number.* The designated automatic accounting method change number for changes in methods of accounting under this section 22.16 is “225.”

(4) *Contact information.* For further information regarding a change under this section, contact Andrew Braden at (202) 317-7007 (not a toll-free number).

.17 *Change from currently deducting inventories to permissible methods of identification and valuation of inventories.*

(1) *Description of change.*

(a) *Applicability.* This change applies to a taxpayer that wants to change from currently deducting inventories to a permissible method of identifying and valuing inventories. For example, a taxpayer currently deducting inventories may change to using the first-in, first-out (FIFO) method as its inventory-identification method and cost or market, whichever is lower (LCM), as its inventory-valuation method.

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

(i) any change for real property or improvements to the real property because real property is not inventoriable property under § 1.471-1;

(ii) a taxpayer who meets the definition of a “dealer in securities” under both § 1.471-5 and § 475 because such dealer is required to account for securities, as defined in § 475, under § 475 and may not use the rules described in § 1.471-5 for those securities;

(iii) any change described in another section of this revenue procedure or in other guidance published in the Internal Revenue Bulletin, or to any change within the last-in, first-out (LIFO) inventory method. For example, this change does not apply to a taxpayer that wants to change to a rolling-average method (but see section 22.13 of this revenue procedure) or to a taxpayer that accounts for inventory, or proposes to account for inventory, under § 471(c), proposed § 1.471-1(b), or § 1.471-1(b), as applicable. For taxable years beginning on or after January 5, 2021, a taxpayer is required to comply with § 1.471-1(b). See, however, section 22.18, 22.19 or 22.20 of this revenue procedure, as applicable; or

(iv) any change to a method of allocating costs to inventory under § 471 or any change to a method under § 263A (but see sections 12.01 and 12.02 of this revenue procedure).

(c) *Permissible method defined.* For purposes of this change, a permissible method is an inventory method of identification or valuation, or both, specifically permitted for inventories by the Code, the regulations, or other guidance published in the Internal Revenue Bulletin, or a decision of the United States Supreme Court. However, an otherwise permissible inventory method is not permissible under this section 22.17 for a specific taxpayer if that taxpayer is prohibited from using that method or if that taxpayer is required to use a different method.

(d) *Eligibility rule temporarily inapplicable.* The eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13 does not apply to a method change under this section 22.17 if:

(i) the taxpayer made or requested to make a change during any of the five taxable years ending with the year of change to recover inventory costs in a taxable year prior to the taxable year in which ownership of the inventory is transferred to the customer to offset inclusions under § 451(b) and/or 451(c), as applicable;

(ii) in the case of a taxpayer with an applicable financial statement (AFS), as defined in section 16.10(1)(b) of this revenue procedure, the taxpayer makes, for the same year of change, a change in method of accounting for income from the sale of inventory under section 16.10(2)(a)(iii) of this revenue procedure and, to the extent the taxpayer receives advance payments for the sale of inventory, section 16.10(2)(a)(iv) of this revenue procedure, or in the case of a taxpayer that does not have an AFS, the taxpayer concurrently changes its method of accounting for advance payments from the sale of inventory under section 16.10(2)(b)(ii) of this revenue procedure; and

(iii) the taxpayer makes the change under this section 22.17 for its early application year, as defined in section 16.10(4)(c)(i) of this revenue procedure, or if a taxpayer does not apply § 1.451-3 and/or § 1.451-8, as applicable, for a taxable year beginning before January 1, 2021, for the taxpayer's first taxable year beginning on or after January 1, 2021.

(2) *Designated automatic accounting method change number.* The designated automatic accounting method change number for changes in methods of accounting under this section 22.17 is "230."

(3) *Contact information.* For further information regarding a change under this section, contact Andrew Braden at (202) 317-7007 (not a toll-free number).

*.18 Small business taxpayer § 471(c) inventory methods.*

(1) *Description of change.* This change applies to a small business taxpayer, as defined in section 22.18(2) of this revenue procedure, that wants to change its § 471 method of accounting for inventory to one of the following methods provided in this section 22.18(1).

(a) *Changes under § 471(c) or proposed § 1.471-1(b).* For a taxable year beginning after December 31, 2017, and before January 5, 2021, a change to:

(i) a method that treats inventory as non-incidentals materials and supplies (NIMS) under § 471(c)(1)(B)(i);

(ii) a method that treats inventory as NIMS under proposed § 1.471-1(b)(4);

(iii) a method that conforms to § 471(c)(1)(B)(ii) by using the taxpayer's method of accounting reflected in its applicable financial statements (AFS), as defined in § 451(b)(3), with respect to the taxable year, or if the taxpayer does not have an AFS for the taxable year, the books and records of the taxpayer prepared in accordance with the taxpayer's accounting procedures; or

(iv) the AFS section 471(c) method described in proposed § 1.471-1(b)(5), or if the taxpayer does not have an AFS for the taxable year, the non-AFS section 471(c) method described in proposed § 1.471-1(b)(6).

(b) *Changes to a method under § 1.471-1(b).* A change to:

(i) the section 471(c) NIMS inventory method provided in § 1.471-1(b)(4);

(ii) the AFS section 471(c) inventory method provided in § 1.471-1(b)(5), for taxpayers with an AFS, as defined in § 1.471-1(b)(5)(ii), or

(iii) the non-AFS section 471(c) inventory method provided in § 1.471-1(b)(6), for taxpayers that do not have an AFS, as defined in § 1.471-1(b)(5)(ii).

(2) *Small business taxpayer defined.* *Small business taxpayer* means a taxpayer, other than a tax shelter under § 448(d)(3), proposed § 1.448-2(b)(2), or § 1.448-2(b)(2), as applicable, that meets the § 448(c) gross receipts test as provided in § 448(c), proposed § 1.471-1(b)(2), or § 1.471-1(b)(2), as applicable. The § 448(c) gross receipts test is met if a taxpayer has average annual gross receipts for the three prior taxable years of \$25,000,000 or less (adjusted for inflation), as described in § 448(c), proposed §§ 1.448-2(c), or § 1.448-2(c), as applicable. For taxable years beginning in 2019, 2020 and 2021, the inflation-adjusted gross receipts test amount is \$26,000,000. See Rev. Proc. 2018-57, 2018-49 I.R.B. 827, Rev. Proc. 2019-44, 2019-47 I.R.B. 1093, or Rev. Proc. 2020-45, 2020-46 I.R.B. 1016, as applicable. For a taxable year beginning in 2022, the inflation-adjusted amount is \$27,000,000. See Rev. Proc. 2021-45, 2021-48 I.R.B. 764.

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

(i) any change described in section 22.19 of this revenue procedure; or

(ii) any change from the LIFO inventory method under § 472. See however, section 23.01 of this revenue procedure.

(4) *Acceleration of § 481 adjustment.* If a taxpayer making a change under this section 22.18 has a § 481(a) adjustment remaining on a prior change in method of accounting to account for inventory in accordance with § 1.471-1(a), then it must take the remaining portion of such prior § 481(a) adjustment into account in the year of change.

(5) *Eligibility rules.*

(a) *Eligibility rule inapplicable.* For a change described in section 22.18(1) of this revenue procedure, if the taxpayer changed from accounting for inventory in accordance with § 471(c), proposed § 1.471-1(b) or § 1.471-1(b), as applicable, to accounting for inventory in accordance with § 1.471-1(a) within the prior five taxable years ending with the year of change, and such change was made in the first taxable year that the taxpayer did not qualify as a small business taxpayer, then such prior change is disregarded for purposes of section 5.01(1)(f) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419.

(b) *Eligibility rule temporarily inapplicable.* The eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13 does not apply to the changes described in this section 22.18 for a taxpayer's first, second, or third taxable year beginning after December 31, 2017. In addition, the eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13 does not apply to a taxpayer's early application year, or, in the case of a taxpayer that does not apply § 1.471-1(b) in the early application year, the taxpayer's first taxable year beginning on or after January 5, 2021. For purposes of this section 22.18 "early application year" means the taxable year of change beginning before January 5, 2021, in which a taxpayer first applies § 1.471-1(b).

(c) *Certain changes with § 481(a) adjustment of zero disregarded for eligibility rule.* A change made under section 22.18(1)(b) of this revenue procedure will be disregarded for purposes of section 5.01(1)(f) of Rev. Proc. 2015-13 if the change meets the following requirements:

(i) the change is made for the taxpayer's early application year, or, in the case of a taxpayer that does not apply § 1.471-1(b) for a taxable year beginning before January 5, 2021, for the taxpayer's first taxable year beginning on or after January 5, 2021, and

(ii) the § 481(a) adjustment required to implement the change is zero.

(6) *Manner of making change.*

(a) *Reduced filing requirement.* A taxpayer is required to complete only the following information on Form 3115 (Rev. December 2018) to make this change:

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

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

(iii) Part I;

(iv) Part II, all lines except line 16; and

(v) Part IV, all lines except line 25.

(b) *Streamlined method change procedures for certain taxpayers.*

(i) *Applicability.* The procedures described in this section 22.18(6)(b) may be used by a taxpayer to make a change in method of accounting described in section 22.18(1)(b) for the taxpayer's early application year, as defined in section 22.18(5)(b) of this revenue procedure. Additionally, in the case of a taxpayer that does not apply § 1.471-1(b) for a taxable year beginning before January 5, 2021, the procedures described in this section 22.18(6)(b) may be used to make a change in method of accounting described in section 22.18(1)(b) of this revenue procedure in the taxpayer's first taxable year beginning on or after January 5, 2021. A taxpayer that is otherwise permitted to use the streamlined method change procedures in this section 22.18(6)(b) may use these streamlined procedures if the taxpayer is making a change under section 22.18(1)(b) of this revenue procedure and the net § 481(a) adjustment required by such change is zero. Notwithstanding any provisions of this section 22.18, a taxpayer making more than one change in method of accounting under this revenue procedure for the same year of change is not permitted to net the § 481(a) adjustments to determine if the taxpayer meets the requirements to use the streamlined method change procedures. See section 22.18(8) of this revenue procedure for more information on making concurrent changes.

(ii) *No Form 3115 required.* In accordance with § 1.446-1(e)(3)(ii), the requirement of § 1.446-1(e)(3)(i) to file a Form 3115 is waived for a taxpayer making a change in method of accounting under this section 22.18 using the streamlined method change procedures. Thus, a taxpayer using the streamlined method change procedures is not required to file a Form 3115 and is not required to attach a separate statement when making a change under this section 22.18(6)(b).

(7) *No ruling on certain method of accounting used.* The consent granted under section 9 of Rev. Proc. 2015-13 for a change made under section 22.18(1)(a)(i) or (iii) of this revenue procedure is not a determination by the Commissioner that the proposed inventory method of accounting is permissible, and does not create any presumption that the proposed method is a permissible method of accounting under a provision of the Code. The director will ascertain whether the proposed method is permissible under the Code.

(8) *Concurrent automatic changes.* A taxpayer making a change under this section 22.18 and a change under section 15.17 and/or 12.16 of this revenue procedure for the same year of change may file a single Form 3115 for all changes provided the taxpayer enters the designated automatic change numbers for the changes on the appropriate line of Form 3115. See section 6.03(1)(b) of Rev. Proc. 2015-13 for information on making concurrent changes.

(9) *Designated automatic accounting method change number.*

(a) *Change to apply section 471(c) NIMS inventory method, as provided in section 22.18(1)(b)(i) of this revenue procedure.* The designated automatic accounting method change number for a change to apply the section 471(c) NIMS inventory method as provided in section 22.18(1)(b)(i) of this revenue procedure is “260.”

(b) *Change to apply AFS section 471(c) inventory method or non-AFS section 471(c) inventory method, as provided in section 22.18(1)(b)(ii) or (iii) of this revenue procedure.* The designated automatic accounting method change number for a change to apply the AFS section 471(c) method or the non-AFS section 471(c) method provided in section 22.18(1)(b)(ii) or (iii) of this revenue procedure is “261.”

(c) *All other changes to a method described in section 22.18(1)(a) of this revenue procedure.* The designated automatic accounting method change number for all other changes to a method of accounting for inventory described in section 22.18(1)(a) of this revenue procedure is “235.”

(10) *Contact information.* For further information regarding a change under this section, contact Livia Piccolo at (202) 317-7007 (not a toll-free number).

.19 *Changes within a § 471(c) inventory method.*

(1) *Description of change.* This change applies to a small business taxpayer, as defined in section 22.18(2) of this revenue procedure, that:

(a) for a taxable year beginning after December 31, 2017, and before January 5, 2021, treats its inventory as non-incidental materials and supplies (NIMS) under § 471(c)(1)(B)(i) and wants to change from one permissible method, as defined in section 22.10(1)(c) of this revenue procedure, of identifying or valuing inventories to another permissible method of identifying or valuing inventories. For example, a taxpayer that uses specific identification as its inventory identification method may change to using the first-in, first-out (FIFO) method for purposes of its NIMS method under § 471(c)(1)(B)(i) under this section 22.19;

(b) uses the section 471(c) NIMS inventory method as provided in § 1.471-1(b)(4) and wants to change:



(i) to a method of identification or valuation permitted by § 1.471-1(b)(4)(ii) such as, for example, specific identification, FIFO, cost or average cost;

(ii) its allocation method to a method permitted by § 1.471-1(b)(4)(iii); or

(iii) to capitalize a direct cost of property produced or acquired for resale, or to deduct an indirect cost of property produced or acquired for resale, as provided in § 1.471-1(b)(4)(ii).

(c) for a taxable year beginning after December 31, 2017, and before January 5, 2021, uses a method conforming to § 471(c)(1)(B)(ii) by using the taxpayer's method of accounting for inventory reflected in its applicable financial statements (AFS), as defined in § 451(b)(3), with respect to the taxable year, or if the taxpayer does not have an AFS for the taxable year, the books and records of the taxpayer prepared in accordance with the taxpayer's accounting procedures, and wants to change the manner in which it accounts for inventory in its AFS or books and records, as applicable; and is required to use such method of accounting for inventory in its AFS or its books and records, as applicable, for purposes of applying § 471(c)(1)(B)(ii); or

(d) uses the AFS section 471(c) inventory method provided in § 1.471-1(b)(5), or if the taxpayer does not have an AFS as defined in § 1.471-1(b)(5)(ii) for the taxable year, the non-AFS section 471(c) inventory method provided in § 1.471-1(b)(6), and wants to change the manner in which it accounts for inventory in its AFS or books and records, as applicable; and is required to use such method of accounting for inventory in its AFS or its books and records, as applicable, in applying the AFS section 471(c) inventory method in § 1.471-1(b)(5), or the non-AFS section 471(c) inventory method in § 1.471-1(b)(6), as applicable.

(2) *Eligibility rules.*

(a) *Eligibility rule inapplicable.* The eligibility rule in section 5.01(f) of Rev. Proc. 2015-13 does not apply to a change described in section 22.19(1)(c) or 22.19(1)(d) of this revenue procedure.

(3) *Section 481(a) adjustment period.* Beginning with the year of change, a taxpayer making a change described in section 22.19(1)(c) or 22.19(1)(d) of this revenue procedure must take any applicable net positive § 481(a) adjustment for such change into account ratably over the same number of taxable years, not to exceed four, that the taxpayer used its former method of accounting. Additionally, a taxpayer making a change described in section 22.19(1)(c) or 22.19(1)(d) of this revenue procedure that has a § 481(a) adjustment remaining on a prior change in method of accounting that is described in section 22.19(1)(c) or section 22.19(1)(d) of this revenue procedure must take the remaining portion of such prior § 481(a) adjustment into account in the year of change.

(4) *Reduced filing requirement.* A taxpayer is required to complete only the following information on Form 3115 (Rev. December 2018) to make this change:

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

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

(c) Part I;

(d) Part II, all lines except lines 7, 16b and 16c. In the response to line 16a, include a statement that the taxpayer satisfies the § 448(c) gross receipts test for the year of change.

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

(f) Schedule D, Part II, lines 1-3.

(5) *Concurrent automatic changes.* A taxpayer that wants to make one or more concurrent changes in method of accounting under this section 22.19 or wants to make a change under this section 22.19 and a change under sections 15.17 or 12.16 of this revenue procedure for the same year of change may file a single Form 3115 for such changes, provided the taxpayer enters the designated automatic accounting method change numbers for each change on the appropriate lines of the Form 3115. See section 6.03(1)(b) of Rev. Proc. 2015-13 for more information on making concurrent changes.

(6) *No audit protection.* A taxpayer making a change in method of accounting for inventory under section 22.19(1)(c) or 22.19(1)(d) of this revenue procedure does not receive audit protection under section 8.01 of Rev. Proc. 2015-13.

(7) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 22.19 is “262.”

(8) *Contact information.* For further information regarding a change under this section, contact Livia Piccolo at (202) 317-7007 (not a toll-free number).

*.20 Change from a small business taxpayer § 471(c) inventory method to an inventory method under § 471(a).*

(1) *Description of change.* This change applies to a taxpayer that wants to change from using a small business taxpayer inventory method under § 471(c), proposed § 1.471-1(b)(4), (5), or (6), or § 1.471-1(b)(4), (5) or (6), as applicable, to accounting for inventory in accordance with § 471(a) and § 1.471-1(a).

(2) *Inapplicability.* This change does not apply to any change within the last-in, first-out (LIFO) inventory method.

(3) *Eligibility rule inapplicable.* The eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, does not apply to a change described in section 22.20(1) of this revenue procedure if such change is being made in the first taxable year that the taxpayer does not qualify as a small business taxpayer as defined in section 22.18(2) of this revenue procedure.

(4) *Concurrent automatic changes.* A taxpayer making a change under this section 22.20 and a change under sections 12.01 or 12.02 and/or 15.01 of this revenue procedure for the same year of change may file a single Form 3115 for such changes, provided the taxpayer enters the designated automatic accounting method change numbers for each change on the appropriate lines of the Form 3115. See section 6.03(1)(b) of Rev. Proc. 2015-13 for more information on making concurrent changes.

(5) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 22.20 is “263.”

(6) *Contact information.* For further information regarding a change under this section, contact Livia Piccolo at (202) 317-7007 (not a toll-free number).

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## SECTION 23. LAST-IN, FIRST-OUT (LIFO) INVENTORIES (§ 472)

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### .01 *Change from the LIFO inventory method.*

#### (1) *Description of change.*

(a) *In general.* This change applies to a taxpayer that wants to:

(i) change from the LIFO inventory method for all its LIFO inventory or for the entire content of one or more dollar-value pools; and

(ii) change to a permitted method or methods as determined in section 23.01(1)(b) of this revenue procedure.

#### (b) *Method to be used.*

(i) *Determining the permitted method to be used.* A taxpayer may change to one or more non-LIFO inventory methods for the LIFO inventories that are the subject of this accounting method change, but only if the selected non-LIFO method is a permitted method for the inventory goods to which it will be applied. For example, a heavy equipment dealer may change to the specific identification method for new heavy equipment inventories and the replacement cost method, as described in Rev. Proc. 2006-14, 2006-1 C.B. 350, for heavy equipment parts inventories.

(ii) *Permitted method defined.* For purposes of this section 23.01, an inventory method (identification or valuation, or both) is a permitted method if it is specifically permitted for the inventory goods by the Code, the regulations, or other guidance published in the Internal Revenue Bulletin, or a decision of the United States Supreme Court and if the taxpayer is neither prohibited from using that method nor required to use a different inventory method for those inventory goods. A permitted method includes a method described in § 471(c), proposed § 1.471-1(b)(4), (5) or (6), or § 1.471-1(b)(4), (5) or (6), as applicable, provided the taxpayer is a small business taxpayer as defined in section 22.18(2) of this revenue procedure.

(iii) *Determining permitted method.* Whether an inventory method is a permitted method is determined without regard to the types and amounts of costs capitalized under the taxpayer's method of computing inventory cost. See § 263A and the regulations thereunder, which govern the types and amounts of costs required to be included in inventory cost for taxpayers subject to those provisions.

#### (2) *Eligibility rules.*

(a) *Eligibility rules inapplicable.*

(i) The eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, does not apply for the first taxable year that the taxpayer does not or will not comply with the requirements of § 472(e)(2) because the taxpayer has applied or will apply International Financial Reporting Standards in its financial statements or because the taxpayer has been acquired by an entity that has not or will not use the LIFO method in its financial statements.

(ii) For a change by a small business taxpayer to a permitted method described in the last sentence of section 23.01(1)(b)(ii) of this revenue procedure, if the taxpayer changed from accounting for inventory in accordance with § 471(c), proposed § 1.471-1(b) or § 1.471-1(b), as applicable, to accounting for inventory in accordance with § 472 and the accompanying regulations within the prior five taxable years ending with the year of change, and such change was made in the first taxable year that the taxpayer did not qualify as a small business taxpayer, then such change is disregarded for purposes of section 5.01(1)(f) of Rev. Proc. 2015-13.

(b) *Eligibility rule temporarily inapplicable.* The eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13 does not apply to a taxpayer's early application year, or, in the case of a taxpayer that does not apply § 1.471-1(b) in the early application year, the taxpayer's first taxable year beginning on or after January 5, 2021. For purposes of this section 23.01, "early application year" means the taxable year of change beginning before January 5, 2021, in which a taxpayer first applies § 1.471-1(b).

(3) *Limitation on LIFO election.* The taxpayer may not re-elect the LIFO inventory method for a period of at least five taxable years beginning with the year of change unless, based on a showing of unusual and compelling circumstances, consent is specifically granted by the Commissioner to change the method of accounting at an earlier time. A taxpayer that wants to re-elect the LIFO inventory method within a period of five taxable years (beginning with the year of change) must file a Form 3115 in accordance with the non-automatic change procedures in Rev. Proc. 2015-13. A taxpayer that wants to re-elect the LIFO inventory method after a period of five taxable years (beginning with the year of change) does not file a Form 3115 using the non-automatic change procedures in Rev. Proc. 2015-13, but, rather, must file a Form 970, *Application To Use LIFO Inventory Method*, in accordance with § 1.472-3.

(4) *Effect of subchapter S election by corporation.* See section 7.03(4)(b) and (c) of Rev. Proc. 2015-13.

(5) *Additional requirements.* The taxpayer must complete the following statements and attach them to its Form 3115. If the taxpayer will use different methods for different inventory goods to which the change applies, the taxpayer must complete the statements for each of those different types of inventory goods.

(a) "The proposed method of identifying [*Insert description of inventory goods*] is the [*Insert method, as appropriate; that is, specific identification; FIFO; retail; etc.*] method."

(b) "The proposed method of valuing [*Insert description of inventory goods*] is [*Insert method, as appropriate; that is, cost; LCM; etc.*]."

(6) *Pool split and partial termination.* If a taxpayer must remove goods from a LIFO inventory pool because those goods are not within the scope of that pool (*for example*, removing resale goods from a manufacturing pool), and if the taxpayer wants to change from the LIFO inventory

method for those removed goods, the taxpayer may split the pool pursuant to section 23.10 of this revenue procedure and then may change from the LIFO method pursuant to this section 23.01. *See* section 23.10(2) of this revenue procedure. The taxpayer must file a separate Form 3115 for each such change.

*(7) Section 481(a) adjustment required.*

(a) *General rule.* A taxpayer changing from a LIFO inventory method must compute a § 481(a) adjustment for the year of change. *See* section 7.02 of Rev. Proc. 2015-13.

(b) *Special rule for changes that would otherwise be implemented on a cut-off basis.* If a taxpayer is changing from the LIFO inventory method to a method of accounting that is implemented on a cut-off basis under another section of this revenue procedure (see, for example, sections 22.06, 22.07, and 22.13 of this revenue procedure), the taxpayer's § 481(a) adjustment is "the LIFO recapture amount" as defined in § 312(n)(4)(B) and (C). A taxpayer computing the § 481(a) adjustment under this special rule must then compute its ending inventory value for the year of change using the proposed method (that is, treat the deemed change from the first-in, first-out (FIFO) method to the proposed method on a cut-off basis).

(8) *No ruling on certain method of accounting used.* The consent granted under section 9 of Rev. Proc. 2015-13 for a change made by a small business taxpayer to an inventory method in accordance with § 471(c) under this section 23.01 is not a determination by the Commissioner that the proposed inventory method of accounting is permissible and does not create any presumption that the proposed method is a permissible method of accounting under a provision of the Code. The director will ascertain whether the proposed method is permissible under the Code. This section 23.01(8) does not apply to a small business taxpayer that is making a change to a method of accounting permissible under proposed § 1.471-1(b) or § 1.471-1(b).

(9) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 23.01 is "56."

(10) *Contact information.* For further information regarding a change under this section, contact Andrew Braden at (202) 317-7007 (not a toll-free number).

*.02 Determining current-year cost under the LIFO inventory method.*

*(1) Description of change.*

(a) *Applicability.* This change applies to a taxpayer using the LIFO inventory method that wants to change its method of determining current-year cost to:

(i) the actual cost of the goods most recently purchased or produced (most-recent-acquisitions method);

(ii) the actual cost of the goods purchased or produced during the taxable year in the order of acquisition (earliest-acquisitions method);

(iii) the average unit cost equal to the aggregate actual cost of all the goods purchased or produced throughout the taxable year divided by the total number of units so purchased or produced. *See* § 1.472-8(e)(2)(ii);

(iv) the specific identification method; or

(v) a rolling-average method if the taxpayer uses that rolling-average method in accordance with Rev. Proc. 2008-43, 2008-30 I.R.B. 186, as modified by Rev. Proc. 2008-52, 2008-36 I.R.B. 587 (*see* section 13).

(b) *Inapplicability.* This change does not apply to a taxpayer using the lower of cost or market method to determine current-year cost. A taxpayer using the lower of cost or market method that valued inventory below cost may not change to a proper cost valuation under this section 23.02.

(2) *Manner of making change.* This change is made using a cut-off basis and applies only to the computations of current-year cost after the beginning of the year of change. Accordingly, a § 481(a) adjustment is neither permitted nor required.

(3) *Concurrent change to a rolling-average method.* A taxpayer making both a change to a rolling-average method of determining current-year cost for its LIFO inventory under this section 23.02 and a change to a rolling-average method of accounting for non-LIFO inventories under Rev. Proc. 2008-43 (*see* section 22.13 of this revenue procedure) should file a single Form 3115 for both changes, in which case the taxpayer must enter the designated automatic accounting method change numbers for both changes on the appropriate line on that Form 3115. *See* section 6.03(1) (b) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, for information on making concurrent changes.

(4) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 23.02 is “57.”

(5) *Contact information.* For further information regarding a change under this section, contact Andrew Braden at (202) 317-7007 (not a toll-free number).

### .03 *Alternative LIFO inventory method for retail automobile dealers.*

(1) *Description of change.*

(a) *Applicability.* This change applies to a taxpayer engaged in the trade or business of retail sales of new automobiles or new light-duty trucks (“automobile dealer”) that wants to change to the “Alternative LIFO method” described in section 4 of Rev. Proc. 97-36, 1997-2 C.B. 450, as modified by Rev. Proc. 2008-23, 2008-1 C.B. 664, for its LIFO inventories of new automobiles and new light-duty trucks. Light-duty trucks are trucks with a gross vehicle weight of 14,000 pounds or less, which also are referred to as class 1, 2, or 3 trucks.

(b) *Inapplicability.* This change does not apply to an automobile dealer that uses the inventory price index computation (IPIC) method for goods other than new automobiles, new light-duty trucks, parts and accessories, used automobiles, and used trucks.

(2) *Manner of making change.*



(a) *Cut-off basis.* This change is made using a cut-off basis and applies only to the computation of ending inventories after the beginning of the year of change. See section 5.03(6) of Rev. Proc. 97-36 for more information regarding a cut-off basis. Accordingly, a § 481(a) adjustment is neither permitted nor required.

(b) *Concurrent change from IPIC method.* An automobile dealer using the IPIC method that also has parts and accessories, used automobiles, or used light-duty trucks (other goods) inventory may incorporate a change, using a cut-off basis, from IPIC to another acceptable LIFO method for those other goods into this change. When changing from IPIC to a dollar-value LIFO method for its other goods, the automobile dealer must establish separate inventory pools for new automobiles and new light-duty trucks, unless the automobile dealer also concurrently changes to the Vehicle-Pool Method (see section 23.08 of this revenue procedure). Further, the automobile dealer must establish a separate inventory pool for the parts and accessories. See section 6.03(1)(b) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, for information on making concurrent changes.

(c) *Additional requirements.* An automobile dealer also must comply with the following:

(i) the conditions in section 5.03 of Rev. Proc. 97-36; and

(ii) for an automobile dealer changing from the IPIC method under this section 23.03, the automobile dealer also must attach to its Form 3115 a schedule setting forth the classes of goods for which the automobile dealer has elected to use the LIFO method and the accounting method changes being made under this section 23.03 for each class of goods.

(3) *Concurrent change to the Vehicle-Pool Method.* A taxpayer making both a change to the Alternative LIFO Method under this section 23.03 and a change to the Vehicle-Pool Method under Rev. Proc. 2008-23 (see section 23.08 of this revenue procedure) should file a single Form 3115 for both changes, in which case the taxpayer must enter the designated automatic accounting method change numbers for both changes on the appropriate line on that Form 3115. See section 6.03(1)(b) of Rev. Proc. 2015-13 for information on making concurrent changes.

(4) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 23.03 is “58.”

(5) *Contact information.* For further information regarding a change under this section, contact Andrew Braden at (202) 317-7007 (not a toll-free number).

.04 *Used vehicle alternative LIFO method.*

(1) *Description of change.* This change applies to a taxpayer that sells used automobiles and used light-duty trucks (“used vehicle dealers”) that wants to change to the “Used Vehicle Alternative LIFO Method” as described in Rev. Proc. 2001-23, 2001-1 C.B. 784, as modified by Announcement 2004-16, 2004-1 C.B. 668, and Rev. Proc. 2008-23, 2008-1 C.B. 664.

(2) *Additional requirements.* A taxpayer making this change must comply with the additional conditions set forth in section 5.04 of Rev. Proc. 2001-23.

(3) *Manner of making change.*

(a) *Cut-off basis.* This change is made on a cut-off basis, which requires that the value of the taxpayer's used automobile and used light-duty truck inventory at the beginning of the year of change must be the same as the value of that inventory at the end of the preceding taxable year, plus cost restorations, if any, required by section 5.04(5) of Rev. Proc. 2001-23. Accordingly, a § 481(a) adjustment is neither permitted nor required.

(b) *Bargain purchase.* If the taxpayer has previously improperly accounted for a bulk bargain purchase, the taxpayer must, as part of this change, first change its method of accounting to comply with *Hamilton Industries, Inc. v. Commissioner*, 97 T.C. 120 (1991), and compute a § 481(a) adjustment for that part of the change. See Announcement 91-173, 1991-47 I.R.B. 29. Upon examination, if a taxpayer has properly changed under this section 23.04 except for complying with this section 23.04(3)(b), an examining agent may not deny the taxpayer the change. However, the taxpayer does not receive audit protection under section 8.01 of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, with respect to the improper method of accounting for the bargain purchase. See section 8.02(2) of Rev. Proc. 2015-13. Accordingly, the examining agent may make any necessary adjustments in any year for which the period of limitations on assessment and collection of tax is open to effect compliance with *Hamilton Industries, Inc.*

(c) *New base year.* In effecting a change to the Used Vehicle Alternative LIFO Method under this revenue procedure, the taxpayer must retain any LIFO inventory cost increments previously determined and the value of those increments. Instead of using the earliest taxable year for which the taxpayer adopted LIFO as the base year, the taxpayer must use the year of change as the new base year in determining the value of all existing LIFO cost increments for the year of change and later taxable years. (The cumulative index at the beginning of the year of change is 1.00). The taxpayer must restate the base-year cost of all LIFO cost increments at the beginning of the year of change in terms of new base-year costs, using the year of change as the new base year, and must recompute the indexes for previously determined inventory increments accordingly. The new base-year cost of a pool is equal to the total current-year cost of all the vehicles in the pool.

(d) *Form 3115.* A completed Form 3115 includes the completion of Part I of Schedule C.

(4) *Concurrent change from IPIC method.* A used vehicle dealer using the IPIC method that also has parts and accessories, new automobiles, or new light-duty trucks (other goods) inventory may incorporate a change, using a cut-off basis, from IPIC to another acceptable LIFO method for those other goods into this change. When changing from IPIC to a dollar-value LIFO method for its other goods, the used vehicle dealer must establish separate inventory pools for new automobiles and new light-duty trucks, unless the used vehicle dealer also concurrently changes to the Vehicle-Pool Method (see section 23.08 of this revenue procedure). Further, the used vehicle dealer must establish a separate inventory pool for the parts and accessories. See section 6.03(1)(b) of Rev. Proc. 2015-13 for information on making concurrent changes.

(5) *Concurrent change to the Vehicle-Pool Method.* A taxpayer making both a change to the Used Vehicle Alternative LIFO Method under this section 23.04 and a change to the Vehicle-Pool Method under Rev. Proc. 2008-23 (see section 23.08 of this revenue procedure) should file a single Form 3115 for both changes, in which case the taxpayer must enter the designated automatic accounting method change numbers for both changes on the appropriate line on that Form 3115. See section 6.03(1)(b) of Rev. Proc. 2015-13 for information on making concurrent changes.

(6) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 23.04 is "59."

(7) *Contact information.* For further information regarding a change under this section, contact Andrew Braden at (202) 317-7007 (not a toll-free number).

.05 *Determining the cost of used vehicles purchased or taken as a trade-in.*

(1) *Description of change.*

(a) *Applicability.* This change applies to a taxpayer using the LIFO inventory method that wants to:

(i) determine the cost of used vehicles acquired by trade-in using the average wholesale price listed by an official used vehicle guide on the date of the trade-in. *See* Rev. Rul. 67-107, 1967-1 C.B. 115. The taxpayer must consistently use the official used vehicle guide selected unless the taxpayer receives permission to use a different guide;

(ii) use a different official used vehicle guide for determining the cost of used vehicles acquired by trade-in;

(iii) determine the cost of used vehicles purchased for cash using the actual purchase price of the vehicle; or

(iv) reconstruct the beginning-of-the-year cost of used vehicles purchased for cash using values computed by national auto auction companies based on vehicles purchased for cash. The national auto auction company selected must be consistently used.

(b) *Inapplicability.* This change does not apply to a taxpayer that adopted or changed to the Used Vehicle Alternative LIFO Method (*see* section 23.04 of this revenue procedure).

(2) *Manner of making change.* This change is made on a cut-off basis and applies only to used vehicles acquired on or after the beginning of the year of change. Accordingly, a § 481(a) adjustment is neither permitted nor required.

(3) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 23.05 is “60.”

(4) *Contact information.* For further information regarding a change under this section, contact Andrew Braden at (202) 317-7007 (not a toll-free number).

.06 *Change to the inventory price index computation (IPIC) method.*

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

(a) from a non-IPIC LIFO inventory method to the IPIC method in accordance with all relevant provisions of § 1.472-8(e)(3); or

(b) from the IPIC method as described in T.D. 7814, 1982-1 C.B. 84, (March 15, 1982) (the old IPIC method) to the IPIC method as described in § 1.472-8(e)(3) (*see* T.D. 8976, 2002-1 C.B.

421, (January 8, 2002)) (the new IPIC method), which includes the following required changes (if applicable):

(i) from using 80% of the inventory price index (IPI) to using 100% of the IPI to determine the base-year cost and dollar-value of a LIFO pool(s);

(ii) from using a weighted arithmetic mean to using a weighted harmonic mean to compute an IPI for a dollar-value pool(s); and

(iii) from using a components-of-cost method to define inventory items to using a total-product-cost method to define inventory items.

(2) *Manner of making change.* This change is made on a cut-off basis and applies only to the computation of ending inventories after the beginning of the year of change. Accordingly, a § 481(a) adjustment is neither permitted nor required.

(3) *Bargain purchase.* If the taxpayer has previously improperly accounted for a bulk bargain purchase, the taxpayer must, as part of this change, first change its method of accounting to comply with *Hamilton Industries, Inc. v. Commissioner*, 97 T.C. 120 (1991), and compute a § 481(a) adjustment for that part of the change. See Announcement 91-173, 1991-47 I.R.B. 29. Upon examination, if a taxpayer has properly changed under this section 23.06 except for complying with section 23.06(3) of this revenue procedure, an examining agent may not deny the taxpayer the change. However, the taxpayer does not receive audit protection under section 8.01 of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, with respect to the improper method of accounting for the bargain purchase. See section 8.02(2) of Rev. Proc. 2015-13. Accordingly, the examining agent may make any necessary adjustments in any year for which the period of limitations on assessment and collection of tax is open to effect compliance with *Hamilton Industries, Inc.*

(4) *Concurrent automatic changes.*

(a) A taxpayer making this change and to change its method of determining current-year cost under section 23.02 of this revenue procedure for the same year of change may file a single Form 3115 for both changes, provided the taxpayer enters the designated automatic accounting method change numbers for both changes on the appropriate line on that Form 3115. See section 6.03(1) (b) of Rev. Proc. 2015-13 for information on making concurrent changes.

(b) A taxpayer making this change and to change its method of pooling to IPIC-method pools described in § 1.472-8(b)(4) or § 1.472-8(c)(2) under section 23.07 of this revenue procedure for the same year of change may file a single Form 3115, provided the taxpayer enters the designated automatic accounting method change numbers for both changes on the appropriate line on that Form 3115. See section 6.03(1)(b) of Rev. Proc. 2015-13 for information on making concurrent changes.

(c) A taxpayer making this change and to change its method of pooling under section 23.10 of this revenue procedure for the same year of change may file a single Form 3115, provided the taxpayer enters the designated automatic accounting method change numbers for both changes on the appropriate line on that Form 3115. See section 6.03(1)(b) of Rev. Proc. 2015-13 for information on making concurrent changes.

(5) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 23.06 is “61.”

(6) *Contact information.* For further information regarding a change under this section, contact Andrew Braden at (202) 317-7007 (not a toll-free number).

*.07 Changes within the inventory price index computation (IPIC) method.*

(1) *Description of change.* This change applies to a taxpayer using the IPIC method described in § 1.472-8(e)(3) as revised by T.D. 8976, 2002-1 C.B. 421, (new IPIC method) that wants to make one or more of the following changes:

(a) change from the double-extension IPIC method to the link-chain IPIC method, or *vice versa*. See § 1.472-8(e)(3)(iii)(E) for principles concerning the computation of the inventory price index under the double-extension IPIC method and the link-chain IPIC method;

(b) change to or from the 10 percent method. See § 1.472-8(e)(3)(iii)(C) for principles concerning the assignment of inventory items to Bureau of Labor Statistics (BLS) categories under the IPIC method;

(c) change to IPIC-method pools described in § 1.472-8(b)(4) or § 1.472-8(c)(2), including a change to begin or discontinue applying one or both of the 5 percent pooling rules;

(d) change to combine or separate pools as a result of the application of a 5 percent pooling rule described in § 1.472-8(b)(4) or § 1.472-8(c)(2);

(e) change its selection of BLS table from Table 3 (Consumer Price Index for All Urban Consumers (CPI-U): U.S. city average, detailed expenditure categories) of the monthly CPI Detailed Report to Table 9 (Producer price indexes (PPI) and percent changes for commodity and service groupings and individual items, not seasonally adjusted) of the monthly PPI Detailed Report (formerly, Table 6), or *vice versa*. See § 1.472-8(e)(3)(iii)(B)(2) for principles concerning the selection of a BLS table under the IPIC method;

(f) change the assignment of one or more inventory items to BLS categories under either Table 3 (CPI-U): U.S. City average, detailed expenditure categories) of the monthly CPI Detailed Report or Table 9 (PPI and percent changes for commodity and service groupings and individual items, not seasonally adjusted) of the monthly PPI Detailed Report (formerly, Table 6). See § 1.472-8(e)(3)(iii)(C) for principles concerning the assignment of inventory items to BLS categories under the IPIC method. As part of this change, a taxpayer may separate a reassigned item from an inappropriate pool and combine the reassigned item with items in an appropriate pool. See § 1.472-8(g)(2) for principles concerning the manner of combining and separating dollar-value pools;

(g) change the representative month when necessitated because of a change in taxable year or a change in method of determining current-year cost made pursuant to section 23.02 of this revenue procedure. See § 1.472-8(e)(3)(iii)(B) for principles concerning the determination of a representative month under the IPIC method. A change in method of determining current-year cost and a change of the representative month may be made using a single Form 3115, provided the taxpayer enters the designated automatic accounting method change numbers for both changes on the appropriate line on that Form 3115;

(h) change from using preliminary BLS price indexes to using final BLS price indexes to compute an inventory price index, or *vice versa*. See § 1.472-8(e)(3)(iii)(D)(2) for principles concerning the selection of BLS price indexes under the IPIC method; and

(i) change from using a representative appropriate month to using an appropriate month. See § 1.472-8(e)(3)(iii)(B)(3) for principles concerning the selection of an appropriate month.

(2) *Certain eligibility rule inapplicable*. The eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, does not apply to the changes described in sections 23.07(1)(d), (f) in the case of a taxpayer using the 10 percent method described in § 1.472-8(e)(3)(iii)(C)(2), and (g) of this revenue procedure.

(3) *Manner of making change*.

(a) *Cut-off basis*. These changes are made on a cut-off basis and apply only to the computation of ending inventories after the beginning of the year of change. Accordingly, a § 481(a) adjustment is neither permitted nor required.

(b) *New base year*. A taxpayer that changes pursuant to sections 23.07(1)(a), (b), and (e) of this revenue procedure must establish a new base year in the year of change.

(4) *Designated automatic accounting method change number*. The designated automatic accounting method change number for a change under this section 23.07 is “62.”

(5) *Contact information*. For further information regarding a change under this section, contact Andrew Braden at (202) 317-7007 (not a toll-free number).

.08 *Changes to the Vehicle-Pool Method*.

(1) *Description of change*. This change applies to a retail dealer or wholesale distributor (“reseller”) of cars and light-duty trucks that wants to change to the “Vehicle-Pool Method” as described in Rev. Proc. 2008-23, 2008-1 C.B. 664.

(2) *Manner of making change*.

(a) *Cut-off basis*. This change is made on a cut-off basis and applies only to the computation of ending inventories after the beginning of the year of change. Accordingly, a § 481(a) adjustment is neither permitted nor required. A reseller that changes its method of pooling under Rev. Proc. 2008-23 and this section 23.08 must comply with § 1.472-8(g).

(b) *New base year*. Instead of using the earliest taxable year for which the reseller adopted the LIFO method for any items in a pool, the reseller must use the year of change as the base year when determining the LIFO value of that pool for the year of change and subsequent taxable years (that is, the cumulative index at the beginning of the year of change is 1.00). The reseller must restate the base-year cost of all layers of increment in a pool at the beginning of the year of change in terms of new base-year cost. For an example of establishing a new base year, see § 1.472-8(e)(3)(iv)(B)(I)(ii).



(3) *Concurrent change to the Alternative LIFO Method or the Used Vehicle Alternative LIFO Method.* A reseller making both a change to the Vehicle-Pool Method under this section 23.08 and a change to the Alternative LIFO Method under Rev. Proc. 97-36 (see section 23.03 of this revenue procedure) or the Used Vehicle Alternative LIFO Method under Rev. Proc. 2001-23 (see section 23.04 of this revenue procedure) should file a single Form 3115 for both changes, in which case the taxpayer must enter the designated automatic accounting method change numbers for both changes on the appropriate line on that Form 3115. See section 6.03(1)(b) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, for information on making concurrent changes.

(4) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 23.08 is “112.”

(5) *Contact information.* For further information regarding a change under this section, contact Andrew Braden at (202) 317-7007 (not a toll-free number).

*.09 Changes within the used vehicle alternative LIFO method.*

(1) *Description of change.* This change applies to a taxpayer using the “Used Vehicle Alternative LIFO Method” as described in Rev. Proc. 2001-23, 2001-1 C.B. 784, as modified by Announcement 2004-16, 2004-1 C.B. 668, and Rev. Proc. 2008-23, 2008-1 C.B. 664, that wants to change the particular “official used vehicle guide” utilized by the taxpayer in connection with the Used Vehicle Alternative LIFO Method or any change in the precise manner of its utilization (for example, a change in the specific guide category that a taxpayer uses to represent vehicles of average condition for purposes of section 4.02(5)(a) of Rev. Proc. 2001-23).

(2) *Manner of making change.*

(a) *Cut-off basis.* This change is made on a cut-off basis and applies only to the computation of ending inventories after the beginning of the year of change. Accordingly, a § 481(a) adjustment is neither permitted nor required.

(b) *New base year.* A taxpayer that changes its method pursuant to this section 23.09 must establish a new base year in the year of change.

(3) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 23.09 is “140.”

(4) *Contact information.* For further information regarding a change under this section, contact Andrew Braden at (202) 317-7007 (not a toll-free number).

*.10 Changes to dollar-value pools of manufacturers.*

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

(a) purchases goods for resale (resale goods) and, thus, must reassign resale goods from the pool(s) it maintains for the goods it manufactures to one or more resale pools;

(b) wants to change from using multiple pools described in § 1.472-8(b)(3) to using natural business unit (NBU) pools described in § 1.472-8(b)(1), or *vice versa*; or

(c) wants to reassign items in NBU pools described in § 1.472-8(b)(1) into the same number or a greater number of NBU pools.

(2) *Manner of making change.* This change is made on a cut-off basis and applies only to the computation of ending inventories after the beginning of the year of change. Accordingly, a § 481(a) adjustment is neither permitted nor required. A taxpayer that changes its method of pooling pursuant to this section 23.10 must combine or separate pools as required by § 1.472-8(g). If a taxpayer splits a pool into two or more permissible pools pursuant to this section 23.10, which must be implemented on a cut-off basis, the taxpayer then may file a separate Form 3115 to change from the LIFO inventory method for one or more of the resulting pools pursuant to section 23.01 of this revenue procedure, which must be implemented with a § 481(a) adjustment.

(3) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 23.10 is “141.”

(4) *Contact information.* For further information regarding a change under this section, contact Andrew Braden at (202) 317-7007 (not a toll-free number).

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## SECTION 24. MARK-TO-MARKET ACCOUNTING METHODS (Including § 475 )

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.01 *Commodities dealers, securities traders, and commodities traders electing to use the mark-to-market method of accounting under § 475(e) or (f).*

(1) *Description of change.* This change applies to certain taxpayers that have elected to use the mark-to-market method of accounting under § 475(e) or (f). Under § 475(e) and (f) and Rev. Proc. 99-17, 1999-1 C.B. 503, if a taxpayer makes a timely election under § 475(e) or (f), then beginning with the first taxable year for which the election is effective (election year), mark to market is the only permissible method of accounting for securities or commodities subject to the election. Thus, if the electing taxpayer’s method of accounting for its taxable year immediately preceding the election year is inconsistent with § 475, the taxpayer is required to change its method of accounting to comply with the election. A taxpayer that makes a § 475(e) or (f) election but fails to change its method of accounting to comply with that election is using an impermissible method. See section 4 of Rev. Proc. 99-17.

(2) *Applicability.* This change applies to a taxpayer if all of the following conditions are satisfied:

(a) the taxpayer is a commodities dealer, securities trader, or commodities trader that has made a valid election under § 475(e) or (f) (*see* section 5.03(1) of Rev. Proc. 99-17) and that is required to change its method of accounting to comply with the election;

(b) the method of accounting to which the taxpayer changes is in accordance with its election under § 475(e) or (f); and

(c) the year of change is the election year.

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

(4) *Election under Rev. Proc. 99-17.* In accordance with section 5.03(1) of Rev. Proc. 99-17, to make a § 475(e) or (f) election, a taxpayer must file a statement satisfying the requirements in section 5.04 of Rev. Proc. 99-17. The taxpayer must file the statement not later than the due date (without regard to any extension) of the original federal income tax return for the taxable year immediately preceding the election year and must attach the statement either to that return or, if applicable, to a request for an extension of time to file that return. For example, if a calendar year individual taxpayer wants to make a § 475(e) or (f) election for 2018 (the election year), the taxpayer must file the statement on or before April 18, 2018, with the taxpayer's timely filed (without regard to any extension) federal income tax return for 2017 or the taxpayer's timely filed request for an extension of time to file the 2017 federal income tax return. On the Form 3115 filed for the year of change, a taxpayer should indicate that the taxpayer has filed the statement in compliance with section 5.03(1) of Rev. Proc. 99-17.

(5) *Limited § 301.9100 relief.* Section 301.9100-3 relief for failure to comply with the requirements of this section 24.01 will be granted only in unusual and compelling circumstances.

(6) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 24.01 is "64."

(7) *Contact information.* For further information regarding a change under this section, contact Marsha Sabin at (202) 317-6945 (not a toll-free number).

*.02 Taxpayers requesting to change their method of accounting from the mark-to-market method of accounting described in § 475 to a realization method.*

(1) *Description of change.* This change applies to any taxpayer requesting permission to change its method of accounting for securities or commodities as defined in § 475 from the mark-to-market method of accounting described in § 475 to a realization method of accounting. For example, this section 24.02 applies when a taxpayer is required to change its method of accounting to a realization method after revoking an election under § 475(e), (f)(1), or (f)(2). This change is not limited to a change required by § 475 (for example, this section 24.02 applies to a change from a mark-to-market method of accounting for notional principal contracts providing for nonperiodic payments even if the taxpayer is not subject to § 475) and, in such a case, references to § 475 in this section 24.02 are interpreted accordingly. For purposes of this section 24.02, a change to a realization method of accounting includes a change in which the taxpayer also is required to use a mark-to-market method of accounting under a specific Code section to account for all or some of the taxpayer's securities or commodities (for example, § 1256 for commodities).

(2) *Exclusive procedure.* The procedure set forth in this section 24.02 is the exclusive procedure for changing a taxpayer's method of accounting from the mark-to-market method described in § 475 to a realization method. Thus, filing the Notification Statement described in section 24.02(6) of this revenue procedure is the exclusive manner of revoking a § 475(e), (f)(1), or (f)(2) election. Moreover, any taxpayer requesting permission to change to a realization method must follow the procedures described in this section 24.02 and other applicable provisions of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, to request consent to change its method of accounting for securities described in § 475(c)(2) (Section 475 Securities), commodities described in § 475(e)(2) (Section 475 Commodities), or both.

(3) *Applicability.* This change applies to a taxpayer if all of the following conditions in paragraphs (a) through (c) below are satisfied:

(a) the taxpayer is using, properly or improperly, the mark-to-market method of accounting described in § 475;

(b) the taxpayer is requesting permission to change to a realization method of accounting and report gains or losses from the disposition of Section 475 Securities, Section 475 Commodities, or both, under § 1001; and

(c) the taxpayer meets the requirements of this section 24.02, including the requirement that it timely file the Notification Statement described in section 24.02(6) of this revenue procedure.

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

(5) *Manner of making change.* This change is made using a cut-off basis and applies only to Section 475 Securities, Section 475 Commodities, or both, that are accounted for using the mark-to-market method of accounting described in § 475 and for which a change in method is requested under this section 24.02. Accordingly, a § 481(a) adjustment is neither permitted nor required.

Under the cut-off basis, a taxpayer must make a final mark of all Section 475 Securities, Section 475 Commodities, or both, that are being marked to market and that are the subject of the accounting method change being requested, on the last business day of the year preceding the year of change. As a result of the final mark, gain or loss attributable to those securities and commodities is also recognized on the last business day of the year preceding the year of change. In the case of any Section 475 Security or Section 475 Commodity that a taxpayer holds on the first day of the year of change, the taxpayer must make proper adjustment in the amount of any subsequently realized gain or loss to take into account adjustments for the gain or loss recognized prior to the first day of the year of change pursuant to the use of the mark-to-market method of accounting described in § 475 in order to prevent amounts from being duplicated or omitted. Any change in value on or after the first day of the year of change will be taken into account using a realization method of accounting unless section 24.02(7) of this revenue procedure permits the taxpayer to resume a mark-to-market method and the taxpayer resumes a mark-to-market method.

(6) *Notification Statement required.* In addition to filing the Form 3115 required under section 6.03(1) of Rev. Proc. 2015-13, to change to a realization method of accounting under this section 24.02, a taxpayer must also file a Notification Statement that satisfies the requirements in section 24.02(6) of this revenue procedure. The Notification Statement must be filed not later than the due date (without regard to any extension) of the original federal income tax return for the taxable year immediately preceding the year of change and must be attached either to that return or, if applicable, to a request for an extension of time to file that return.

(a) *Notification Statement contents.* The Notification Statement must contain (1) the name of the taxpayer that will change its method of accounting (that is, the applicant), and, if applicable, the filer (for example, its parent corporation); (2) a statement that the taxpayer is requesting to change its method of accounting from the mark-to-market method of accounting described in § 475 to a realization method; (3) the year of change (both the beginning and ending dates); and (4) the types of instruments subject to the method change, that is, Section 475 Securities, Section 475 Commodities, or both. If a taxpayer has made an election under § 475(e), (f)(1), or (f)(2), the taxpayer must also include a statement revoking the taxpayer's section 475 election or

elections for the Section 475 Securities, Section 475 Commodities, or both, for which a change in accounting method is sought.

(b) *Effect of filing Notification Statement.* Once the taxpayer files a Notification Statement for the year of change, a realization method of accounting is the only permissible method of accounting for Section 475 Securities, Section 475 Commodities, or both, described in the Notification Statement for the entire year of change and all subsequent years (unless section 24.02(7)(a) of this revenue procedure applies). A taxpayer that files the Notification Statement described in this section 24.02 but fails to change its method of accounting using the procedures described in Rev. Proc. 2015-13 and this section 24.02 is using an impermissible method.

(c) *Limited § 301.9100 relief.* Section 301.9100 relief for failure to comply with the requirements of this section 24.02(6) will be granted only in unusual and compelling circumstances.

(7) *Additional requirements.*

(a) *Resuming the mark-to-market method of accounting.* A taxpayer may not use the automatic change procedures in Rev. Proc. 2015-13 and section 24.01 of this revenue procedure to resume using the mark-to-market method of accounting described in § 475 for the Section 475 Securities, Section 475 Commodities, or both, that are the subject of the method change being requested using this section 24.02 during any of the five taxable years beginning with the year of change. To resume using the mark-to-market method of accounting described in § 475 during this 5-year period, a taxpayer must: (i) request the change using the non-automatic change procedures in Rev. Proc. 2015-13, (ii) request the change by the date an election for the year of change would be due under section 5.03 of Rev. Proc. 99-17, 1999-1 C.B. 503, and (iii) include a statement that satisfies all applicable requirements of section 5.04 of Rev. Proc. 99-17.

(b) *Copy of Notification Statement.* A taxpayer must attach a copy of the Notification Statement required in section 24.02(6) of this revenue procedure to its Form 3115 filed under this section 24.02.

(c) *No audit protection for valuation.* A taxpayer does not receive audit protection under section 8.01 of Rev. Proc. 2015-13 for the method of valuation used by the taxpayer to determine the fair market value of the taxpayer's Section 475 Securities, Section 475 Commodities, or both, for a taxable year prior to the year of change, or for a failure to comply with the requirements in Rev. Proc. 99-17 to properly elect the mark-to-market method. *See* section 8.02(2) of Rev. Proc. 2015-13.

(8) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 24.02 is "218".

(9) *Contact information.* For further information regarding a change under this section, contact Marsha Sabin at (202) 317-6945 (not a toll-free number).

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SECTION 25. BANK RESERVES FOR BAD DEBTS (§ 585)

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.01 *Changing from the § 585 reserve method to the § 166 specific charge-off method.*

(1) *Description of change.*

(a) *Applicability.* This change applies to a bank (as defined in § 581, including a bank for which a qualified subchapter S subsidiary (Qsub) election is filed) that wants to change its method of accounting for bad debts from the § 585 reserve method to the § 166 specific charge-off method.

(b) *Inapplicability.* This change does not apply to a large bank as defined in § 585(c)(2).

(2) *Certain eligibility rule inapplicable.* A bank that changed from the § 593 reserve method under § 593(g) to the § 585 reserve method is not prohibited under section 5.01(1)(f) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, from changing its method of accounting for bad debts under this section 25.01 solely because of the § 593(g) change. A bank for which a Qsub election is filed will not be prohibited under section 5.01(1)(f) of Rev. Proc. 2015-13 from changing its method of accounting for bad debts under this section 25.01 solely because of the deemed liquidation of the bank arising from a Qsub election.

(3) *Section 481(a) adjustment.* Generally, the amount of the § 481(a) adjustment for a change in method of accounting under this section 25.01 is the amount of the bank's reserve for bad debts as of the close of the taxable year immediately before the year of change. However, the amount of the § 481(a) adjustment does not include the amount of a bank's pre-1988 reserves (as described in § 593(g)(2)(A)(ii), without taking into account § 593(g)(2)(B)) if the bank changed in a prior year from the § 593 reserve method to the § 585 reserve method and § 593(g) applied to that change. The deemed liquidation of a bank occurring solely because its parent makes a Qsub election does not accelerate the § 481(a) adjustment. In accordance with section 7.03(4)(a) of Rev. Proc. 2015-13, a bank that ceases to be a bank under § 581 must accelerate its § 481(a) adjustment.

(4) *Change from § 585 required when electing S corporation status.*

(a) *General rule.* A bank electing S corporation status (or a bank for which a Qsub election is filed) cannot use the § 585 reserve method. The filing by a bank of a Form 2553, *Election by a Small Business Corporation*, or the filing by a bank's parent of Form 8869, *Qualified Subchapter S Subsidiary Election*, with respect to the bank will constitute an agreement by the bank to change its method of accounting for bad debts from the § 585 reserve method to the § 166 specific charge-off method effective as of the taxable year for which the S corporation election or Qsub election is effective (year of change) in accordance with all of the automatic change procedures of Rev. Proc. 2015-13 and this section 25.01. The resulting § 481(a) adjustment is recognized built-in gain under § 1374, unless the bank elects under § 1361(g) and section 25.01(4)(b) of this revenue procedure to take the § 481(a) adjustment into account in determining taxable income for the taxable year immediately preceding the year of change. See § 1.1374-4(d).

(b) *Election to include § 481(a) adjustment in taxable year immediately preceding the year of change.*

(i) *Election requirements.* A bank that changes its method of accounting for bad debts under this section 25.01, from the § 585 reserve method to the § 166 specific charge-off method for the first taxable year for which the bank's S corporation election is effective (year of change) may elect under § 1361(g) to take into account the amount of the resulting § 481(a) adjustment in determining taxable income for the taxable year immediately preceding the year of change. To make this election, a bank must (1) file an original and copy of Form 3115 under section 6.03(1) of Rev. Proc. 2015-13 (and any other copy required under section 6.03) for the year of change, (2) file an additional copy of the Form 3115 with its original (or amended) federal income tax return for the taxable year immediately preceding the year of change filed no later than the date the



original Form 3115 is properly filed under section 6.03(1) of Rev. Proc. 2015-13 (and any other copy required under section 6.03) and (3) include the amount of the § 481(a) adjustment in gross income for the taxable year immediately preceding the year of change. The bank must attach a statement to the original and both copies of Form 3115 stating that the bank elects under § 1361(g) to take the § 481(a) adjustment into account in determining taxable income for the taxable year immediately preceding the year of change.

(ii) *Special rule for Qsub banks.* In the case of a Qsub bank, the S corporation parent must file an original and copy of Form 3115 under section 6.03(1) of Rev. Proc. 2015-13 for the year of change. The Qsub bank must file an additional copy of the Form 3115 with its original (or amended) federal income tax return for the taxable year immediately preceding the year of change filed no later than the date the original Form 3115 is properly filed under section 6.03(1) of Rev. Proc. 2015-13, and include the amount of the § 481(a) adjustment in gross income for the taxable year immediately preceding the year of change. In the case of a Qsub bank, the Form 3115 should indicate that the “filer” is the S corporation parent and the “applicant” is the Qsub bank.

(iii) The following example illustrates the principles of section 25.01(4)(b) of this revenue procedure.

*Example.* *X*, a calendar year taxpayer, is a calendar year bank as defined in § 581 and is not a large bank as defined in § 585(c)(2). For taxable years before 2015, *X* accounted for its bad debts under the § 585 reserve method. By March 15, 2015, *X* properly filed a Form 2553 electing to be an S corporation effective January 1, 2015. Pursuant to section 25.01(4) (a) of this revenue procedure, the filing of the Form 2553 constituted an agreement by *X* to change from the § 585 reserve method to the § 166 specific charge-off method for 2015 in accordance with all of the automatic change procedures of Rev. Proc. 2015-13, and the applicable provisions of this section 25.01. Thus, for example, *X* must file a Form 3115 for this 2015 change in duplicate, in accordance with section 6.03(1) of Rev. Proc. 2015-13, by attaching the original Form 3115 to *X*'s timely filed (including any extension) original federal income tax return for 2015 and filing a duplicate copy of the Form 3115 with the Ogden, UT, office. The amount of *X*'s § 481(a) adjustment for the change is the amount of *X*'s bad debt reserve as of the close of December 31, 2014. *X* wishes to elect under § 1361(g) to include the § 481(a) adjustment in income in the taxable year ending December 31, 2014, the taxable year immediately preceding the year of change. To make this election, *X* must (1) file an original and copy of Form 3115 for the 2015 change under section 6.03(1) of Rev. Proc. 2015-13, (2) file an additional copy of that Form 3115 with its original (or amended) federal income tax return for 2014 filed no later than the date the original Form 3115 is properly filed under section 6.03(1) of Rev. Proc. 2015-13, and (3) include the amount of its § 481(a) adjustment in gross income in its return for 2014. *X* must attach a statement to the original and both copies of Form 3115 stating that *X* elects under § 1361(g) to take the § 481(a) adjustment into account in determining taxable income for 2014, the taxable year immediately preceding the year of change.

(5) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 25.01 is “66.”

(6) *Contact information.* For further information regarding a change under this section, contact K. Scott Brown at (202) 317-6945, Laura Fields at (202) 317-6850, or Adrienne Mikolashek at (202) 317-6850 (not toll-free numbers).

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## SECTION 26. INSURANCE COMPANIES (§§ 807, 816, 832, 833)

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.01 *Safe harbor method of accounting for premium acquisition expenses.*

(1) *Description of change.* Rev. Proc. 2002-46, 2002-2 C.B. 105, sets forth a safe harbor method of accounting for premium acquisition expenses of certain non-life insurance companies. Under this method, an insurance company is permitted to treat as premium acquisition expenses incurred for the taxable year an amount equal to the sum of (a) the amount of premium acquisition

expenses paid during the taxable year; (b) the difference between the unpaid premium acquisition expenses shown on the company's annual statement for the taxable year and the unpaid premium acquisition expenses shown on the company's annual statement for the preceding taxable year; and (c) the difference between the amount of the insurance company's *pro forma* premium acquisition expenses at the end of the taxable year and the company's *pro forma* premium acquisition expenses at the end of the preceding taxable year. The amount taken into account as a net increase in the *pro forma* premium acquisition expenses, however, cannot exceed the insurance company's unearned premium reserve offset amount for that year. A special rule applies to premium acquisition expenses with respect to certain contracts with installment premiums. *See* Rev. Proc. 2002-46.

(2) *Applicability.* The automatic change in this section 26.01 applies to any insurance company that is subject to tax under § 831(a) and determines its premiums earned for insurance contracts during the taxable year under § 832(b)(4) in accordance with the provisions of § 1.832-4. The automatic change does not apply to an existing Blue Cross or Blue Shield organization or any other organization to which § 833 applies.

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

(4) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 26.01 is "67."

(5) *Contact information.* For further information regarding a change under this section, contact Rebecca L. Baxter at (202) 317-6995 (not a toll-free number).

*.02 Certain changes in method of accounting for organizations to which § 833 applies*

(1) *Description of change.* This change applies to an existing Blue Cross or Blue Shield organization within the meaning of § 833(c)(2), or an organization described in § 833(c)(3), that is required to change its method of accounting for unearned premiums by reason of failing to meet the Medical Loss Ratio (MLR) requirements of § 833(c)(5), or by reason of meeting the MLR requirements of § 833(c)(5) after failing to meet those requirements in a prior year. *See* Notice 2011-4, 2011-2 I.R.B. 282.

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

(3) *Accelerated § 481(a) adjustment period in certain situations.* In addition to the circumstances set forth in section 7.03(4) of Rev. Proc. 2015-13, the § 481 adjustment period provided in section 7.03 of Rev. Proc. 2015-13 will be accelerated in the event a taxpayer with a remaining balance of a § 481(a) adjustment that arose by reason of a change in method of accounting described in this section 26.02 is required to effect another change in method of accounting described in this section 26.02. Thus, for example, a taxpayer that fails to satisfy the requirements of § 833(c)(5) and as a result has a positive § 481(a) adjustment, is required to accelerate the remaining balance, if any, of that adjustment in a subsequent taxable year in which the taxpayer meets the requirements of § 833(c)(5).

(4) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 26.02 is "155."

(5) *Contact information.* For further information regarding this section, contact Rebecca L. Baxter at (202) 317-6995 (not a toll-free number).

.03 *Change in qualification as life/nonlife insurance company under § 816.*

(1) *Description of change.* This change applies to an insurance company that changes from being taxed as a life insurance company under part I of subchapter L to being taxed as a non-life insurance company under part II of subchapter L, or *vice versa*. Whether an insurance company is taxed under § 801 as a life insurance company under part I of subchapter L is determined under § 816.

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

(3) *No audit protection or ruling on qualification as a life insurance company.* The taxpayer does not receive either: (a) any audit protection under section 8.01 of Rev. Proc. 2015-13 or (b) ruling reliance under section 10 of Rev. Proc. 2015-13 in connection with the consent granted under section 9 of Rev. Proc. 2015-13 for a change under this section 26.03 regarding whether the taxpayer qualifies as a life insurance company. The director will ascertain whether the taxpayer qualifies as a life insurance company.

(4) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 26.03 is “219.”

(5) *Contact information.* For further information regarding a change under this section, contact Rebecca L. Baxter at (202) 317-6995 (not a toll-free number).

.04 *Changes in basis of computing reserves under § 807(f).*

(1) *Description of change and applicability.* This automatic change applies to a change in basis of computing any item referred to in § 807(c), as described in § 807(f), by a life insurance company or by an insurance company that is not a life insurance company (nonlife insurance company). *See* § 1.807-4.

(2) *Manner of making change.*

(a)(i) *Life insurance companies.* If a life insurance company changes its basis of computing any item referred to in § 807(c) during a taxable year (year of change), then for purposes of applying § 807(a) and (b) with respect to contracts issued before the year of change, the amount of the item at the close of the year of change attributable to those contracts is computed on the old basis and the amount of the item at the opening of the succeeding taxable year attributable to those contracts is computed on the new basis. The amount of such item attributable to contracts issued during the year of change and thereafter must be computed on the new basis. *See* § 1.807-4(c)(1).

(ii) *Nonlife insurance companies.* If a nonlife insurance company changes its basis of computing an item referred to in § 807(c)(1) (life insurance reserves (as defined in § 816(b))) during a taxable year (year of change), then for purposes of applying § 832(b)(4), (A) for the year of change, life insurance reserves at the end of the year of change with respect to contracts issued before the year of change are computed on the old basis and (B) for the year following the year of change, life insurance reserves at the end of the preceding taxable year with respect to contracts issued

before the year of change are computed on the new basis. Life insurance reserves attributable to contracts issued during the year of change and thereafter must be computed on the new basis. See § 1.807-4(c)(2).

(iii) *Requirement to file Form 3115.* A taxpayer that changes its basis of computing any item referred to in § 807(c) is subject to the procedures that apply to obtain the automatic consent of the Commissioner to change a method of accounting. Under these procedures, (A) the taxpayer must file Form 3115 as provided in this section 26.04, (B) the taxpayer will receive audit protection for taxable years prior to the year of change as provided in section 8 of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, in connection with the change, and (C) the § 481(a) adjustment period generally will be one taxable year (year of change) for a negative § 481(a) adjustment and four taxable years (year of change and next three taxable years) for a positive § 481(a) adjustment in accordance with section 7.03(1) of Rev. Proc. 2015-13.

(iv) *Examples.* The following examples each illustrate the rules of sections 26.04(2)(a)(i) and (ii) of this revenue procedure in two situations: (A) a change in basis in computing life insurance reserves (reserves) for contracts issued prior to the year of change that results in an increase in the reserves at the end of the year of change (negative § 481(a) adjustment) and (B) a change in basis in computing reserves for contracts issued prior to the year of change that results in a decrease in the reserves at the end of the year of change (positive § 481(a) adjustment). The following table summarizes the reserve amounts for contracts issued before the year of change.

	Old Basis	New Basis (Negative § 481(a) Adjustment)	New Basis (Positive § 481(a) Adjustment)
End of Year Prior to Year of Change	100		
End of Year of Change	105	109	101
End of Year Following Year of Change		112	104
Section 481(a) Adjustment		105-109=(4)	105-101=4

A. *Example 1.* The taxpayer is a life insurance company. Under section 26.04(2)(a)(i) of this revenue procedure, reserves for contracts issued before the year of change are reported under the old basis at the close of the year of change and under the new basis at the beginning of the year following the year of change; reserves for contracts issued during the year of change and thereafter are computed under the new basis. The remainder of this example describes only the deductions and income inclusions relating to reserves for contracts issued before the year of change.

*Deduction for a net increase in reserves for the year of change.* In both the negative and positive § 481(a) adjustment situations, the company must take \$105 of reserves into account (on the old basis) at the end of the year of change, resulting in a \$5 increase in reserves (\$105-\$100) and a corresponding deduction for a net increase in reserves for the year of change.

*Negative § 481(a) adjustment situation.* As described in section 26.04(2)(a)(iii) of this revenue procedure, the negative § 481(a) adjustment of \$4 (\$109-\$105) is taken into account in the year of change, such that the company recognizes a deduction for an increase in reserves under § 807(f) of \$4 in the year of change. This results in total deductions in the year of change of \$9 (\$5+\$4).

At the beginning of the following year, the company must take \$109 of reserves into account (new basis) and the deduction for the net increase in reserves for that year is \$3 (\$112-\$109).

*Positive § 481(a) adjustment situation.* As described in section 26.04(2)(a)(iii) of this revenue procedure, the positive § 481(a) adjustment of \$4 (\$101-\$105) is taken into account over four taxable years, such that the company recognizes additional income from a decrease in reserves under § 807(f) of \$1 (1/4th of the § 481(a) adjustment) in the year of change. This results in a net reduction in taxable income in the year of change of \$4 (\$5-\$1).

At the beginning of the following year, the company takes \$101 of reserves into account (new basis), and the deduction for the net increase in reserves for that year is \$3 (\$104-\$101). The company also recognizes another 1/4th of the § 481(a) adjustment, resulting in a \$1 increase in income due to a decrease in reserves under § 807(f) and a net reduction in taxable

income of \$2 (\$3-\$1) in that year. The remaining \$2 of the § 481(a) adjustment is recognized as a \$1 increase in income due to a decrease in reserves under § 807(f) in each of the two remaining years of the § 481(a) adjustment period.

B. *Example 2.* The taxpayer is a nonlife insurance company. Under section 26.04(2)(a)(ii) of this revenue procedure, reserves at the end of the year of change with respect to contracts issued before the year of change are computed under the old basis for the year of change and under the new basis for the taxable year following the year of change; reserves for contracts issued during the year of change and thereafter are computed under the new basis. The remainder of this example only relates to reserves for contracts issued before the year of change.

*Effect on premiums earned in year of change.* In both the negative and positive § 481(a) adjustment situations, the company must add to the result obtained under § 832(b)(4)(A) the \$100 of reserves on outstanding business at the end of the preceding taxable year and then deduct the \$105 of reserves (computed under the old basis) on outstanding business at the end of the year of change.

*Negative § 481(a) adjustment situation.* As described in section 26.04(2)(a)(iii) of this revenue procedure, the negative § 481(a) adjustment of \$4 (\$109-\$105) is taken into account in the year of change, such that the company recognizes an additional reduction in premiums earned of \$4 in the year of change. This results in a total reduction in premiums earned of \$9 (\$5+\$4).

In the taxable year after the year of change, the reserves on outstanding business at the end of the preceding year are \$109 (computed on the new basis) and the net reduction in premiums earned is \$3 (\$109-\$112).

*Positive § 481(a) adjustment situation.* As described in section 26.04(2)(a)(iii) of this revenue procedure, the positive § 481(a) adjustment of \$4 (\$101-\$105) is taken into account over four taxable years, such that the company recognizes an additional \$1 (1/4th of the § 481(a) adjustment) increase in premiums earned in the year of change. This results in a net reduction in premiums earned in the year of change of \$4 (\$5-\$1).

In the taxable year after the year of change, the reserves on outstanding business at the end of the preceding year are \$101 (computed on the new basis) and the net reduction in premiums earned is \$3 (\$101-\$104). The company also recognizes another 1/4th of the § 481(a) adjustment, resulting in an additional \$1 increase in premiums earned and a net reduction in premiums earned of \$2 (\$3-\$1) in that year. The remaining \$2 of the § 481(a) adjustment is recognized as a \$1 increase in premiums earned in each of the two remaining years of the § 481(a) adjustment period.

(b) *Section 481(a) adjustment.*

(i) *Computation of § 481(a) adjustment at end of year.* In general, a change in basis of computing any item referred to in § 807(c) requires an adjustment under § 481(a). The § 481(a) adjustment is computed as of the end of the year of change and is only with respect to contracts issued before the year of change. See § 1.807-4(b)(1).

(ii) *Number of § 481(a) adjustments.* Multiple changes during the same taxable year in methods, assumptions, or factors, each of which alone would constitute a change in basis of computing any item referred to in § 807(c), are considered a single change in basis, and the effects of such multiple changes are netted and treated as a single net negative § 481(a) adjustment or net positive § 481(a) adjustment. A separate § 481(a) adjustment must be determined for each item referred to in § 807(c) and each such § 481(a) adjustment must be taken into account separately.

(iii) *Loss of company status.* If for any taxable year a taxpayer that was an insurance company for the year of change is no longer an insurance company, then the taxpayer must take into account in the preceding taxable year (that is, the last taxable year it was an insurance company) the balance of any § 481(a) adjustment. A taxpayer that was an insurance company for the year of change does not accelerate the balance of any § 481(a) adjustment merely because it changes from a life insurance company to a nonlife insurance company or because it changes from a nonlife insurance company to a life insurance company. See § 1.807-4(b)(2).

(c) *No ruling protection for year of change or subsequent years.* The consent granted under section 9 of Rev. Proc. 2015-13 for a change under this section 26.04 is not a determination by the Commissioner that the new basis of computing any item referred to in § 807(c) is a permissible basis of computing such item and does not create any presumption that the new basis is a permissible basis of computing such item. The director may ascertain whether the new method of accounting is a permissible method of accounting. Thus, a taxpayer that changes its basis of computing any item referred to in § 807(c) under this section 26.04 may be required to change or modify that basis of computing such item for the year of change or any subsequent year if it is determined by the Commissioner that the basis to which the taxpayer changed does not meet the requirements of federal income tax law.

(d) *Information required to be furnished.* A taxpayer that files a Form 3115 under this section 26.04 is required to complete or provide only the following information on Form 3115:

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

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

(iii) Part I;

(iv) Part II, lines 4, 5, 6a-d, 7a-b, 8a-d, 9, 11a-c, 12, 17, and 18;

(v) The following information, in lieu of completing Part II, line 14:

- The item in § 807(c) to which the change in basis relates,
- The type of contract to which the change relates,
- If a life insurance reserve, a description of the applicable tax reserve method (e.g., Commissioners' Reserve Valuation Method or Commissioners' Annuity Reserve Valuation Method),
- A description of the change in basis,
- A description of the reason for the change in basis, including (i) whether the change results from a change in the method prescribed by the National Association of Insurance Commissioners or from another change (such as a change in assumption for mortality, morbidity, or interest rate), regardless of whether the change is reflected on an annual statement and (ii) whether the change results from a prior incorrect application of federal income tax law and the nature of such incorrect application.

(vi) Part IV. (The taxpayer may indicate that the § 481(a) adjustment is an estimate or is to be determined.)

(e) *Concurrent automatic changes.* A taxpayer that makes multiple changes in basis under this section 26.04 may file a single Form 3115 that includes all the changes in basis for the year of change. Likewise, a single Form 3115 may be filed for all changes in basis for members of a group filing a consolidated return. The information required by section 26.04(2)(d) of this revenue procedure is required for each separate change for each member of the group.

(f) *Certain eligibility rule inapplicable.* The eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13 does not apply to a change under this section 26.04.



(3) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 26.04 is “240.”

(4) *Contact information.* For further information regarding a change under this section, contact Dan Phillips at (202) 317-6995 (not a toll-free number).

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## SECTION 27. DISCOUNTED UNPAID LOSSES (§ 846)

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### .01 *Composite method for discounting unpaid losses.*

(1) *Description of change.* Section 846 defines “discounted unpaid losses” for purposes of computing the insurance company taxable income of certain insurance companies. Notice 88-100, 1988-2 C.B. 439, section V, sets forth a composite method for computing unpaid losses with respect to accident years not separately stated on the NAIC annual statement. Rev. Proc. 2002-74, 2002-2 C.B. 980, section 3.01, clarifies that the composite method of Notice 88-100, section V, is permitted, but not required; section 3.02 sets forth an alternative method for those taxpayers that do not use the composite method of section 3.01. An insurance company using a method provided in section 3.01 or 3.02 of Rev. Proc. 2002-74 to compute discounted unpaid losses, must use the same method to compute discounted estimated salvage recoverable. An insurance company that currently uses a permissible method of accounting for discounted unpaid losses may change its method of accounting to or from the composite method of Notice 88-100, section V, without the consent of the Commissioner. This change applies to insurance companies that are required to discount unpaid losses under § 846. *See* Rev. Proc. 2002-74.

(2) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 27.01 is “68.”

(3) *Contact information.* For further information regarding a change under this section, contact Rebecca L. Baxter at (202) 317-6995 (not a toll-free number).

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## SECTION 28. REAL ESTATE MORTGAGE INVESTMENT CONDUIT (REMIC) (§§ 860A-860G)

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### .01 *REMIC inducement fees.*

(1) *Description of change.* A taxpayer that receives an inducement fee in connection with becoming the holder of a noneconomic residual interest in a REMIC must take that fee into account over the remaining expected life of the applicable REMIC in accordance with § 1.446-6. This change applies to a taxpayer that seeks to change from any method of accounting for such inducement fees to one of the safe harbor methods provided under § 1.446-6(e)(1)-(2). *See* Rev. Proc. 2004-30, 2004-1 C.B. 950, for additional guidance relating to this change.

(2) *Manner of making change.* A taxpayer making this change must identify the specific safe harbor method under § 1.446-6(e) to which the taxpayer is changing.

(3) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 28.01 is “79.”

(4) *Contact information.* For further information regarding a change under this section, contact John W. Rogers, III at (202) 317-6895 (not a toll-free number).

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## SECTION 29. FUNCTIONAL CURRENCY (§ 985)

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### .01 *Change in functional currency.*

(1) *Description of change.* This change applies to a taxpayer that wants to change its functional currency or the functional currency of a qualified business unit (QBU) of the taxpayer. The preceding sentence does not apply to a QBU of a taxpayer described in § 1.985-1(b)(1)(iii).

(2) *Manner of making change.* A taxpayer making this change must make all necessary adjustments required by such change. See §§ 1.985-5, 1.985-8(c). A taxpayer must attach a statement to the Form 3115 representing that it has made the adjustments set forth in § 1.985-5 or § 1.985-8(c). The statement must also provide the amount of any unrealized exchange gain or loss required to be taken into account pursuant to § 1.985-5 or § 1.985-8(c) and the date on which a taxpayer took such amount into account. Finally, the statement must provide a detailed and complete description of any other adjustments required pursuant to § 1.985-5 or § 1.985-8(c).

(3) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 29.01 is “70.”

(4) *Contact information.* For further information regarding a change under this section, contact Peter Merkel at (202) 317-4919 (not a toll-free number).

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## SECTION 30. ORIGINAL ISSUE DISCOUNT (§§ 1272, 1273)

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### .01 *De minimis original issue discount (OID).*

(1) *Description of change.* This change applies to a taxpayer that wants to change to the principal-reduction method of accounting described in section 5 of Rev. Proc. 97-39, 1997-2 C.B. 485. The principal-reduction method of accounting is an aggregate method of accounting for *de minimis* OID (discount) on certain loans originated by the taxpayer.

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

(3) *Description.* The principal-reduction method of accounting is a permissible method for use by taxpayers to account for discount on one or more categories of loans described in section 4.02 or 4.03 of Rev. Proc. 97-39. If the principal-reduction method is used to account for any loans

in a category of loans, the method must be used for the entire category of loans. The principal-reduction method applies only to loans described in section 3 of Rev. Proc. 97-39.

(4) *Manner of making change.*

(a) This change is made on a cut-off basis and applies only to loans described in section 3 of Rev. Proc. 97-39 that were acquired on or after the beginning of the year of change. Accordingly, a § 481(a) adjustment is neither permitted nor required.

(b) The taxpayer must maintain books and records sufficient to satisfy the director that old and new loans have been adequately segregated.

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

(a) identify the categories of loans to which the proposed method will apply; and

(b) describe any “additional categories” permitted under section 4.03 of Rev. Proc. 97-39.

(6) *No audit protection.* A taxpayer does not receive audit protection under section 8.01 of Rev. Proc. 2015-13 in connection with this change. See section 8.02(2) of Rev. Proc. 2015-13.

(7) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 30.01 is “72.”

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

.02 *Proportional method of accounting for OID on a pool of credit card receivables.*

(1) *Description of change.* This change applies to a taxpayer that wants to change to the proportional method of accounting for OID on a pool of credit card receivables as described in Rev. Proc. 2013-26, 2013-22 I.R.B. 1160, as modified by Rev. Proc. 2021-35, 2021-35 I.R.B. 355, to reflect changes made to the treatment of certain credit card fees by § 451(b), as amended by Public Law 115-97, 131 Stat. 2054 (Dec. 22, 2017), commonly referred to as the Tax Cuts and Jobs Act (TCJA), and §§ 1.451-3 and 1.1275-2(l). The proportional method of accounting applies to OID and certain amounts that would not otherwise be treated as OID (for example, market discount or bond premium). Under § 1.1275-2(l), OID does not include items that are subject to the timing rules in § 1.451-3, such as credit card late fees, credit card cash advance fees, and interchange fees (specified credit card fees). Therefore, items subject to the timing rules in § 1.451-3, such as specified credit card fees, are excluded from the proportional method. See section 16.10 of this revenue procedure for the procedures by which a taxpayer, including a taxpayer using the proportional method of accounting, can change its method of accounting for specified credit card fees to comply with § 451(b), as amended by the TCJA, and §§ 1.451-3 and 1.1275-2(l).

(2) *Manner of making change.*

(a) This change is made on a cut-off basis. Accordingly, a § 481(a) adjustment is neither required nor permitted.

(b) The unaccrued OID for the pool as of the beginning of the first period in the year of change is equal to the unaccrued OID for the pool as of the end of the preceding taxable year under the taxpayer's previous method of accounting for OID on the pool, reduced by any amounts representing charges or fees that are not properly treated as OID (for example, specified credit card fees).

(3) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 30.02 is "183."

(4) *Contact information.* For further information regarding this section, please contact Deepan Patel at (202) 317-3423 (not a toll-free number).

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## SECTION 31. MARKET DISCOUNT BONDS (§ 1278)

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### .01 *Revocation of § 1278(b) election.*

(1) *Description of change.* This change applies to a taxpayer that wants to change its method of accounting for market discount bonds by revoking its § 1278(b) election. Under § 1278(b), a taxpayer may elect a method of accounting under which market discount is currently included in gross income for the taxable years to which the discount is attributable. *See* Rev. Proc. 92-67, 1992-2 C.B. 429, for the procedures to make a § 1278(b) election (including a deemed § 1278(b) election for certain taxable years). For purposes of this section 31.01, a taxpayer also is treated as having made a deemed § 1278(b) election for a taxable year if, for one or more market discount bonds that were acquired by the taxpayer during that taxable year, the taxpayer includes in gross income on the tax return for that taxable year and on the tax return for the following taxable year the market discount attributable to each taxable year, other than as a result of a disposition of the bond or a partial principal payment on the bond. The procedures for revoking a § 1278 election were formerly provided in section 7 of Rev. Proc. 92-67.

(2) *Revocation of election.* The revocation of a § 1278(b) election (or a deemed § 1278(b) election) applies to all market discount bonds that are held by the taxpayer on the first day of the first taxable year for which the revocation is effective (year of change), and to all market discount bonds that are subsequently acquired by the taxpayer. If a § 1278(b) election (or a deemed § 1278(b) election) is revoked, then for purposes of § 1278(a), accrued market discount with respect to any bond previously subject to the election means accrued market discount as defined in § 1276(b) less any market discount included in income while the bond was subject to the § 1278(b) election (or the deemed § 1278(b) election).

(3) *Manner of making change.* This change is made on a cut-off basis and applies only to market discount accruing on or after the beginning of the year of change. Accordingly, a § 481(a) adjustment is neither permitted nor required. Market discount accruing on a bond prior to the year of change was currently included in income and market discount accruing on the bond on and after the first day of the year of change is included in income generally upon disposition of the bond. *See* § 1276(a). Because a cut-off basis is prescribed for this change, the basis of any bond, adjusted for amounts previously included in income during the period of the election, is not affected by the revocation.

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

(a) the reason(s) for revoking the § 1278(b) election (or deemed § 1278(b) election);

(b) a description of the method by which, and the date on which, the taxpayer made the § 1278(b) election (or deemed § 1278(b) election) that is being revoked; and

(c) a statement that, after the revocation, the taxpayer will not make a constant interest rate election for any bond that has been subject to the § 1278(b) election (or deemed § 1278(b) election) being revoked and for which a constant interest rate election was not effective in the year of acquisition.

(5) *Audit protection.* A taxpayer may receive audit protection, as provided in section 8.01 of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, in connection with this change. Any audit protection applicable to this change under section 8.01 of Rev. Proc. 2015-13 does not preclude the Commissioner from examining the method used by the taxpayer to determine the amount of accrued market discount under § 1276(b) for a taxable year prior to the year of change.

(6) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 31.01 is “73.”

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

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## SECTION 32. SHORT-TERM OBLIGATIONS (§ 1281)

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.01 *Interest income on short-term obligations.*

(1) *Description of change.*

(a) This change applies to a taxpayer that wants to change its method of accounting to comply with § 1281 for interest income on short-term obligations.

(b) Under § 1281, a holder of certain short-term obligations, including a bank as defined in § 581, must include in gross income any accrued interest income on such obligations, regardless of the holder’s overall method of accounting. Section 1281 applies to all types of interest income, including acquisition discount, original issue discount (OID), and stated interest. *See* S. Rep. No. 99-313, 99<sup>th</sup> Cong., 2d Sess. 903 (1986), 1986-3 (Vol. 3) C.B. 903.

(c) Section 1283(a)(1) generally defines a short-term obligation as any bond, debenture, note, certificate, or other evidence of indebtedness that matures in one year or less from its issue date.

(d) Under §§ 1281(a) and 1283(c), a holder of a short-term obligation subject to § 1281 must include in gross income an amount equal to the sum of the daily portions of the acquisition discount or OID, whichever is applicable, on the obligation for each day during the taxable year that the obligation is held by the holder. *See* § 1283(b), as modified by § 1283(c), to determine the daily portions of acquisition discount or OID. In addition, § 1281(a) requires the holder to include in gross income any stated interest that is payable on the short-term obligation (other than

stated interest taken into account to determine the amount of the acquisition discount or OID) as it accrues.

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

(3) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 32.01 is “74.”

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

*.02 Stated interest on short-term loans of cash method banks.*

(1) *Description of change.* This change applies to a bank that uses the cash receipts and disbursements (cash) method of accounting as its overall accounting method and that wants to change its method of accounting from accruing stated interest on short-term loans made in the ordinary course of business to using the cash method for that interest. For example, see *Security State Bank v. Commissioner*, 214 F.3d 1254 (10<sup>th</sup> Cir. 2000), *aff’g* 111 T.C. 210 (1998), *acq.*, 2001-1 C.B. xix; and *Security Bank Minnesota v. Commissioner*, 994 F.2d 432 (8<sup>th</sup> Cir. 1993), *aff’g* 98 T.C. 33 (1992), in which the courts held that § 1281 does not apply to short-term loans made by a cash method bank in the ordinary course of its business.

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

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

(4) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 32.02 is “75.”

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

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EFFECTIVE DATE

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*.01 In general.* Except as otherwise provided under this EFFECTIVE DATE section, this revenue procedure is effective for a Form 3115 filed on or after January 31, 2022, for a year of change ending on or after May 31, 2021, that is filed under the automatic change procedures of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, as clarified and modified by Rev. Proc. 2015-33, 2015-24 I.R.B. 1067, and as modified by Rev. Proc. 2021-34, 2021-35 I.R.B. 337, Rev. Proc. 2021-26, 2021-22 I.R.B. 1163, Rev. Proc. 2017-59, 2017-48 I.R.B. 543, and section 17.02(b) and (c) of Rev. Proc. 2016-1, 2016-1 I.R.B. 1.

*.02 Transition rules.* The following transition rules apply:



(1) *Limited time period to convert a Form 3115 filed under the non-automatic change procedures in Rev. Proc. 2015-13.* Except as provided in section 6.22 of this revenue procedure, section 5.02 of Rev. Proc. 2021-34, or section 7.02 of Rev. Proc. 2022-09, as applicable, if before January 31, 2022, a taxpayer properly filed a Form 3115 under the non-automatic change procedures in Rev. Proc. 2015-13 requesting the Commissioner's consent for a change in method of accounting described in this revenue procedure, and the Form 3115 is pending with the national office on January 31, 2022, the taxpayer may choose to make the change in method of accounting under the automatic change procedures in Rev. Proc. 2015-13 if the taxpayer is otherwise eligible to use this revenue procedure and the automatic change procedures in Rev. Proc. 2015-13. The taxpayer must notify the national office contact person (if unknown, fax the notification to 855-574-9031 or send the notification to the attention of Control Clerk, CC:ITA, Room 4512 at the address specified in section 9.08(6) of Rev. Proc. 2022-1, 2022-1 I.R.B. 1 (or its successor)) for the Form 3115 of the taxpayer's intent to make the change in method of accounting under the automatic change procedures in Rev. Proc. 2015-13 before the later of (a) March 2, 2022, or (b) the issuance of a letter ruling granting or denying consent for the change. The notification should indicate that the taxpayer chooses to convert the Form 3115 to the automatic change procedures in Rev. Proc. 2015-13. If the taxpayer timely notifies the national office that it chooses to convert the Form 3115 to the automatic change procedures in Rev. Proc. 2015-13, the national office will send a letter to the taxpayer acknowledging its request and will return the user fee submitted with the Form 3115.

A taxpayer converting a Form 3115 to the automatic change procedures in Rev. Proc. 2015-13 for a change in method of accounting described in this revenue procedure must resubmit a Form 3115 that conforms to the automatic change procedures, with a copy of the national office letter sent acknowledging the taxpayer's request attached, to the IRS in Ogden, UT by the earlier of (a) the 30<sup>th</sup> calendar day after the date of the national office's letter acknowledging the taxpayer's request, or (b) the date the taxpayer is required to file the duplicate copy of the Form 3115 under SECTION 6.03(1)(a)(i)(B) of Rev. Proc. 2015-13. See SECTION 6.03(3) of Rev. Proc. 2015-13 regarding additional required copies of Form 3115.

For purposes of the eligibility rules in SECTION 5 of Rev. Proc. 2015-13, the duplicate copy of the timely resubmitted Form 3115 will be considered filed as of the date the taxpayer originally filed the converted Form 3115 under the non-automatic change procedures in Rev. Proc. 2015-13. This paragraph (1) does not extend the date the taxpayer must file the original (converted) Form 3115 under SECTION 6.03(1)(a)(i)(A) of Rev. Proc. 2015-13.

A Form 3115 filed under the non-automatic change procedures in Rev. Proc. 2015-13 before January 31, 2022, for a change in method of accounting described in this revenue procedure, will be disregarded for purposes of the prior five year change rules in SECTIONS 5.04 and 5.05 of Rev. Proc. 2015-13 if the taxpayer converts the Form 3115 pursuant to this paragraph (1).

(2) *Forms 3115 for changes in methods of accounting that can no longer be filed under the automatic change procedures.* Except as provided in subsection .02(2)(a) of this EFFECTIVE DATE section, section 5.03 of Rev. Proc. 2021-34, or section 7.02 of Rev. Proc. 2022-09, as applicable, the following transition rules apply to the changes in methods of accounting that can no longer be filed under the automatic change procedures in Rev. Proc. 2015-13 because of changes made in this revenue procedure. An example of such changes in methods of accounting is described in subsection .01(10) of the SIGNIFICANT CHANGES section of this revenue procedure.

(a) If before January 31, 2022, a taxpayer properly filed the original, or the duplicate copy, of a Form 3115 under the automatic change procedures in Rev. Proc. 2015-13 for a change in method of accounting that can no longer be filed under the automatic change procedures in Rev. Proc. 2015-13, the taxpayer may continue to make that change in method of accounting under the automatic change procedures in Rev. Proc. 2015-13 for the year of change. The taxpayer is not

required to resubmit a duplicate copy of the Form 3115 to the IRS in Ogden, UT under section 6.03(1)(a)(i)(B) of Rev. Proc. 2015-13.

(b) If before January 31, 2022, a taxpayer did not properly file the original, or the duplicate copy, of a Form 3115 under the automatic change procedures in Rev. Proc. 2015-13 for a change in method of accounting that can no longer be filed under the automatic change procedures in Rev. Proc. 2015-13, the taxpayer must make that change in method of accounting under the non-automatic change procedures in Rev. Proc. 2015-13. Notwithstanding § 1.446-1(e)(3)(i), the taxpayer may file a Form 3115 to request the Commissioner's consent to change the method of accounting under the non-automatic change procedures in Rev. Proc. 2015-13 for the taxpayer's last taxable year ending before January 31, 2022, on or before the due date of the federal income tax return for that taxable year. Solely for purposes of this paragraph (2)(b), the due date of the taxpayer's federal income tax return includes extensions, notwithstanding that the taxpayer may not have extended the due date.

(3) *Transition rule for taxpayers that properly filed the duplicate copy of Form 3115 before January 31, 2022, for a change that continues to qualify under the automatic change procedures.*

(a) *Option to implement change as described in Rev. Proc. 2019-43 or under this revenue procedure.* If, before January 31, 2022, a taxpayer properly filed the duplicate copy of the Form 3115, pursuant to section 6.03(1)(a)(i)(B) of Rev. Proc. 2015-13, requesting consent to change its method of accounting for a change described in Rev. Proc. 2019-43, 2019-48 I.R.B. 1107, as modified prior to January 31, 2022, that continues to be eligible for the automatic change procedures in this revenue procedure, but has not filed its timely filed (including extensions) original Federal income tax return for the year of change implementing the change, the taxpayer may choose to implement the change as described in either Rev. Proc. 2019-43 or this revenue procedure, but not both.

(b) *Procedures to implement change as described Rev. Proc. 2019-43.* A taxpayer who meets the requirements of paragraph (3)(a) and chooses to implement the change as described in Rev. Proc. 2019-43 is not required to resubmit a duplicate copy of the Form 3115 to the IRS in Ogden, UT. However, if requested by the Director, the taxpayer must provide written substantiation that the duplicate copy of the Form 3115 was filed before January 31, 2022, pursuant to section 6.03(1)(a)(i)(B) of Rev. Proc. 2015-13. Such written substantiation may include proof of mailing or faxing, as appropriate, of the duplicate copy of the Form 3115.

(c) *Procedures to implement the change as described in this revenue procedure.* A taxpayer who meets the requirements of paragraph (3)(a) and chooses to implement the change as described in this revenue procedure, must resubmit a duplicate copy (with signature) of the Form 3115 to the IRS in Ogden, UT for the year of change under this revenue procedure, pursuant to the requirements of section 6.03(1)(a)(i)(B) of Rev. Proc. 2015-13. The resubmitted duplicate copy must include the following statement on the top of page 1 of the Form 3115: "FILED UNDER REV. PROC. 2022-14, AS PROVIDED IN SECTION .02(3)(c) OF THE EFFECTIVE DATE SECTION OF REV. PROC. 2022-14". For purposes of the eligibility rules in section 5 of Rev. Proc. 2015-13, the duplicate copy of the resubmitted Form 3115 will be considered filed as of the date the taxpayer originally filed the duplicate copy of the Form 3115 requesting the change under Rev. Proc. 2019-43. This paragraph (3)(c) does not extend the date the taxpayer must file either the resubmitted duplicate copy or original Form 3115 under section 6.03(1)(a) of Rev. Proc. 2015-13. If requested by the Director, the taxpayer must provide written substantiation that the duplicate copy of the Form 3115 requesting the change under Rev. Proc. 2019-43 was filed before January 31, 2022, pursuant to section 6.03(1)(a)(i)(B) of Rev. Proc. 2015-13. Such written substantiation may include proof of mailing or faxing, as appropriate, of the duplicate copy of the Form 3115.

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## EFFECT ON OTHER DOCUMENTS

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.01 This revenue procedure amplifies and modifies Rev. Proc. 2019-43, 2019-48 I.R.B. 1107. Rev. Proc. 2019-43, as amplified and modified is superseded in part. The second sentence in the subsection .01 under the EFFECT ON OTHER DOCUMENTS section of Rev. Proc. 2019-43 remains in effect (that is, the second sentences in sections 14.01 and 14.02, and sections 14.04, 14.05, 14.06, and 14.07 of Rev. Proc. 2011-14, 2011-4 I.R.B. 330, remain in effect). All other sections of Rev. Proc. 2019-43 are superseded.

.02 Rev. Proc. 2011-46, 2011-42 I.R.B. 518, is modified as follows:

(1) Section 5.02(3)(a) is modified to remove the first two sentences in the Manner of Making Change section and to substitute the following three new sentences in its place:

(a) In accordance with § 1.446-1(e)(3)(ii), the requirement under § 1.446-1(e)(3)(i) to file a Form 3115 is waived and a statement in lieu of a Form 3115 is authorized for this change. Notwithstanding the definition of Form 3115 in section 3.07 of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, the statement in lieu of a Form 3115 that is permitted under this paragraph 5.02(3)(a) is considered a Form 3115 for purposes of the automatic consent procedures in Rev. Proc. 2015-13. However, the requirement to file the duplicate copy, under section 6.03(1)(a) of Rev. Proc. 2015-13, is waived.

(2) Section 5.03(2)(a) is modified to remove the first two sentences in the Manner of Making Change section and to substitute the following three new sentences in its place:

(a) In accordance with § 1.446-1(e)(3)(ii), the requirement under § 1.446-1(e)(3)(i) to file a Form 3115 is waived and a statement in lieu of a Form 3115 is authorized for this change. Notwithstanding the definition of Form 3115 in section 3.07 of Rev. Proc. 2015-13, the statement in lieu of a Form 3115 that is permitted under this paragraph 5.03(2)(a) is considered a Form 3115 for purposes of the automatic consent procedures in Rev. Proc. 2015-13. However, the requirement to file the duplicate copy, under section 6.03(1)(a) of Rev. Proc. 2015-13, is waived.

.03 Rev. Rul. 2004-62, 2004-1 C.B. 1072, is modified to remove the second sentence in the CHANGE IN METHOD OF ACCOUNTING section and to substitute the following new two sentences in its place:

A taxpayer that wants to change its method of accounting to comply with this revenue ruling must follow the automatic change procedures in Rev. Proc. 2015-13, 2015-5 I.R.B. 419, (or successor) if the taxpayer is eligible to request such consent under the automatic change procedures therein. The eligibility rules in section 5.01(1) of Rev. Proc. 2015-13 (or successor) apply to a change in method of accounting described in section 3.04 of Rev. Proc. 2022-14, 2022-7 I.R.B. XXX (or successor).

.04 Rev. Rul. 2000-7, 2000-9 C.B. 712, is modified to remove the fourth sentence of the paragraph in the APPLICATION section and to substitute the following new fourth sentence:

A taxpayer that wants to change its method of accounting to conform with the holding in this revenue ruling must follow the automatic change procedures in Rev. Proc. 2015-13, 2015-5 I.R.B. 419, (or successor) if the taxpayer is eligible to request such consent under the automatic change procedures therein, except that the eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13 (or successor) does not apply to a change described in section 11.03 of Rev. Proc. 2022-14, 2022-7 I.R.B. XXX (or successor).

.05 Rev. Rul. 2000-4, 2000-1 C.B. 331, is modified to remove the second sentence of the paragraph in the APPLICATION section, and to substitute the following two new sentences in that paragraph in its place:

A taxpayer that wants to change its method of accounting to conform with the holding in this revenue ruling must follow the automatic change procedures in Rev. Proc. 2015-13, 2015-5 I.R.B. 419, (or successor) if the taxpayer is eligible to request such consent under the automatic change procedures therein. The eligibility rules in section 5.01(1) of Rev. Proc. 2015-13 (or successor) apply to a change in method of accounting under section 3.02 of Rev. Proc. 2022-14, 2022-7 I.R.B. XXX (or successor).

.06 Rev. Proc. 2007-48, 2007-2 C.B. 110, is modified to remove section 5.06(1) and to substitute it with the following sentence:

The eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, (or successor) does not apply to a change in method of accounting described in section 5.06 of Rev. Proc. 2007-48, and made under section 22.08 of Rev. Proc. 2022-14, 2022-7 I.R.B. XXX (or successor).

.07 Rev. Proc. 2007-16, 2007-1 C.B. 358, is modified as follows:

(1) The second sentence in section 4.01 is modified by substituting “and Rev. Proc. 2015-13, 2015-5 I.R.B. 419” for “and, as applicable, Rev. Proc. 97-27 or Rev. Proc. 2002-9.”

(2) The first sentence in section 4.02 is modified by:

(a) Substituting “the non-automatic change or automatic change procedures of Rev. Proc. 2015-13” for “Rev. Proc. 97-27 or Rev. Proc. 2002-9, as applicable,”; and

(b) Substituting “(as defined in section 3.19 of Rev. Proc. 2015-13)” for “(as defined in section 5.02(2) of Rev. Proc. 97-27 or section 5.02 of Rev. Proc. 2002-9, as applicable)”.

(c) Section 4.03 is modified by substituting “Rev. Proc. 2015-13,” for “Rev. Proc. 97-27 or Rev. Proc. 2002-9, as applicable,”.

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## PAPERWORK REDUCTION ACT

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The collection of information contained in this revenue procedure has been reviewed and approved by the Office of Management and Budget under OMB control numbers 1545-0074 for individual filers, 1545-0123 for business filers, and 1545-0047 for tax-exempt filers, in accordance

with the Paperwork Reduction Act (44 U.S.C. 3507(d)). An agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless the collection of information displays a valid OMB control number. The collections of information in this revenue procedure are in sections 3, 5, 6, 7, 8, 9, 11, 12, 15, 16, 17, 18, 20, 21, 22, 23, 24, 25, 26, 29, 30, 31, and .02(3) of the Effective Date. This information is necessary and will be used to determine whether the taxpayer properly changed to a permitted method of accounting. The collections of information are required for the taxpayer to obtain consent to change its method of accounting.

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## SIGNIFICANT CHANGES

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.01 Significant changes made by this revenue procedure to the List of Automatic Changes in Rev. Proc. 2019-43 include:

(1) Section 20.01, relating to a taxpayer changing its timing of incurring liabilities for employee compensation, is modified to add new paragraph (4) which allows a taxpayer using an overall accrual method of accounting to change its method of accounting for taking into account certain employee commission liabilities;

(2) Section 6.01, relating to impermissible to permissible depreciation method changes, is modified by removing language in paragraph (1)(c)(viii) and paragraph (1)(c)(xvii) allowing a Form 3115 to be filed under 6.01 for certain changes described in sections 6.04, 6.05 and/or 6.19 of this revenue procedure if the original Form 3115 was filed between specified dates beginning and ending before January 31, 2022, because this language is obsolete;

(3) Section 6.18, relating to late elections or revocation of elections under § 168(k)(5), (7), and (10), is modified to clarify the waiver of the eligibility rules in sections 5.01(1)(d) and (f) of Rev. Proc. 2015-13 applies for the taxpayer's first, second, or third taxable year succeeding the taxpayer's taxable year beginning in 2016 or 2017 and ending on or after September 28, 2017;

(4) Section 6.19, relating to changes for qualified improvement property placed in service after December 31, 2017, is modified by removing language in paragraph (2) providing for a waiver of the eligibility rules in section 5.01(d) and section 5.01(f) of Rev. Proc. 2015-13 for changes made under section 6.19 for a taxable year for which the original Form 3115 was filed between specified dates beginning and ending before January 31, 2022, because this language is obsolete;

(5) Section 6.20, relating to certain late elections or revocations of elections under sections 168 and 1502, is modified by removing language in paragraph (2) requiring a changes under 6.20(1)(a)(i) and (a)(ii) and (b)(i) and (b)(ii) to be made for a taxable year for which the taxpayer timely files an original federal income tax return between specified dates beginning and ending before January 31, 2022, because this language is obsolete. Section 6.20 is further modified by removing language in paragraph (3) providing for a waiver of the eligibility rules under section 5.01(d) and section 5.01(f) of Rev. Proc. 2015-13 for changes made under section 6.20(1)(a)(i) and (a)(ii) and (b)(i) and (b)(ii) for a taxable year for which the taxpayer timely files an original federal income tax return between specified dates beginning and ending before January 31, 2022, because this language is obsolete;



(6) Section 6.21, relating to changes in depreciation as a result of applying the additional first year depreciation regulations, is modified by removing language in paragraph (2)(b) providing of a waiver of the eligibility rule in section 5.01(f) of Rev. Proc. 2015-13 for a change for the property or specified plant within the scope of section 4 of Rev. Proc. 2020-50 as modified by section 6.21(1)(b) of this revenue procedure, where the taxpayer files an original federal income tax return between specified dates beginning and ending before January 31, 2022, because this language is obsolete;

(7) Section 6.21, relating to a change in depreciation as a result of applying the additional first year depreciation regulations, is modified to clarify paragraph (3)(b) as follows. First, an amended federal income tax return, or AAR, as applicable, to change from the impermissible method of determining depreciation to the permissible method of determining depreciation for the 1-year Property or 1-year Plant must be filed prior to the date the taxpayer files its federal income tax return for the taxable year succeeding the 1-year Property's placed-in-service year or 1-year Plant's planting or grafting year, as applicable. Second, if the 1-year Property or 1-year Plant is within the scope of section 4.03 of Rev. Proc. 2020-50, as modified by section 6.21(1)(b) of this revenue procedure, the taxpayer may change from the impermissible method of determining depreciation to the permissible method of determining depreciation for the 1-year Property or 1-year Plant by filing an amended federal income tax return, or AAR, as applicable, in accordance with section 4.03(4)(a) of Rev. Proc. 2020-50;

(8) Section 6.22, relating to depreciation of tangible property under § 168(g) by controlled foreign corporations, is modified to require any § 481(a) adjustment (or component of a § 481(a) adjustment) from a change under this section that shares all of the same characteristics as any other § 481(a) adjustment (or component) from a change under this section included in the same Form 3115 to be provided as a single § 481(a) adjustment on the Form 3115, and any § 481(a) adjustment (or component) from a change under this section that does not share all of the same characteristics as any other § 481(a) adjustment (or component) from a change under this section included in the same Form 3115 to be provided as a separate § 481(a) adjustment on the Form 3115;

(9) Section 7.01, relating to a change in method of accounting for the treatment of expenditures that qualify as research and experimental expenditures under § 174 as in effect prior to amendment by § 13206 of Public Law 115-97, 131 Stat. 2054 (Dec. 22, 2017), commonly referred to as the Tax Cuts and Jobs Act (TCJA), is modified to provide that section 7.01 does not apply to any amount paid or incurred in any taxable year for which § 174 as amended by § 13206 of the TCJA is in effect;

(10) Section 9.01, relating to a change in method of accounting for the costs of computer software to a method described in Rev. Proc. 2000-50, 2000-2 C.B. 601, as modified by Rev. Proc. 2007-16, 2007-1 C.B. 358, is modified to provide that section 5 of Rev. Proc. 2000-50 (costs of developing computer software) does not apply to any amount paid or incurred in any taxable year for which § 174 as amended by § 13206 of Public Law 115-97, 131 Stat. 2054 (Dec. 22, 2017), commonly referred to as the Tax Cuts and Jobs Act (TCJA) is in effect;

(11) Section 12.01, relating to certain uniform capitalization (UNICAP) methods used by resellers and reseller-producers, is modified as follows. First, to provide that section 12.01 applies to a taxpayer that uses a historic absorption ratio election with the simplified production method, the modified simplified production method, or the simplified resale method and wants to change to a different method for determining the additional section 263A costs that must be capitalized to ending inventories or other eligible property on hand at the end of the taxable year (that is, to a different simplified method or a facts-and-circumstances method). Second, to remove the transition rule in section 12.01(1)(b)(ii)(B) because this language is obsolete;



(12) Section 12.02, relating to certain uniform capitalization (UNICAP) methods used by producers and reseller-producers, is modified as follows. First, to provide that section 12.02 applies to a taxpayer that uses a historic absorption ratio election with the simplified production method or the modified simplified production method and wants to change to a different method for determining the additional section 263A costs that must be capitalized to ending inventories or other eligible property on hand at the end of the taxable year (that is, to a different simplified method or a facts-and-circumstances method). Second, to remove the transition rule in section 12.02(1)(b)(ii)(B) because this language is obsolete;

(13) Section 12.14, relating to interest capitalization, is modified to provide that section 12.14 does not apply to a taxpayer that wants to change its method of accounting for interest from either capitalizing interest to not capitalizing interest or not capitalizing interest to capitalizing interest for improvements that involve the associated property rules in § 1.263A-11(e)(1)(ii)(B);

(14) Section 13.01, relating to a taxpayer changing its method of accounting to comply with § 267, is clarified to provide such section also applies to a taxpayer that, by reason of the exception in § 1.267(a)-3(c)(4), wants to change its method of accounting with respect to the deduction of amounts owed to a controlled foreign corporation (as defined in § 957) (CFC) that does not have any United States shareholders (as defined in § 951(b)) owning stock of the CFC within the meaning of § 958(a);

(15) Section 15.10, relating to a specified transportation industry taxpayer that wants to change to the overall cash receipts and disbursement (cash) method, has been modified to provide that such taxpayer must have average annual gross receipts of more than the inflation-adjusted amount provided in § 448(c)(4) and not in excess of \$50,000,000;

(16) Section 15.17, relating to a change to the overall cash method or to a method of accounting in which a small business taxpayer uses an accrual method for purchases and sales of inventories and uses the cash method for computing all other items of income and expense, is modified to clarify that the acceleration of a § 481(a) adjustment remaining on a prior overall change in method of accounting to an accrual method, as provided in section 15.17(7)(a) of this revenue procedure, applies to a taxpayer making a change described in section 15.17(2)(a) or (b) of this revenue procedure;

(17) Section 16.10 (formerly section 16.12 of Rev. Proc. 2019-43, as modified by Rev. Proc. 2021-34), relating to changes in the timing of income recognition under § 451(b) and (c), is modified as follows. First, paragraph 16.10(4)(b)(ii)(C) is modified to provide that a taxpayer making a change to the full inclusion method under proposed section 1.451-8(a) is not permitted to make the change on a cut-off basis. Second, paragraph 16.10(5) is modified to provide that a change made under section 16.10(2)(a)(iii)(A), (B), (F) and/or (G), section 16.10(2)(a)(iv)(A), (B), (C), (G) and/or (H), or section 16.10(2)(b)(ii)(A), (B), and/or (F) will be disregarded for purposes of section 5.01(1)(f) of Rev. Proc. 2015-13 if: (i) the change is made for the taxpayer's early application year, as defined in section 16.10(4)(c)(i) or, in the case of a taxpayer that does not apply § 1.451-3 and/or § 1.451-8 for a taxable year beginning before January 1, 2021, for the taxpayer's first taxable year beginning on or after January 1, 2021, and (ii) the § 481(a) adjustment required to implement the change is zero;

(18) Section 16.10 (formerly section 16.12 of Rev. Proc. 2019-43, as modified by Rev. Proc. 2021-34) is clarified to provide (i) an example on how the 5-year item eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13 applies to changes made under section 16.10 and (ii) the situations in which the cost-offset related inventory method changes in sections 16.10(2)(a)(iii)(E), 16.10(2)(a)(iv)(F), and 16.10(2)(b)(ii)(E) apply, and to provide guidance regarding the ordering of concurrent cost-offset and cost-offset related inventory method changes;

(19) Section 20.01, relating to a taxpayer changing its timing of incurring liabilities for employee compensation, is modified to provide paragraph (1) does not include any amounts for medical services that are deferred compensation under § 404;

(20) Section 20.12, relating to an accrual method taxpayer changing its treatment of Ratable Service Contracts to conform to the safe harbor method provided by Rev. Proc. 2015-39, is modified to remove paragraph (2), relating to the temporary waiver of the eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13, because the paragraph is obsolete;

(21) Section 22.18, relating to a small business taxpayer, as defined in section 22.18(2) of this revenue procedure, that wants to change its § 471 method of accounting for inventory, is modified to add paragraph 22.18(5)(c), providing that a change made under section 22.18(1)(b) of this revenue procedure will be disregarded for purposes of section 5.01(1)(f) of Rev. Proc. 2015-13 if: (i) the change is made for the taxpayer's early application year, as defined in section 16.10(4)(c)(i) or, in the case of a taxpayer that does not apply § 1.471-1(b) for a taxable year beginning before January 5, 2021, for the taxpayer's first taxable year beginning on or after January 5, 2021, and (ii) the § 481(a) adjustment required to implement the change is zero; and

(22) Section 26.04, relating to a change in basis of computing reserves under § 807(f), is modified as follows. First, paragraphs (2)(a) and (b) are modified to clarify the manner in which a nonlife insurance company implements a change in basis of computing life insurance reserves, to require the netting of § 481(a) adjustments at the level of each item referred to in § 807(c), and to provide that a taxpayer that was an insurance company for the year of change does not accelerate a § 481(a) adjustment merely because it changes from a life insurance company to a nonlife insurance company or vice versa. Second, paragraph (2)(d)(i), relating to the information required to be furnished with a taxpayer's return or on Form 3115, is removed because § 1.801-5(c) has been removed by T.D. 9911, 2020-45 I.R.B. 966 (November 2, 2020).

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## DRAFTING INFORMATION

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The principal author of this revenue procedure is Bruce Chang of the Office of Associate Chief Counsel (Income Tax and Accounting). For further information regarding this revenue procedure, contact Mr. Chang at (202) 317-4870 (not a toll-free number).

For further information regarding a specific change in method of accounting in this revenue procedure, contact the individual listed in the "Contact Person(s)" section located at the end of each section of the revenue procedure (numbers are not toll-free) or see the CONTACT LIST at the end of this revenue procedure. The contact person is with one of the following Offices of Associate Chief Counsel: Corporate (CORP), Financial Institutions and Products (FI&P), Income Tax & Accounting (IT&A), International (INTL), Passthroughs and Special Industries (P&SI), or Employee Benefits, Exempt Organizations, and Employment Taxes (EEE).

LIST OF AUTOMATIC CHANGES CONTACT LIST

Section Number	Designated Automatic Accounting Change Number	Contact Name	Telephone Number	Office
1.01	91	William E. Blanchard	(202) 317-3900	FI&P
2.01	1	William Ruane	(202) 317-4718	IT&A
3.01	2	Alicia Lee-Won	(202) 317-7003	IT&A
3.02	3	Justin Grill	(202) 317-7003	IT&A
3.03	4	Renay France	(202) 317-7003	IT&A
3.04	86	Alexa Dubert	(202) 317-7003	IT&A
3.05	See § 11.08	See § 11.08	See § 11.08	IT&A
3.06	See § 11.08	See § 11.08	See § 11.08	IT&A
3.07	158	Ian Heminsley	(202) 317-5100	IT&A
3.08	159	Sophia Wang	(202) 317-5100	IT&A
3.09	160	Natasha Mulleneaux	(202) 317-5100	IT&A
3.10	182	Morgan Lawrence	(202) 317-7011	IT&A
3.11	208, 209	Merrill Feldstein	(202) 317-5100	IT&A
4.01	5	Renay France	(202) 317-7003	IT&A
4.02	211	K. Scott Brown	(202) 317-6945	FI&P
5.01	16	William E. Blanchard	(202) 317-3900	FI&P
5.02	212	Anisa Afshar	(202) 317-6934	INTL
6.01	7	James Liechty	(202) 317-7005	IT&A
6.02	8	Bruce Chang	(202) 317-7005	IT&A
6.03	10	Edward Schwartz	(202) 317-7006	IT&A
6.04	87	Elizabeth Binder	(202) 317-7005	IT&A
6.05	88	Elizabeth Binder	(202) 317-7005	IT&A
6.06	89	Bernard Harvey	(202) 317-7005	IT&A
6.07	107	James Liechty	(202) 317-7005	IT&A
6.08	145	Elizabeth Binder	(202) 317-7005	IT&A
6.09	157	Charles Magee	(202) 317-7005	IT&A
6.10	198	Patrick Clinton	(202) 317-7005	IT&A
6.11	199	Patrick Clinton	(202) 317-7005	IT&A
6.12	200	Patrick Clinton	(202) 317-7005	IT&A
6.13	205	Patrick Clinton	(202) 317-7005	IT&A
6.14	206	Patrick Clinton	(202) 317-7005	IT&A
6.15	207	Patrick Clinton	(202) 317-7005	IT&A
6.16		Summary of changes related to dispositions of MACRS property		
6.17	210	Charles Magee	(202) 317-7005	IT&A
6.18	241	Elizabeth Binder	(202) 317-7005	IT&A
6.19	244	Elizabeth Binder	(202) 317-7005	IT&A
6.20	245	Elizabeth Binder	(202) 317-7005	IT&A
6.21	246, 247	Elizabeth Binder	(202) 317-7005	IT&A
6.22	248	Natalie Punchak	(202) 317-6934	INTL
7.01	17	Martha M. Garcia	(202) 317-6853	P&SI

Section Number	Designated Automatic Accounting Change Number	Contact Name	Telephone Number	Office
		John M. Deininger		
8.01	152	Charles Hyde	(202) 317-5214	P&SI
9.01	18	Bruce Chang	(202) 317-7005	IT&A
10.01	223	Elizabeth Binder	(202) 317-7005	IT&A
10.02	228	Sharon Horn	(202) 317-7003	IT&A
10.03	229	Meghan Howard	(202) 317-5055	P&SI
11.01	19	Alexa Dubert	(202) 317-7003	IT&A
11.02	20	Douglas Kim	(202) 317-7003	IT&A
11.03	21	Douglas Kim	(202) 317-7003	IT&A
11.04	47	Alexa Dubert	(202) 317-7003	IT&A
11.05	78	Alicia Lee-Won	(202) 317-7003	IT&A
11.06	109	Stephen Rothandler	(202) 317-7003	IT&A
11.07	121	Stephen Rothandler	(202) 317-7003	IT&A
11.08	184-193	Douglas Kim	(202) 317-7003	IT&A
11.09	213	Douglas Kim	(202) 317-7003	IT&A
11.10	222	Merrill Feldstein	(202) 317-5100	IT&A
12.01	22	Megan McLaughlin	(202) 317-7007	IT&A
12.02	23	Megan McLaughlin	(202) 317-7007	IT&A
12.03	25	Megan McLaughlin	(202) 317-7007	IT&A
12.04	77	Megan McLaughlin	(202) 317-7007	IT&A
12.05	92	Megan McLaughlin	(202) 317-7007	IT&A
12.06	150, 151	Megan McLaughlin	(202) 317-7007	IT&A
12.07	181	Patrick Clinton	(202) 317-7005	IT&A
12.08	194	Megan McLaughlin	(202) 317-7007	IT&A
12.09	195	Roy Hirschhorn	(202) 317-7007	IT&A
12.10	201	Andrew Braden	(202) 317-7007	IT&A
12.11	202	Andrew Braden	(202) 317-7007	IT&A
12.12	214	Megan McLaughlin	(202) 317-7007	IT&A
12.13	215	Andrew Braden	(202) 317-7007	IT&A
12.14	224	Megan McLaughlin	(202) 317-7007	IT&A
12.15	232	Megan McLaughlin	(202) 317-7007	IT&A
12.16	234	Livia Piccolo	(202) 317-7007	IT&A
12.17	237	Megan McLaughlin	(202) 317-7007	IT&A
12.18	238	Tom McElroy	(202) 317-7007	IT&A
12.19	243	Anna Gleysteen	(202) 317-7007	IT&A
13.01	26	Megan McLaughlin	(202) 317-7007	IT&A
		Anisa Afshar	(202) 317-6934	INTL
14.01	28	Thomas Scholz	(202) 317-5600	EEE
14.02	29	John Ricotta	(202) 317-4102	EEE
		Joyce Kahn	(202) 317-4148	EEE
15.01	122, 123, 257, 258	Megan McLaughlin	(202) 317-7007	IT&A
15.02	31	David Sill	(202) 317-7011	IT&A
15.03	34, 35	Livia Piccolo	(202) 317-7007	IT&A

<b>Section Number</b>	<b>Designated Automatic Accounting Change Number</b>	<b>Contact Name</b>	<b>Telephone Number</b>	<b>Office</b>
15.04	71	William E. Blanchard	(202) 317-3900	FI&P
15.05	85	Bernard Harvey	(202) 317-7005	IT&A
15.06	90	Rebecca L. Baxter	(202) 317-6995	FI&P
15.07	108	K. Scott Brown	(202) 317-6945	FI&P
15.08	124	Douglas Kim	(202) 317-7003	IT&A
15.09	125	Dave Christensen	(202) 317-7011	IT&A
15.10	126	Megan McLaughlin	(202) 317-7007	IT&A
15.11	127	K. Scott Brown	(202) 317-6945	FI&P
15.12	128	Sophia Wang	(202) 317-5100	IT&A
15.13	129	David H. McDonnell	(202) 317-4137	P&SI
15.14	148	Charles W. Culmer	(202) 317-6945	FI&P
15.15	226	Barbara Campbell	(202) 317-4137	P&SI
15.16	227	Grace Cho	(202) 317-6945	FI&P
15.17	233,259	Anna Gleysteen	(202) 317-7007	IT&A
16.01	36	K. Scott Brown	(202) 317-6945	FI&P
16.02	37	Daniel Cassano	(202) 317-7011	IT&A
16.03	38	Daniel Cassano	(202) 317-7011	IT&A
16.04	39	Bill Ruane	(202) 317-4718	IT&A
16.05	80, 81	Kate Sleeth	(202) 317-7053	FI&P
16.06	83, 84	Maria Castillo-Valle	(202) 317-7003	IT&A
16.07	130, 217	Peter Cohn	(202) 317-7011	IT&A
16.08	153	Maria Castillo-Valle	(202) 317-7003	IT&A
16.09	231	Sharon Horn	(202) 317-7003	IT&A
16.10	239, 242, 250-255	Sharon Horn	(202) 317-7003	IT&A
		Deepan Patel	(202) 317-3423	FI&P
17.01	131	William E. Blanchard	(202) 317-3900	FI&P
18.01	132	Patrick Clinton	(202) 317-7005	IT&A
19.01	236	Innessa Glazman	(202) 317-7006	IT&A
20.01	42, 133, 134, 249	Maria Castillo-Valle	(202) 317-7003	IT&A
		Alicia Lee-Won	(202) 317-7003	IT&A
20.02	43	Christine Merson	(202) 317-5100	IT&A
20.03	44	Christine Merson	(202) 317-5100	IT&A
20.04	45, 113	James Williford	(202) 317-5100	IT&A
20.05	46	Vincent Brodbeck	(202) 317-5100	IT&A
20.06	106	Sharon Horn	(202) 317-7003	IT&A
20.07	135	Hyowon Lee	(202) 317-5100	IT&A
20.08	149	Daniel Cassano	(202) 317-7011	IT&A
20.09	154	Sharon Horn	(202) 317-7003	IT&A
20.10	156	Alicia Lee-Won	(202) 317-7003	IT&A
20.11	161	Justin Grill	(202) 317-7003	IT&A
20.12	220	Douglas Kim	(202) 317-7003	IT&A
		David Christensen	(202) 317-7011	IT&A

<b>Section Number</b>	<b>Designated Automatic Accounting Change Number</b>	<b>Contact Name</b>	<b>Telephone Number</b>	<b>Office</b>
20.13	256	Douglas Kim	(202) 317-7003	IT&A
21.01	136	William Ruane	(202) 317-4718	IT&A
22.01	48	Andrew Braden	(202) 317-7007	IT&A
22.02	49	Andrew Braden	(202) 317-7007	IT&A
22.03	53	Andrew Braden	(202) 317-7007	IT&A
22.04	54	Andrew Braden	(202) 317-7007	IT&A
22.05	55	Andrew Braden	(202) 317-7007	IT&A
22.06	63	Andrew Braden	(202) 317-7007	IT&A
22.07	96	Andrew Braden	(202) 317-7007	IT&A
22.08	110	Stephen Rothandler	(202) 317-7003	IT&A
22.09	111	Andrew Braden	(202) 317-7007	IT&A
22.10	137	Andrew Braden	(202) 317-7007	IT&A
22.11	138	Andrew Braden	(202) 317-7007	IT&A
22.12	139	Andrew Braden	(202) 317-7007	IT&A
22.13	114	Andrew Braden	(202) 317-7007	IT&A
22.14	203	Andrew Braden	(202) 317-7007	IT&A
22.15	204	Andrew Braden	(202) 317-7007	IT&A
22.16	225	Andrew Braden	(202) 317-7007	IT&A
22.17	230	Andrew Braden	(202) 317-7007	IT&A
22.18	235, 260, 261	Livia Piccolo	(202) 317-7007	IT&A
22.19	262	Livia Piccolo	(202) 317-7007	IT&A
22.20	263	Livia Piccolo	(202) 317-7007	IT&A
23.01	56	Andrew Braden	(202) 317-7007	IT&A
23.02	57	Andrew Braden	(202) 317-7007	IT&A
23.03	58	Andrew Braden	(202) 317-7007	IT&A
23.04	59	Andrew Braden	(202) 317-7007	IT&A
23.05	60	Andrew Braden	(202) 317-7007	IT&A
23.06	61	Andrew Braden	(202) 317-7007	IT&A
23.07	62	Andrew Braden	(202) 317-7007	IT&A
23.08	112	Andrew Braden	(202) 317-7007	IT&A
23.09	140	Andrew Braden	(202) 317-7007	IT&A
23.10	141	Andrew Braden	(202) 317-7007	IT&A
24.01	64	Marsha Sabin	(202) 317-6945	FI&P
24.02	218	Marsha Sabin	(202) 317-6945	FI&P
25.01	66	K. Scott Brown	(202) 317-6945	FI&P
		Laura Fields	(202) 317-6850	P&SI
		Adrienne Mikolashek	(202) 317-6850	P&SI
26.01	67	Rebecca L. Baxter	(202) 317-6995	FI&P
26.02	155	Rebecca L. Baxter	(202) 317-6995	FI&P
26.03	219	Rebecca L. Baxter	(202) 317-6995	FI&P
26.04	240	Dan Phillips	(202) 317-6995	FI&P
27.01	68	Rebecca L. Baxter	(202) 317-6995	FI&P
28.01	79	John W. Rogers, III	(202) 317-6895	FI&P



<b>Section Number</b>	<b>Designated Automatic Accounting Change Number</b>	<b>Contact Name</b>	<b>Telephone Number</b>	<b>Office</b>
29.01	70	Peter Merkel	(202) 317-4919	INTL
30.01	72	William E. Blanchard	(202) 317-3900	FI&P
30.02	183	Deepan Patel	(202) 317-3423	FI&P
31.01	73	William E. Blanchard	(202) 317-3900	FI&P
32.01	74	William E. Blanchard	(202) 317-3900	FI&P
32.02	75	William E. Blanchard	(202) 317-3900	FI&P

# Part IV

## Notice of Proposed Rulemaking

### REG-118250-20

#### Guidance on Passive Foreign Investment Companies and Controlled Foreign Corporations Held by Domestic Partnerships and S Corporations and Related Person Insurance Income

**AGENCY:** Internal Revenue Service (IRS), Treasury.

**ACTION:** Notice of proposed rulemaking and partial withdrawal of notice of proposed rulemaking.

**SUMMARY:** This document contains proposed regulations regarding the treatment of domestic partnerships and S corporations that own stock of passive foreign investment companies (“PFICs”) and their domestic partners and shareholders (the “proposed regulations”). The proposed regulations also provide guidance regarding the determination of the controlling domestic shareholders of foreign corporations, the owner of a controlled foreign corporation (“CFC”) or qualified electing fund (“QEF”) that makes an election under section 1411, the treatment of S corporations with accumulated earnings and profits under subpart F of part III of subchapter N of chapter 1 of the Internal Revenue Code (“subpart F” of the “Code”), and the determination and inclusion of related person insurance income (“RPII”) under section 953(c). The proposed regulations affect United States persons that own, directly or indirectly, stock in certain foreign corporations.

**DATES:** Written or electronic comments and requests for a public hearing must be received by April 25, 2022. Requests for a public hearing must be submitted as pre-

scribed in the “Comments and Requests for a Public Hearing” section.

**ADDRESSES:** Commenters are strongly encouraged to submit public comments electronically. Submit electronic submissions via the Federal eRulemaking Portal at [www.regulations.gov](http://www.regulations.gov) (indicate IRS and REG-118250-20) by following the online instructions for submitting comments. Once submitted to the Federal eRulemaking Portal, comments cannot be edited or withdrawn. The IRS expects to have limited personnel available to process public comments that are submitted on paper through mail. Until further notice, any comments submitted on paper will be considered to the extent practicable. The Department of the Treasury (“Treasury Department”) and the IRS will publish for public availability any comment submitted electronically, and to the extent practicable on paper, to its public docket. Send hard copy submissions to: CC:PA:LPD:PR (REG-118250-20), Room 5203, Internal Revenue Service, P.O. Box 7604, Ben Franklin Station, Washington, DC 20044.

#### FOR FURTHER INFORMATION

**CONTACT:** Concerning the proposed regulations under §§1.958-1(d), 1.964-1, 1.1291-1, 1.1291-9, 1.1293-1, 1.1295-1, 1.1296-1, 1.1297-0, 1.1297-3, 1.1298-1, 1.1298-3, and 1.1411-10, Edward Tracy at (202) 317-6934; concerning proposed regulation §1.958-1(e), Jennifer N. Keeney at (202) 317-5045; concerning proposed regulation §1.953-3, Raphael Cohen at (202) 317-3756 or Josephine Firehock at (202) 317-6938; concerning submissions of comments or requests for a public hearing, Regina Johnson at (202) 317-5177 (not toll free numbers).

#### SUPPLEMENTARY INFORMATION:

##### Background

*I. Regulations Addressing the Treatment of Domestic Partnerships for Purposes of Sections 951(a) and 951A*

On October 10, 2018, the Treasury Department and the IRS published in the

**Federal Register** proposed regulations under section 951A (REG-104390-18, 83 FR 51072) (“2018 proposed regulations”). The 2018 proposed regulations provided a hybrid approach to the treatment of a domestic partnership that is a United States shareholder, as defined in section 951(b) (“U.S. shareholder”), with respect to a CFC (“U.S. shareholder partnership”). Under the hybrid approach, a U.S. shareholder partnership would determine its section 951A inclusion, and the partners of the partnership that were not also U.S. shareholders of the CFC (“non-U.S. shareholder partners”) would take into account their distributive share of the inclusion. *See* proposed §1.951A-5(b), 83 FR 51072, 51101. Partners that were themselves U.S. shareholders of a CFC (“U.S. shareholder partners”) would not take into account their distributive share of the partnership’s global intangible low-taxed income (“GILTI”) inclusion amount and instead would be treated as proportionately owning the stock of the CFC within the meaning of section 958(a) as if the domestic partnership were a foreign partnership. *See* proposed §1.951A-5(c), 83 FR 51072, 51101-51102.

On June 21, 2019, the Treasury Department and the IRS published final regulations (TD 9866) in the **Federal Register** (84 FR 29288, as corrected at 84 FR 44223, 84 FR 44693, and 84 FR 53052) under sections 951, 951A, 1502, and 6038 that include guidance with respect to the treatment of domestic partnerships that own stock in CFCs for purposes of section 951A (the “final section 951A regulations”). The final section 951A regulations did not adopt the hybrid approach set forth in the 2018 proposed regulations and instead generally treat a domestic partnership as an aggregate of all of its partners for purposes of computing income inclusions under section 951A (and other provisions that apply by reference to section 951A). The final section 951A regulations apply to taxable years of foreign corporations beginning after December 31, 2017, and to taxable years of U.S. shareholders in which or with which such taxable years of foreign corporations end. §1.951A-7. On the same date, the Treasury Depart-

ment and the IRS published proposed regulations (REG-101828-19) in the **Federal Register** (84 FR 29114) that extended this aggregate treatment of domestic partnerships for purposes of computing subpart F inclusions under section 951 (the “2019 proposed regulations”).

In the preamble to the 2019 proposed regulations, the Treasury Department and the IRS requested comments on the application of sections 1291 and 1293 through 1298 of the Code (the “PFIC regime”) to domestic partnerships that directly or indirectly own PFIC stock and their domestic partners, including the operation of the PFIC regime with respect to non-U.S. shareholder partners of domestic partnerships under section 1297(d). 84 FR 29120. The 2019 proposed regulations are issued, with modifications, as final regulations in the Rules and Regulations section of this issue of the **Federal Register** (the “final regulations”).

On August 22, 2019, the Treasury Department and the IRS released Notice 2019-46, 2019-37 I.R.B. 695, announcing the intention to issue regulations that will permit a domestic partnership or S corporation to apply the hybrid approach set forth in proposed §1.951A-5 for taxable years ending before June 22, 2019 (that is, the hybrid approach set forth in the 2018 proposed regulations, which was revised in the 2019 final section 951A regulations to reflect an aggregate approach for purposes of section 951A). The notice also addressed the applicability of penalties in the case of a domestic partnership or S corporation that consistently applied proposed §1.951A-5 on or before June 21, 2019, but filed a tax return consistent with the final section 951A regulations under §1.951A-1(e). The notice was issued to address the compliance burden, and related penalty exposure, of domestic partnerships and S corporations that filed returns based on the hybrid approach set forth in the 2018 proposed regulations for taxable years ending before June 22, 2019, but later became subject to the aggregate approach of §1.951A-1(e) for those years.

## II. Treatment of Domestic Partnerships as Entities or Aggregates of their Partners—In General

For purposes of applying a particular provision of the Code, a partnership

may be treated as either an entity separate from its partners or as an aggregate of its partners. Under the aggregate approach, the partners of a partnership, and not the partnership, are treated as owning the partnership’s assets and conducting the partnership’s operations. Under the entity approach, the partnership is respected as separate and distinct from its partners, and therefore the partnership, and not the partners, is treated as owning the partnership’s assets and conducting the partnership’s operations. Whether the aggregate or entity approach applies depends on which approach is more appropriate to carry out the scope and purpose of a particular Code provision. *See* H.R. Rep. No. 83-2543, at 59 (1954) (Conf. Rep.) (“Both the House provisions and the Senate amendment provide for the use of the ‘entity’ approach in the treatment of transactions between a partner and a partnership . . . . No inference is intended, however, that a partnership is to be considered as a separate entity for the purpose of applying other provisions of the internal revenue laws if the concept of the partnership as a collection of individuals is more appropriate for such provisions.”); *see also Holiday Village Shopping Center v. United States*, 5 Cl. Ct. 566, 570 (1984), *aff’d* 773 F.2d 276 (Fed. Cir. 1985) (“[T]he proper inquiry is not whether a partnership is an entity or an aggregate for purposes of applying the internal revenue laws generally, but rather which is the more appropriate and more consistent with Congressional intent with respect to the operation of the particular provision of the Internal Revenue Code at issue.”); *Casel v. Commissioner*, 79 T.C. 424, 433 (1982) (“When the 1954 Code was adopted by Congress, the conference report . . . clearly stated that whether an aggregate or entity theory of partnerships should be applied to a particular Code section depends upon which theory is more appropriate to such section.”); §1.701-2(e) (1) (“The Commissioner can treat a partnership as an aggregate of its partners in whole or in part as appropriate to carry out the purpose of any provision of the Internal Revenue Code or the regulations promulgated thereunder.”).

Consistent with this authority under subchapter K, the Treasury Department and the IRS have previously adopted the aggregate approach to partnerships to car-

ry out the purpose of various provisions, including international provisions, of the Code. In addition to applying the aggregate approach for purposes of determining section 951 and section 951A inclusions in the final section 951A regulations and the final regulations, regulations under section 871 apply the aggregate approach in applying the 10 percent shareholder test of section 871(h)(3) to determine whether interest paid to a partnership would be considered portfolio interest under section 871(h)(2). §1.871-14(g)(3)(i). The aggregate approach was also adopted in regulations issued under section 367(a) to address the transfer of property by a domestic or foreign partnership to a foreign corporation in an exchange described in section 367(a)(1). *See* §1.367(a)-1T(c)(3)(i)(A). Similarly, the Treasury Department and the IRS adopted the aggregate approach for purposes of applying the regulations under section 367(b). *See* §1.367(b)-2(k); *see also* §§1.367(e)-1(b)(2) (treating stock and securities of a distributing corporation owned by or for a partnership (domestic or foreign) as owned proportionately by its partners) and 1.861-9(e)(2) (requiring certain corporate partners to apportion interest expense, including the partner’s distributive share of partnership interest expense, by reference to the partner’s assets).

## III. PFIC Rules

### A. Section 1291

Under section 1291, a United States person (“U.S. person”) may be subject to ordinary income treatment and an interest charge when it receives an “excess distribution” from a PFIC or recognizes gain on the sale or disposition of PFIC stock (the “excess distribution rules”). These charges are determined based on the person’s holding period and the years in which the foreign corporation qualified as a PFIC. The excess distribution rules do not apply, however, if a shareholder makes certain elections with respect to the PFIC for its entire holding period of the PFIC stock.

The Treasury regulations under section 1291 apply the excess distribution rules to “shareholders” of a PFIC. *See* §1.1291-1(b)(2)(v). Under §1.1291-1(b)(7), a “share-

holder” of a PFIC generally is defined as a U.S. person that owns PFIC stock directly or indirectly through certain corporations or pass-through entities (an “indirect shareholder”), within the meaning of section 1298(a) and §1.1291-1(b)(8) (collectively, a “PFIC shareholder”). For purposes of sections 1291 and 1298, neither a domestic partnership nor an S corporation is treated as a PFIC shareholder except for purposes of any information reporting requirements (including the requirement to file an annual report under section 1298(f)) or where otherwise explicitly provided in regulations. Section 1.1291-1(b)(8)(iii)(A) and (B) provides that if a domestic partnership or S corporation owns PFIC stock, the partners or S corporation shareholders, respectively, are considered to own the PFIC stock proportionately in accordance with their ownership interests. As a result, if a domestic partnership or S corporation owns PFIC stock, the excess distribution rules apply at the partner or S corporation shareholder level.

#### B. *Qualified electing funds*

A PFIC shareholder may elect to treat the PFIC as a QEF (a “QEF election”) under the rules in sections 1293 through 1295 (the “QEF rules”). Under the QEF rules, provided the PFIC complies with certain information reporting requirements, the PFIC shareholder includes its pro rata share of the ordinary earnings and net capital gain generated by the QEF on a current basis under section 1293(a) (“QEF inclusions”), and any gain on a future disposition of the QEF shares may be treated as capital gain not subject to the excess distribution rules. Unlike for the excess distribution rules, under §1.1295-1(j) domestic partnerships and S corporations are treated as PFIC shareholders for purposes of the QEF rules. A PFIC shareholder making a valid QEF election effective as of the beginning of its holding period in the PFIC stock is not subject to the excess distribution rules with respect to that PFIC (a “pedigreed QEF”). Conversely, a PFIC shareholder that makes a QEF election effective after the beginning of its holding period in the PFIC stock is simultaneously subject to the excess distribution rules and the QEF rules with respect to that PFIC (an “unpedigreed QEF”).

A domestic partnership or S corporation that owns PFIC stock generally makes the QEF election with respect to the PFIC under §1.1295-1(d)(2)(i)(A) and (d)(2)(ii). Section 1.1293-1(c)(1) provides that the domestic partnership or S corporation recognizes any QEF inclusions at the entity level, and each U.S. person that is an interest holder in the domestic partnership or S corporation takes into account its pro rata share of the inclusions.

#### C. *Mark-to-market PFICs*

Under section 1296 (the “mark-to-market (MTM) rules”), if stock in a PFIC is marketable stock (“section 1296 stock”), a U.S. person owning that stock can make a mark-to-market election with respect to the PFIC (an “MTM election”). For this purpose, pursuant to section 1296(g)(1), U.S. persons may be deemed to own certain marketable stock held by foreign partnerships, trusts, or estates. Section 1296(a) provides that if a U.S. person makes an MTM election with respect to a PFIC, the U.S. person is treated as if it sold the section 1296 stock at the end of each year, with any gain being recognized as ordinary income (“MTM gain”) and any loss potentially resulting in a deduction (“MTM loss,” and together with MTM gains, “MTM amounts”).

If a domestic partnership or an S corporation owns, or is treated as owning under §1.1296-1(e) (providing ownership rules for PFIC stock owned through certain foreign entities), section 1296 stock, the domestic partnership or S corporation can make an MTM election with respect to the PFIC because the election is made by the U.S. person owning or treated as owning the stock. *See* §1.1296-1(h)(1)(i). The domestic partnership or S corporation, by virtue of being a U.S. person, includes or deducts any MTM amounts at the entity level. *See* §1.1296-1(c)(1) and (3).

#### D. *CFC/PFIC overlap*

Section 957(a) defines a CFC as any foreign corporation in which U.S. shareholders own (within the meaning of section 958(a)), or are considered as owning by applying the ownership rules of section 958(b), more than 50 percent of the total combined voting power or value of

the stock of the corporation on any day during the taxable year of the corporation. Under section 951(b), a U.S. shareholder is a U.S. person that owns (within the meaning of section 958(a)), or is considered as owning by applying the ownership rules of section 958(b), at least 10 percent of the total combined voting power of all classes of stock entitled to vote or at least 10 percent of the total value of all classes of stock of a foreign corporation. Section 957(c) defines a U.S. person by reference to section 7701(a)(30), which defines the term as a citizen or resident of the United States, a domestic partnership, a domestic corporation, and certain domestic estates and trusts.

Under section 1297(d), a foreign corporation that is both a CFC and a PFIC (a “CFC/PFIC”) is not considered to be a PFIC with respect to a shareholder during the shareholder’s qualified portion (as defined in section 1297(d)(2)) of its holding period (the “CFC overlap rule”). The term “qualified portion” generally means the portion of the shareholder’s holding period during which the shareholder is a U.S. shareholder with respect to the PFIC and during which the PFIC is also a CFC. Generally, this means that the PFIC regime should not apply to a U.S. person that is subject to the subpart F rules. The legislative history to the CFC overlap rule indicates that it was enacted due to concern about the simultaneous application of the subpart F and PFIC regimes to the same shareholders, explaining that “a shareholder that is subject to current inclusion under the subpart F rules with respect to stock of a PFIC that is also a CFC generally is not subject also to the PFIC provisions with respect to the same stock.” H.R. Rep. 105-148, at 534 (1997).

#### E. *PFIC purging elections*

##### 1. Section 1291(d)(2) purging elections

Under section 1291(d)(2), a PFIC shareholder that owns, or is treated as owning, shares in an unpedigreed QEF may make certain elections to “purge” the PFIC taint and thereby no longer be subject simultaneously to the excess distribution and QEF rules with respect to that PFIC. Under section 1291(d)(2)(A) and §1.1291-10, a PFIC shareholder may elect



to recognize any gain on a deemed disposition of its PFIC stock with the gain being subject to the excess distribution rules. Alternatively, under section 1291(d)(2)(B) and §1.1291-9, if the unpedigreed QEF is also a CFC (that is, it is a CFC/PFIC), the PFIC shareholder may elect to include its share of the CFC/PFIC's post-1986 accumulated earnings and profits ("E&P") as a dividend subject to the excess distribution rules (together with the election described in the preceding sentence, the "section 1291 purging elections"). The section 1291 purging elections are made by a PFIC "shareholder" as defined in §1.1291-9(j)(3), which is a U.S. person that is a shareholder or indirect shareholder, as defined in §1.1291-1(b)(7) or (8), respectively. If the PFIC shareholder makes one of the section 1291 purging elections, the QEF is a pedigreed QEF with respect to the shareholder.

## 2. Section 1298(b)(1) purging elections

Pursuant to section 1298(b)(1) and §1.1298-3, a PFIC shareholder may make certain purging elections with respect to a foreign corporation that qualifies as a "former PFIC" or a "section 1297(e) PFIC." These purging elections result in the foreign corporation no longer being treated as a PFIC as to the shareholder.

Under §1.1291-9(j)(2)(iv), a "former PFIC" is a foreign corporation that satisfies neither the income test nor the asset test under section 1297(a), but its stock held by the PFIC shareholder is treated as stock of a PFIC as a result of section 1298(b)(1) (that is, the corporation was a PFIC that was not a QEF at some time during the PFIC shareholder's holding period). Pursuant to §1.1291-9(j)(2)(v), a foreign corporation is a "section 1297(e) PFIC"<sup>1</sup> if it (i) qualifies as a PFIC under section 1297(a) on the first day on which the "qualified portion" (as defined in section 1297(d)(2)) of the PFIC shareholder's holding period in the foreign corporation begins (as determined under section 1297(e)(2)); and (ii) the stock of the foreign corporation held by the PFIC shareholder is treated as stock of a PFIC pursuant to section

1298(b)(1) because at any time during the PFIC shareholder's holding period of the stock, other than the qualified portion, the corporation was a PFIC that was not a QEF.

Similar to the section 1291 purging elections, under §§1.1297-3 and 1.1298-3, a PFIC shareholder can make either a deemed sale election or deemed dividend purging election with respect to either a former PFIC or section 1297(e) PFIC (the "section 1298 purging elections" and, together with the section 1291 purging elections, the "PFIC purging elections"). The rules applicable to the section 1298 purging elections in §§1.1297-3(a) and 1.1298-3(a) are substantially the same as those applicable to the section 1291 purging elections, including that each section 1298 purging election is made by a PFIC "shareholder" as defined in §1.1291-9(j)(3).

### *F. PFIC information reporting requirements under section 1298(f)*

Under section 1298(f), each U.S. person that is a PFIC shareholder as defined in §1.1291-1(b)(7) must file an annual report with respect to the PFIC containing the information required by the IRS. Generally, pursuant to §1.1298-1(b)(1), a U.S. person that is a PFIC shareholder must file Form 8621, "Information Return by a Shareholder of a Passive Foreign Investment Company or Qualified Electing Fund," if, during the shareholder's taxable year, it is (i) a direct PFIC shareholder; (ii) an indirect PFIC shareholder that holds any interest in the PFIC through one or more foreign entities; or (iii) an indirect PFIC shareholder that is treated as the owner of any portion of a domestic grantor trust that owns stock of a PFIC directly or through one or more foreign entities.

Certain other indirect PFIC shareholders are also required to file Form 8621. Specifically, under §1.1298-1(b)(2)(i), an indirect PFIC shareholder that owns stock of a PFIC through one or more U.S. persons must file Form 8621 with respect to the PFIC if, during the indirect shareholder's taxable year, it is (i) treated as receiving an excess distribution with re-

spect to the PFIC; (ii) treated as recognizing gain that is treated as an excess distribution as a result of a disposition of the PFIC; (iii) required to recognize QEF inclusions under section 1293(a); (iv) required to include or deduct MTM amounts under section 1296(a); or (v) required to report the status of an election under section 1294 with respect to the PFIC. However, under §1.1298-1(b)(2)(ii), an indirect PFIC shareholder that is required to either recognize QEF inclusions under section 1293(a) or MTM amounts under section 1296(a) is generally not required to file Form 8621 if another PFIC shareholder through which the indirect PFIC shareholder owns its interest in the PFIC timely files Form 8621. Thus, if an indirect PFIC shareholder is treated as owning an interest in a PFIC by reason of an interest in a domestic partnership or S corporation and the domestic partnership or S corporation recognizes QEF inclusions or MTM amounts and timely files Form 8621, the indirect PFIC shareholder is generally not required to file Form 8621. Pursuant to §1.1298-1(b)(2)(ii), this exception does not apply to a PFIC shareholder that transfers stock in a PFIC subject to a QEF election to a domestic partnership or S corporation if the domestic partnership or S corporation does not make a QEF election with respect to the PFIC after the transfer, in which case the transferor-PFIC shareholder is still required to file Form 8621.

### *G. Section 1298 attribution of ownership provisions*

For purposes of the entire PFIC regime, section 1298(a) contains various attribution rules that generally apply to treat stock of a PFIC as owned by a U.S. person. However, pursuant to section 1298(a)(1)(B), except as provided in regulations, section 1298(a) does not apply to treat stock owned (or treated as owned) by a U.S. person as owned by any other person. Under section 1298(a)(3), stock owned directly or indirectly by a partnership, estate, or trust is considered as being owned proportionately by its partners or beneficiaries.

<sup>1</sup> Although the PFIC regulations use the term "section 1297(e)" PFIC, the term refers to CFC/PFICs under current section 1297(d). The regulations were issued before section 1297(e) was redesignated as section 1297(d) by the Tax Technical Corrections Act of 2007, Pub. L. 110-172, sec. 11(a)(24)(A), Dec. 29, 2007, 121 Stat 2473.

#### IV. Subpart F Rules

##### A. Controlling domestic shareholders

The controlling domestic shareholders of a foreign corporation take certain actions with respect to the foreign corporation, such as electing the method of calculating its E&P under section 964(a). See §1.964-1(c)(3). Under §1.964-1(c)(5) (i), the controlling domestic shareholders of a CFC are defined as the United States shareholders, within the meaning of section 951(b) or section 953(c), that, in the aggregate, own (within the meaning of section 958(a)) more than 50 percent of the total combined voting power of all classes of stock of the CFC entitled to vote and that undertake to act on the CFC's behalf. If the more than 50 percent ownership requirement is not satisfied, the controlling domestic shareholders of the CFC are all of the U.S. shareholders that own (within the meaning of section 958(a)) stock of the CFC. Under §1.964-1(c)(5)(ii), with respect to a noncontrolled section 902 corporation (as defined in section 904(d)(2) (E)), the controlling domestic shareholders are the majority domestic corporate shareholders, which are those domestic corporations that meet certain ownership requirements under section 902(a) (as it existed before its repeal in 2017) and that own, directly or indirectly, more than 50 percent of the combined voting power of the stock of the noncontrolled section 902 corporation owned, directly or indirectly, by all domestic corporations. Under §1.964-1(c)(3)(iii), a controlling domestic shareholder that takes actions with respect to a foreign corporation under §1.964-1(c) (3) must provide notice of those actions to certain other domestic shareholders of the foreign corporation.

With respect to a U.S. shareholder partnership, the 2019 proposed regulations provided that aggregate treatment does not apply for purposes of determining whether any U.S. shareholder is a controlling domestic shareholder. Proposed §1.958-1(d)(2). In response to a request for comments on this rule in the preamble to the 2019 proposed regulations, one comment was received. That comment recommended, on balance, that aggregate treatment should not apply for purposes of determining whether a U.S. shareholder

is a controlling domestic shareholder for purposes of section 964.

The final regulations do not extend aggregate treatment for purposes of determining controlling domestic shareholders of foreign corporations and, thus, adopt the exception included in the 2019 proposed regulations. §1.958-1(d)(2)(v).

##### B. Treatment of S corporation distributions under section 1368 and treatment of S corporations and S corporation shareholders under section 1373 and subpart F

###### 1. S corporation distributions

Section 1368(b) and (c) provides for the treatment of distributions made by an S corporation (as defined in section 1361(a) (1)) with respect to its stock to which section 301(c) would apply but for section 1368(a). Section 1368(b) addresses the treatment of those distributions by an S corporation that does not have accumulated E&P ("AE&P"). Section 1368(b)(1) provides that a distribution by an S corporation is not included in the gross income of an S corporation shareholder to the extent that the amount of the distribution does not exceed the shareholder's adjusted basis in its S corporation stock. Section 1368(b)(2) provides that, if the amount of the distribution exceeds the shareholder's adjusted basis in its S corporation stock, that excess is treated as gain from the sale or exchange of property.

Section 1368(c) addresses the treatment of distributions by an S corporation that has AE&P (for example, if the S corporation generated E&P in years before its election to be treated as an S corporation) and therefore has an accumulated adjustments account ("AAA"), as defined by section 1368(e)(1). AE&P does not include amounts that would increase an S corporation's AAA. See section 1371(c). Accordingly, an S corporation's AAA functions similarly to the stock basis adjustment rules of section 1367 and is increased to account for income taxed to its shareholders. See section 1368(e)(1)(A). AAA is limited to income generated by the corporation during its status as an S corporation and preserves the single-level-of-tax treatment to S corporation shareholders.

With regard to distributions by S corporations with AE&P, section 1368(c) first applies the distribution to the S corporation's AAA. Section 1368(c)(1) provides that the portion of the distribution that does not exceed the S corporation's AAA is governed by section 1368(b) and is either not included in a shareholder's gross income (if that amount does not exceed the shareholder's adjusted basis in its S corporation stock) or is treated as gain from the sale or exchange of property (if that amount does not exceed the S corporation's AAA but exceeds the shareholder's adjusted basis in its S corporation stock). After the application of section 1368(c) (1), section 1368(c)(2) provides that any remaining portion of the distribution that exceeds the amount of the S corporation's AAA is treated as a dividend (as defined in section 316) to the extent of the S corporation's remaining AE&P. Lastly, under section 1368(c)(3), the portion of the distribution remaining after the application of section 1368(c)(1) and (2) is governed by section 1368(b) and either not included in gross income or treated as gain, depending on the shareholder's adjusted basis in its S corporation stock.

###### 2. Treatment of S corporations for purposes of subpart F

Section 1373(a) provides that an S corporation is treated as a domestic partnership and its shareholders as partners of a domestic partnership for purposes of subpart F of the Code, which includes sections 951, 951A, and 958. Therefore, under §1.958-1(d)(1) of the final regulations, for purposes of determining section 951 or section 951A inclusions with respect to a CFC owned by an S corporation, the S corporation is not treated as owning the CFC's stock within the meaning of section 958(a). Instead, the CFC stock is treated as owned by a foreign partnership for purposes of determining the U.S. person that owns the CFC stock within the meaning of section 958(a).

As a result, section 951 or section 951A inclusions with respect to CFC stock held by an S corporation are determined and taken into account at the S corporation shareholder level but only if the S corporation shareholder is a U.S. shareholder of the CFC. With respect to S corporations



with AE&P, this aggregate treatment does not increase the S corporation's AAA because any section 951 or section 951A inclusions are taken into account directly by the S corporation shareholders. An S corporation's AAA generally is increased, however, by dividends received by the S corporation from a foreign corporation even if the E&P from which the dividend distributions are made is attributable to amounts that are, or have been, included in gross income of one or more shareholders of the S corporation under section 951(a) or 951A(a). *See* section 1368(e)(1)(A). In contrast, if section 951 and 951A amounts were included by a S corporation, the S corporation's AAA would not be increased for distributions excluded from the S corporation's gross income pursuant to section 959(a).

### 3. Notice 2020-69

In response to the final section 951A regulations, a comment asserted that aggregate treatment for purposes of computing section 951A inclusions is inappropriate for S corporations, notwithstanding the language of section 1373(a) (treating an S corporation as a partnership and S corporation shareholders as partners of a partnership), particularly where an S corporation has AE&P. Specifically, the comment suggested that the aggregate approach creates a mismatch between when S corporation shareholders recognize income with respect to a CFC and the creation of AAA maintained by the S corporation. This mismatch can cause certain distributions out of AE&P made by an S corporation to be taxable to its shareholders despite the fact that the shareholders were already taxed on the CFC's earnings under the final section 951A regulations.

Notice 2020-69, 2020-39 I.R.B. 604, released on September 1, 2020, announced that the Treasury Department and the IRS intend to issue regulations under section 958 to ease the transition of S corporations with AE&P on September 1, 2020, from the historic entity treatment (and the hybrid treatment under proposed §1.951A-5) to the aggregate treatment required under the final section 951A regulations (the "S corporation transition approach"). Under the S corporation transition approach, an S corporation is subject to entity treatment

with respect to a taxable year if (i) an election is made; (ii) the corporation has elected S corporation status before June 22, 2019; (iii) the S corporation would be treated as owning, within the meaning of section 958(a), stock of a CFC on June 22, 2019, if entity treatment applied; (iv) the S corporation has "transition AE&P" on September 1, 2020, or on the first day of any subsequent taxable year; and (v) the S corporation maintains records to support the determination of the transition AE&P amount. Under this entity treatment, an S corporation that owns stock of a CFC is treated as owning, within the meaning of section 958(a), the CFC stock for purposes of applying section 951A such that the S corporation determines its GILTI inclusion amount, and its shareholders take into account their distributive share of that amount. Generally, an electing S corporation is treated as an entity under the S corporation transition approach until the first taxable year for which it has no transition AE&P on the first day of that year, at which point it is treated as an aggregate of its shareholders for that year and each successive year.

#### C. Related person insurance income

Section 952(a) provides that subpart F income includes insurance income, as defined in section 953. Under section 953(c)(2), RPII is any insurance income (as defined in section 953(a)) attributable to a policy of insurance or reinsurance that directly or indirectly insures a United States shareholder (as defined in section 953(c)(1)(A)) of the controlled foreign corporation (as defined in section 953(c)(1)(B)), or a person related to that shareholder. Under section 953(c)(1)(A), the term "United States shareholder" means, with respect to any foreign corporation, a U.S. person (as defined in section 957(c)) who owns (within the meaning of section 958(a)) any stock of the foreign corporation ("RPII U.S. shareholder"). Section 953(c)(1)(B) provides that the term "controlled foreign corporation" has the meaning given to such term by section 957(a) determined by substituting "25 percent or more" for "more than 50 percent" ("RPII CFC").

On April 17, 1991, the Treasury Department and the IRS published in the

**Federal Register** proposed regulations under section 953 (INTL-939-86, 56 FR 15540) (the "1991 proposed regulations"). Section 1.953-3 of the 1991 proposed regulations contains, among other provisions, general rules for determining RPII and definitions that apply for RPII purposes. Section 1.953-3(b)(1) of the 1991 proposed regulations defines RPII as premium and investment income attributable to a policy of insurance or reinsurance that provides insurance coverage to a related insured on risks located outside the RPII CFC's country of incorporation and also provides an analogous rule for annuity contracts.

Section 1.953-3(b)(5) of the 1991 proposed regulations provides that insurance income attributable to a cross-insurance arrangement is treated as RPII. In general, a cross-insurance arrangement is an arrangement in which a RPII CFC insures a person that is not a related insured and, as part of the same arrangement, another person insures a person that would be a related insured if insured by the RPII CFC.

The cross-insurance rule was issued pursuant to section 953(c)(8)(A), which as the Conference Report states, "requires the Secretary to prescribe such regulations as may be necessary to carry out the purposes of the new sub-part F rules for captive insurers, including regulations preventing the avoidance of the new rules through cross-insurance arrangements or otherwise." H.R. Rep. No. 99-841 at II-620 (Sep. 18, 1986) (emphasis added). Congress recognized the need for regulations because cross-insurance can be used to replicate the economics and tax benefits of a captive insurance arrangement through cooperative risk sharing while improperly avoiding the application of section 953(c)(2). "The conferees do not believe that U.S. shareholders should be able to obtain the deferral of U.S. tax on income attributable to insurance of risks of U.S. persons who are in turn insuring the risks of those shareholders. Accordingly, under the regulations, the income of the two companies in the example attributable to the insurance business described [in a cross-insurance arrangement] is to be treated as related person insurance income." *Id.* at II-621.

Regulatory activity on the 1991 proposed regulations was suspended in 1999

due to the temporary enactment of changes to the definition of insurance income under section 953 and the temporary enactment of section 954(i) (together, the “Insurance Active Financing Exception”). See Unified Agenda, 64 FR 21831 (Apr. 26, 1999). These statutory changes were adopted on a permanent basis by the Protecting Americans from Tax Hikes Act of 2015, Pub. L. 114-113 (Dec. 18, 2015). Although much of the 1991 proposed regulations requires modification to account for the Insurance Active Financing Exception, other provisions in the 1991 proposed regulations, including the cross-insurance rule, were not affected by the statutory changes.

## V. Net Investment Income Tax

Section 1411 imposes a 3.8-percent tax on the net investment income of certain individuals, trusts, and estates. Under §1.1411-10(g), an election can be made with respect to a CFC or PFIC that is a QEF to treat amounts included in income under section 951(a) or section 1293(a) (1)(A) with respect to the CFC or QEF as net investment income for purposes of §1.1411-4(a)(1)(i), and to take amounts included in income under section 1293(a) (1)(B) into account for purposes of calculating the net gain attributable to dispositions of property under §1.1411-4(a) (1)(iii). Pursuant to §1.1411-10(g)(3), the election may be made by any individual, estate, trust, domestic partnership, S corporation, or common trust fund that owns the relevant CFC or QEF directly or indirectly through one or more foreign entities. In addition, if a domestic partnership, S corporation, estate, trust, or common trust fund that directly owns the CFC or QEF does not make the election, an individual, estate, trust, domestic partnership, S corporation, or common trust fund that owns the CFC or PFIC indirectly through the non-electing entity may itself make the election. §1.1411-10(g)(3).

### Explanation of Provisions

#### I. PFIC Rules

##### A. Definition of PFIC shareholder

The Treasury Department and the IRS have concluded that, because domestic

partnerships and S corporations should be treated as aggregates of their partners and shareholders, respectively, for purposes of the QEF and MTM rules (see parts I.B.1 and I.C.1 of this Explanation of Provisions), the definition of shareholder under §1.1291-1(b)(7) should be updated to reflect aggregate treatment for purposes of the PFIC regime. Thus, under the proposed regulations, neither domestic partnerships nor S corporations are considered shareholders for purposes of making QEF or MTM elections, recognizing QEF inclusions or MTM amounts, making PFIC purging elections, or filing Forms 8621. Proposed §§1.1291-1(b)(7), 1.1295-1(j) (3), 1.1296-1(a)(4).

#### B. QEF rules

##### 1. Treatment of pass-through entities for purposes of sections 1293 and 1295

Various comments in response to the 2019 proposed regulations addressed the treatment of domestic partnerships as aggregates of their partners for purposes of the QEF rules. Some comments requested that domestic partnerships continue to be treated as PFIC shareholders for purposes of making QEF elections and recognizing QEF inclusions based on administrability considerations (including reducing compliance burdens for small partners) and access to information. Other comments recommended an aggregate approach to QEFs, citing consistency with section 951, section 951A, and other aspects of the PFIC regime (specifically sections 1291, 1294, and 1297(d)). Additionally, comments recommended that, because QEF inclusions are taken into account in computing taxable income at the partner level, a partner should determine whether the QEF rules apply. One comment recommended a transition to an aggregate approach to QEFs with an alternative that would permit a domestic partnership to make a QEF election on behalf of its partners if permitted under the partnership agreement.

The Treasury Department and the IRS have concluded that it is more appropriate to treat domestic partnerships and S corporations as aggregates of their partners and shareholders, respectively, for purposes of sections 1293 and 1295. Aggregate treat-

ment is consistent with the general treatment of partnerships for purposes of the PFIC regime under section 1298(a)(3) and aligns the QEF rules with the treatment of domestic partnerships and S corporations for purposes of the CFC overlap rule. It also provides partners and S corporation shareholders, the persons most affected by a QEF election, with the ability to decide whether to make the election. In addition, the new reporting by partnerships on Schedule K-2, “Partners’ Distributive Share Items—International,” and Schedule K-3, “Partner’s Share of Income, Deductions, Credits, etc.—International” is expected to facilitate a partner’s ability to make the QEF election. The Treasury Department and the IRS are aware that in limited circumstances, as a result of certain nonconforming tax years between a partner and a partnership, the partner may be required to file its return on which it makes a QEF election (and includes its QEF inclusion) before the deadline for the partnership to provide it with Schedule K-3. In such a case, the Treasury Department and the IRS expect that a partner seeking to make a QEF election will make arrangements with the partnership to provide the partner with the necessary information in a timely fashion.

Accordingly, the proposed regulations provide that a partner or S corporation shareholder, rather than the domestic partnership or S corporation, respectively, makes a QEF election, and each electing partner or S corporation shareholder must notify the partnership or S corporation, respectively, of the election to assist the partnership or S corporation with information reporting and tracking basis in the QEF stock. Proposed §1.1295-1(d)(2)(i) (A) and (d)(2)(ii)(A). Similarly, partners and S corporation shareholders include their pro rata shares of ordinary earnings and net capital gain attributable to the QEF stock as if such shareholder owned its share of the QEF stock directly, and not as a share of the pass-through entity’s income. See proposed §1.1293-1(c)(1). Contrary to the current regulations, however, a QEF election made under proposed §1.1295-1(d)(2)(i)(A) or (d)(2)(ii)(A) by a partner or S corporation shareholder with respect to PFIC stock held indirectly through a domestic partnership or S corporation applies to all stock of that PFIC

owned by such partner or S corporation shareholder, even if owned outside of the partnership or S corporation.

In response to the comments' concerns regarding the administrability of partner-level QEF elections, the Treasury Department and the IRS request comments on whether final regulations should permit a domestic partnership- or S corporation-level QEF election on behalf of its partners or shareholders, respectively, in conjunction with the general rule requiring the partner or shareholder to make the election. Comments should specifically address (i) the legal mechanism by which the domestic partnership or S corporation would be delegated the ability to make a QEF election on behalf of its partners or shareholders; (ii) the standard of delegation that should be required, including whether delegation should be based on the partnership agreement or the S corporation's organizational documents, or some other instrument, and, if so, whether delegation should be explicit or implicit within the instrument; (iii) whether the domestic partnership or S corporation's election should be binding on all partners or shareholders, or only on certain partners or shareholders; (iv) if binding on all partners or shareholders, whether certain partners or shareholders should be allowed to opt out and whether an opt-out is consistent with the current rules; and (v) the timing, filing, and notification requirements that should apply to a domestic partnership- or S corporation-level QEF election, taking into account the possibility of nonconforming taxable years among the partners and partnership (or shareholders and S corporation) and the QEF.

## 2. Transfers of stock to domestic pass-through entities

The current regulations include special rules that apply when stock of a PFIC subject to a QEF election is transferred to a domestic pass-through entity, depending on whether the transferee entity makes a QEF election with respect to the transferred PFIC. Under §1.1293-1(c)(2)(i), if PFIC stock subject to a QEF election is transferred to a domestic pass-through entity of which the transferor is an interest holder, and the transferee pass-through entity makes a QEF election with respect

to the PFIC, thereafter the transferor and other interest holders that become PFIC shareholders as a result of the transfer begin taking into account their pro rata shares of the pass-through entity's QEF inclusions. However, under §1.1293-1(c)(2)(ii), if the transferee pass-through entity does not make a QEF election with respect to the transferred PFIC, the transferor-shareholder (but not other indirect shareholders resulting from the transfer) continues to be subject to QEF inclusions with respect to the PFIC.

To provide consistency with the aggregate treatment of domestic partnerships and S corporations under the QEF rules, the proposed regulations provide that, if a shareholder transfers stock of a PFIC with respect to which it has made a QEF election to a pass-through entity, the transferor continues to be subject to QEF inclusions with respect to the transferred stock, and the other interest holders of the pass-through entity are subject to QEF inclusions from the PFIC only if they make a QEF election with respect to the transferred stock. Proposed §1.1293-1(c)(3)(i) and (ii). However, because domestic nongrantor trusts continue to be shareholders for purposes of the QEF rules, the proposed regulations retain the rule in current §1.1293-1(c)(2)(i) but limit its application to domestic nongrantor trusts. Therefore, if stock of a PFIC subject to a QEF election is transferred to a domestic nongrantor trust, and the transferee trust makes a QEF election with respect to the stock, the electing trust includes its pro rata share of the QEF inclusions, and its beneficiaries account for such amounts according to the general rules applicable to inclusions of income from the trust. *See* proposed §1.1293-1(c)(3)(iii). If the domestic nongrantor trust does not make a QEF election with respect to the transferred stock, only the transferor is subject to QEF inclusions with respect to the transferred stock. *Id.*

## 3. Continuation of preexisting QEF elections

The Treasury Department and the IRS have concluded that QEF elections made by a domestic partnership or S corporation that are effective for taxable years of a PFIC ending on or before the date of publication of the Treasury decision adopting

these rules as final regulations in the **Federal Register** (such PFIC a "preexisting QEF," and the election, a "preexisting QEF election") will continue for any partner or S corporation shareholder owning an interest in a preexisting QEF on that date. *See* proposed §1.1295-1(d)(2)(i)(B), (d)(2)(ii)(B), and (f)(3). Treating the preexisting QEF elections as if they were effectively made by each partner or S corporation shareholder owning an interest in the preexisting QEF before the date of publication of the Treasury decision adopting these rules as final regulations in the **Federal Register** should minimize the number of additional QEF elections required by partners and S corporation shareholders, thus making the QEF rules more administrable for taxpayers and the IRS when transitioning from the historic entity approach to the aggregate approach of the proposed regulations. However, although a new election is not required to be made with respect to a preexisting QEF by partners or S corporation shareholders that indirectly owned the QEF before the finalization of the proposed regulations, they are subject to QEF inclusions under the new aggregate approach. *See* proposed §1.1293-1(c)(1).

## 4. Additional changes to QEF rules

The proposed regulations make several modifications to the rules that characterize stock held through a pass-through entity under §1.1295-1(b)(3)(iv). First, consistent with the general aggregate approach to domestic pass-through entities under the QEF rules (other than domestic nongrantor trusts and domestic estates), the rule now governs how stock of a PFIC will be treated as stock of a pedigreed QEF to a shareholder, as defined in proposed §1.1295-1(j)(3), rather than all interest holders or beneficiaries of a pass-through entity as under the current provision. This paragraph is also modified to address both the treatment of PFICs as pedigreed QEFs to shareholders owning such PFICs through domestic partnerships and S corporations that have made preexisting QEF elections, and the treatment of PFICs owned through domestic pass-through entities (other than domestic nongrantor trusts and domestic estates) to shareholders making the QEF election. Further, the



rule addresses the treatment of PFICs as pedigreed QEFs when PFIC stock is acquired by, or transferred to, pass-through entities. *See* proposed §1.1295-1(b)(3)(iv) (A) through (C). Additionally, in order to ensure the proper application of proposed §1.1295-1(b)(3)(iv), proposed §1.1295-1(b)(3)(iv)(A) and (B) do not apply to transactions in which gain is not fully recognized.

The proposed regulations also make several changes to conform §1.1295-1 to the general aggregate treatment of domestic pass-through entities (other than domestic non-grantor trusts and domestic estates) under the QEF rules. These changes include (i) limiting the application of paragraphs (b)(3)(i) and (ii) to domestic nongrantor trusts and domestic estates, which are the only domestic pass-through entities that may make a QEF election under the proposed regulations; (ii) applying the partnership termination rule only with respect to partnerships that have made preexisting QEF elections and their partners; (iii) revising rules governing the treatment of PFIC stock distributed by a partnership as stock of a pedigreed QEF to transferee partners; and (iv) providing that shareholders owning QEF stock through a domestic partnership or S corporation that has made a preexisting QEF election are required to file Form 8621 for such QEFs. Proposed §1.1295-1(b)(3)(i) through (iii) and (v) and (f)(2) (i). In addition, the proposed regulations remove the rule in §1.1295-1(i)(1)(ii) that allows the Commissioner to invalidate a pass-through entity QEF election with respect to a shareholder if, as a result of nonconforming taxable years between the shareholder and a pass-through entity, the QEF inclusion is not included in income within two years of the PFIC's year end. The rule was removed because it specifically applies to pass-through entity QEF elections and inclusions, which, as a result of aggregate treatment, generally will only be relevant in limited circumstances involving domestic trusts. The Commissioner continues to have discretion to invalidate or terminate a shareholder's QEF election in appropriate circumstances if the requirements of section 1295 are not met by a shareholder, an intermediary, or the relevant PFIC. §1.1295-1(i)(1)(i).

### C. MTM rules

#### 1. Treatment of pass-through entities for purposes of section 1296

The Treasury Department and the IRS received comments addressing the treatment of domestic partnerships as aggregates of their partners for purposes of the MTM rules, which generally were similar to the comments received with respect to QEFs. For reasons similar to those noted for QEFs, some comments recommended maintaining entity treatment of domestic partnerships under the MTM rules for administrability reasons, such as reduced compliance burdens for small partners and limited access to information. Other comments recommended an aggregate approach to maintain consistency with sections 951 and 951A and the PFIC regime (including the comments' proposed aggregate treatment of domestic partnerships for the QEF rules) and to allow the persons most affected by a MTM election, the partners, to determine whether the MTM rules apply. The comment discussed in part I.B.1 of this Explanation of Provisions that recommended an alternative that would permit a domestic partnership to make a QEF election on behalf of its partners made the same recommendation with respect to MTM elections.

For the reasons noted by the comments recommending an aggregate approach and to further consistency in the treatment of domestic partnerships and S corporations across the PFIC regime, the Treasury Department and the IRS have concluded that domestic partnerships and S corporations should also be treated as aggregates of their partners and shareholders, respectively, for purposes of the MTM rules. Accordingly, the proposed regulations extend aggregate treatment to domestic partnerships and S corporations for purposes of the MTM rules by providing that the MTM rules apply to PFIC shareholders, as defined in proposed §1.1291-1(b)(7), which term does not include domestic partnerships or S corporations. *See* proposed §1.1296-1(a)(4) and (e). As a result, partners of a domestic partnership or S corporation shareholders make an MTM election with respect to PFIC stock owned through the partnership or S corporation and deter-

mine their own MTM gain or loss, rather than taking into account their distributive share of the domestic partnership or S corporation's MTM gain or loss. *See* proposed §1.1296-1(b)(1) and (c)(1) and (3). Partners and S corporation shareholders making an MTM election with respect to a PFIC held through a partnership or S corporation, respectively, must notify the partnership or S corporation of the election to assist the partnership or S corporation with information reporting and tracking basis in the PFIC stock. Proposed §1.1296-1(h)(1)(i)(B). Incorporating the proposed §1.1291-1(b)(7) definition of shareholder into §1.1296-1 also clarifies that the MTM rules apply to grantors of domestic grantor trusts that own PFIC stock, and that domestic nongrantor trusts and domestic estates continue to be treated as entities for purposes of the MTM rules.

To reflect the transition to the aggregate treatment of domestic partnerships and S corporations for purposes of the MTM rules, various other conforming changes are made to apply the MTM rules to PFIC shareholders rather than U.S. persons. *See* proposed §1.1296-1(b)(2) and (3); §1.1296-1(c)(5); §1.1296-1(d)(1) and (2); §1.1296-1(e) and (f); §1.1296-1(g) (1) and (2); §1.1296-1(h)(1)(i) and (ii); §1.1296-1(h)(2)(ii); §1.1296-1(h)(3); and §1.1296-1(i)(1). Additionally, the rule in §1.1296-1(g)(3), providing that when an MTM PFIC is owned through certain foreign pass-through entities any MTM gain or loss is determined as of the end of the foreign pass-through entity's tax year, has been removed. Under the general aggregate treatment of pass-through entities (besides domestic nongrantor trusts and domestic estates) for purposes of the MTM rules, the appropriate taxable year with respect to which any MTM gain or loss is determined is the taxable year end of the shareholder that owns the MTM PFIC through a pass-through entity, not the pass-through entity's taxable year.

As in part I.B.1 of this Explanation of Provisions, the Treasury Department and the IRS request comments on whether a form of partnership- or S corporation-level MTM election could be accommodated in final regulations. Comments should address the same considerations noted in part I.B.1 of this Explanation of Provi-

sions regarding the delegation of authority to make an MTM election to a domestic partnership or S corporation.

## 2. Continuation of preexisting MTM elections

The Treasury Department and the IRS have concluded that MTM elections made with respect to a PFIC by a domestic partnership or S corporation for taxable years of the PFIC ending on or before the date of publication of the Treasury decision adopting these rules as final regulations in the **Federal Register** (“preexisting MTM election”) should be treated as made by any partner or S corporation shareholder owning its interest on that date. This treatment should minimize the number of additional MTM elections that would be made by such partners or S corporation shareholders, thus making the MTM rules more administrable for taxpayers and the IRS as a result of the transition from the historic entity approach to the aggregate approach of the proposed regulations. Accordingly, MTM elections made by domestic partnerships and S corporations effective for taxable years of a PFIC ending on or before finalization of the proposed regulations under proposed §1.1296-1(h)(1)(i)(A) continue to be valid and will be treated as made by the owners of such entities. As a result, going forward the owners of those entities will determine their MTM gain or loss as if they held the section 1296 stock directly.

## 3. Modifications to the MTM coordination rule

Under section 1296(j) and §1.1296-1(i), if a taxpayer makes an MTM election with respect to a foreign corporation that was a PFIC (other than a QEF) before the first taxable year to which the MTM election was effective, the excess distribution rules apply to any (i) distributions by the PFIC with respect to the section 1296 stock; (ii) disposition of the section 1296

stock; and (iii) MTM gain recognized on the last day of the U.S. person’s taxable year (the “MTM coordination rule”). Before the proposed regulations, if section 1296 stock subject to the MTM coordination rule was held by a domestic partnership or S corporation, it may have been unclear how to apply the MTM coordination rule since the excess distribution rules are not applied at the domestic partnership or S corporation level.

Accordingly, to conform to the general transition to an aggregate approach under the MTM rules, the proposed regulations clarify that the MTM coordination rule is applied to a PFIC shareholder. See proposed §1.1296-1(i)(2) introductory text and (i)(2)(ii). To coordinate with MTM rules other than those under section 1296, the proposed regulations also modify §1.1291-1(c)(4)(ii) so that computations apply to PFIC shareholders.

### D. CFC overlap rule

#### 1. Application based on aggregate treatment for sections 951 and 951A

The CFC overlap rule provides that, for purposes of the PFIC regime, a corporation is not treated as a PFIC with respect to a shareholder during the qualified portion of the shareholder’s holding period with respect to stock in the corporation. Section 1297(d)(1). Thus, this rule applies separately with respect to each shareholder of the foreign corporation, and the foreign corporation may be a PFIC with respect to one shareholder but not another. The CFC overlap rule was intended to eliminate the simultaneous application of the subpart F and PFIC regimes only for a shareholder that is “subject to current inclusion under the subpart F rules.” H.R. Rep. 105-148 at 534.

Under the final regulations (and §1.951A-1(e) as applicable before the final regulations), domestic partnerships and S corporations do not have inclusions under section 951 or section 951A and,

because the inclusions are instead determined directly and solely by the partners or S corporation shareholders that are U.S. shareholders, partners and S corporation shareholders that are not U.S. shareholders do not have section 951 or section 951A inclusions. See §1.958-1(d)(1). Thus, a U.S. person that is not a U.S. shareholder of a foreign corporation that would otherwise be a PFIC with respect to that person if held directly should not be permitted to rely on the CFC overlap rule to avoid the PFIC regime simply because the U.S. person owns its interest in the foreign corporation indirectly through a domestic partnership or S corporation.

Although section 1297(d) does not define the term “shareholder” for this purpose, under §1.1291-1(b)(7), a domestic partnership or S corporation is not a shareholder to which the CFC overlap rule applies.<sup>2</sup> Thus, this regulation sets forth an exception to the general rule in section 1298(a)(1)(B), which provides that a U.S. person is not treated as constructively owning stock that is owned by another U.S. person (including, for example, a domestic partnership). Accordingly, under the general rule of section 1298(a)(1)(A), constructive ownership of PFIC stock under section 1298(a) applies to the extent that the effect is to treat PFIC stock held by a domestic partnership or S corporation as owned by partners and shareholders of the entities that are U.S. persons. The ownership provisions of section 1298(a), in turn, apply for purposes of sections 1291 through 1298, including section 1297(d). Thus, neither a domestic partnership nor an S corporation is a shareholder for purposes of section 1297(d) by operation of §1.1291-1(b)(7), notwithstanding that, under §1.958-1(d)(2)(i), a domestic partnership or an S corporation may be a U.S. shareholder of the foreign corporation within the meaning of section 951(b). Consistent with this aggregate approach to section 951 and section 951A in applying the CFC overlap rule under the existing regulations, the proposed regulations con-

<sup>2</sup> Section 1.1291-1(b)(7) provides that a PFIC shareholder is a U.S. person that directly owns PFIC stock or that is an indirect shareholder under §1.1291-1(b)(8); further, it states that for purposes of sections 1291 and 1298, neither a domestic partnership nor an S corporation is treated as a PFIC shareholder, except for information reporting purposes. This definition of shareholder was first adopted as a temporary regulation, applicable to taxable years of shareholders ending on or after December 31, 2013 (T.D. 9650, 78 FR 79602, 79608 (Dec. 31, 2013)) and was subsequently issued as a final regulation without substantive change with the same applicability date (T.D. 9806, 81 FR 95459, 95465 (Dec. 28, 2016)). Both temporary and final §1.1291-1(b)(7) were issued after several private letter rulings (“PLRs”), such as PLR 201108020 (Feb. 25, 2011) and PLR 200943004 (Oct. 23, 2009), which were issued with respect to the application of section 1297(d) to domestic partnerships.

firm that for purposes of section 1297(d), the term “qualified portion” does not include any portion of a domestic partner or S corporation shareholder’s holding period during which the partner or shareholder was not a U.S. shareholder with respect to the CFC/PFIC. Proposed §1.1291-1(c)(5)(i).

## 2. Transition rule for entity treatment

Although the CFC overlap rule, in conjunction with the shareholder definition in §1.1291-1(b)(7), properly reflects the aggregate approach to subpart F (as discussed in part III.A of this Explanation of Provisions), the Treasury Department and the IRS have determined that the application of these rules could lead to inappropriate results under the entity approach to subpart F that applied under prior law. In particular, under entity treatment for subpart F, the CFC overlap rule would not apply with respect to partners or S corporation shareholders of the CFC/PFIC that were not U.S. shareholders even though they would take into account their share of inclusions of the domestic partnership or S corporation under section 951 and, as applicable, section 951A. Thus, the CFC/PFIC would be treated as a PFIC with respect to such partners or S corporation shareholders even though the partner or shareholder was subject to current inclusions under the subpart F regime.

Accordingly, the Treasury Department and the IRS have determined that it is appropriate to provide a transition rule that would apply to taxable years of shareholders beginning before the date of publication of the Treasury decision adopting these rules as final regulations in the **Federal Register**, or for taxable years of shareholders of an S corporation in which the S corporation elects to apply §1.958-1(e). When this transition rule applies, the CFC overlap rule will benefit certain persons that are indirect PFIC shareholders, but not U.S. shareholders, due to owning stock of foreign corporations through domestic partnerships or S corporations, during periods when the shareholder was subject to current inclusions under section 951 or section 951A (for example, under the rules described in Notices 2019-46 and 2020-69) as a share of a domestic partner-

ship or S corporation’s income inclusions. Proposed §1.1291-1(c)(5)(ii).

### E. PFIC purging elections

Under the current regulations, it may be unclear whether a domestic partnership or an S corporation that owns PFIC stock is eligible to make a PFIC purging election, particularly with respect to the section 1291 purging elections, both of which require simultaneous QEF elections that are generally made by domestic partnerships and S corporations.

Consistent with the aggregate treatment of domestic partnerships and S corporations for purposes of making elections and determining income inclusions within the PFIC regime, the Treasury Department and the IRS have determined that the PFIC purging elections with respect to PFICs owned by partnerships and S corporations should be made at the partner or shareholder level because each of the PFIC purging elections can result in the recognition of excess distributions under section 1291, and those inclusions are directly taken into account at the partner or shareholder level and rely on partner or shareholder specific tax attributes, such as holding period. Each PFIC purging election is made by a shareholder as defined in proposed §1.1291-1(b)(7), which has been modified to make explicit that neither domestic partnerships nor S corporations are PFIC shareholders for any purpose. As a result, under the proposed regulations, PFIC purging elections are made at the partner or S corporation shareholder level.

### F. PFIC information reporting

Consistent with the aggregate treatment of domestic partnerships and S corporations for purposes of the QEF and MTM rules, the Treasury Department and the IRS have concluded that domestic partnerships and S corporations should no longer be required to file an annual report (Form 8621) under section 1298(f) and §1.1298-1. The requirement to file Form 8621 applies only to PFIC shareholders within the meaning of §1.1291-1(b)(7), which includes, for example, partners or S corporation shareholders that indirectly own PFICs through domestic partnerships or S corporations. §1.1298-1(a). Domes-

tic partnerships and S corporations will not be subject to this filing obligation due to the revised definition of shareholder in proposed §1.1291-1(b)(7), under which domestic partnerships and S corporations are not PFIC shareholders for any purpose.

To reflect this change, proposed §1.1298-1(b)(1) revises the general rule requiring a PFIC shareholder to file Form 8621 to clarify that the requirement applies to PFIC shareholders as defined in §1.1291-1(b)(7). Additionally, proposed §1.1298-1(b)(1)(i) and (ii) provides that the general rule concerning who has to file Form 8621 with respect to a PFIC applies to a PFIC shareholder that is either (i) a direct PFIC shareholder or (ii) an indirect PFIC shareholder (within the meaning of §1.1291-1(b)(8)) that holds an interest in a PFIC through one or more entities, each of which is not a PFIC shareholder within the meaning of §1.1291-1(b)(7). As a result, because a domestic grantor trust is not a PFIC shareholder within the meaning of §1.1291-1(b)(7), the proposed regulations remove §1.1298-1(b)(1)(iii). Similarly, the proposed regulations remove §1.1298-1(c)(6) because domestic partnerships are not PFIC shareholders under proposed §1.1291-1(b)(7) and thus have no filing obligation under the proposed regulations.

These changes limit the application of §1.1298-1(b)(2) (which currently requires certain indirect shareholders to file Form 8621 when those shareholders own an interest in a PFIC through one or more U.S. persons) to only beneficiaries of domestic estates and domestic nongrantor trusts, because an indirect PFIC shareholder owning stock in a PFIC through a domestic partnership, S corporation, or domestic grantor trust will be required to file a Form 8621 under proposed §1.1298-1(b)(1)(ii). An indirect PFIC shareholder owning stock of a PFIC by reason of an interest in a domestic estate or domestic nongrantor trust that recognizes its share of the estate or trust’s QEF inclusions or MTM amounts would continue to be able to rely on the exception of §1.1298-1(b)(2)(ii) if the domestic estate or domestic nongrantor trust files Form 8621 with respect to the QEF or MTM PFIC. The proposed regulations remove the last sentence of §1.1298-1(b)(2)(ii) regarding the inability to apply the exception with respect to stock in a



QEF contributed to domestic partnerships or S corporations, because these entities cannot make a QEF election under the proposed regulations.

The changes to the section 1298(f) information reporting requirements in proposed §1.1298-1 reflect the general shift in the treatment of domestic partnerships and S corporations as aggregates for purposes of the PFIC regime. While these changes represent a change in the PFIC shareholders required to file an annual report under section 1298(f), a domestic partnership or S corporation will continue to have a responsibility to report information with respect to the PFICs it owns to its interest holders on Schedule K-3, “Partner’s Share of Income, Deductions, Credits, etc.—International,” of Forms 1065, “U.S. Return of Partnership Income,” and 1120-S, “U.S. Income Tax Return for an S Corporation,” respectively, when required. The general information reporting obligations of domestic partnerships and S corporations with respect to their interest holders should result in the interest holders receiving the information required to satisfy their filing obligations under section 1298(f).

### G. Other changes

#### 1. Section 1297(e) PFICs

The term “section 1297(e) PFIC” and other associated references to “section 1297(e)” related to section 1297(e) before it was re-designated as current section 1297(d) by the Tax Technical Corrections Act of 2007. Accordingly, the proposed regulations change the defined term “section 1297(e) PFIC” to “section 1297(d) PFIC” and replace references to “section 1297(e) PFICs” and “section 1297(e) (2)” with references to “section 1297(d) PFICs” and “section 1297(d)(2),” respectively.

#### 2. Changes to definition of post-1986 earnings and profits

The term “post-1986 earnings and profits” is the basis upon which a deemed dividend under §§1.1291-9, 1.1297-3, and 1.1298-3 is determined, and each of those sections generally defines the term by reference to the definition of “undistributed

earnings, within the meaning of section 902(c).” However, because section 902 was repealed by the Tax Cuts and Jobs Act, Pub. L. 115-97, December 22, 2017, 131 Stat 2054 (“TCJA”), the proposed regulations revise the definition of post-1986 earnings and profits in §§1.1291-9(a)(2) (i), 1.1297-3(c)(3)(i)(A), and 1.1298-3(c) (3)(i) to eliminate references to section 902(c) and to define the term by reference to earnings and profits computed in accordance with sections 964(a) and 986.

### II. Subpart F Rules

#### A. Modifications to §1.964-1(c), including determination of controlling domestic shareholders

As discussed in part IV.A of the Background section of this preamble, the final regulations do not extend aggregate treatment for purposes of determining controlling domestic shareholders of foreign corporations. Nevertheless, the Treasury Department and the IRS have further considered the benefits of maintaining entity treatment of domestic partnerships for purposes of determining the controlling domestic shareholders of a CFC, including the administrative convenience of centralizing the various actions taken by controlling domestic shareholders, and have concluded that such actions should generally be taken by those persons whose tax liability is directly affected thereby. Accordingly, the Treasury Department and the IRS have concluded that domestic partnerships should be treated as aggregates for purposes of determining whether a U.S. shareholder is a controlling domestic shareholder of a CFC. This approach is consistent with the final regulations, which provide that neither section 951 nor section 951A inclusions arise at the U.S. shareholder partnership level but instead arise directly to U.S. shareholder partners. In other words, actions that affect the determination of inclusions under sections 951 and 951A are determined by the same persons that have the direct inclusions under those provisions.

Accordingly, proposed §1.958-1(d)(1) provides that domestic partnerships are not considered to own stock of a foreign corporation under section 958(a) for purposes of §1.964-1(c) as well as any pur-

vision that specifically applies by reference to §1.964-1(c). As a result, domestic partnerships and S corporations (by virtue of section 1373(a)) would be treated as aggregates of their partners and shareholders, respectively, for purposes of determining the controlling domestic shareholders of foreign corporations under the proposed regulations.

In addition to applying for purposes of determining the controlling domestic shareholders of a foreign corporation, aggregate treatment also generally applies for purposes of the notice requirement of §1.964-1(c)(3)(iii). Extending aggregate treatment to this notice requirement ensures that other persons known by the controlling domestic shareholders to be U.S. persons that own (within the meaning of section 958(a)) stock of a foreign corporation (“domestic shareholders”) through a domestic partnership (but that are not themselves controlling domestic shareholders) are made aware of any action undertaken by the controlling domestic shareholders under §1.964-1(c) (3). However, proposed §1.964-1(c)(3) (iii)(B) provides that a controlling domestic shareholder is deemed to satisfy the notice requirement with respect to domestic shareholders that are partners in a domestic partnership by providing the notice to the domestic partnership (known to the controlling domestic shareholder) through which the domestic shareholders own stock of the foreign corporation, which could then provide the notice to its partners that are domestic shareholders. Additionally, to help facilitate notice to the person that prepares and maintains the foreign corporation’s books and records for U.S. federal income tax purposes, notice is also required to be provided to any U.S. person (such as a domestic partnership) that controls, within the meaning of section 6038(e), the foreign corporation (in other words, any U.S. person that is a Category 4 filer of Form 5471, “Information Return of U.S. Persons With Respect to Certain Foreign Corporations,” with respect to the foreign corporation).

Additionally, in light of the repeal of section 902 as part of the TCJA, the proposed regulations replace the term “noncontrolled section 902 corporation” in §1.964-1(c)(5)(ii) with the term “non-controlled foreign corporation,” which is

defined as any foreign corporation (other than a CFC as defined in section 957 or section 953) as to which a U.S. shareholder owns stock within the meaning of section 958(a). Proposed §1.964-1(c)(5) (ii). The proposed regulations similarly replace the term “majority domestic corporate shareholders” with the term “majority domestic shareholders,” to reflect the repeal of section 902. *Id.*

#### *B. Treatment of S Corporations with AE&P*

After the issuance of Notice 2020-69 (announcing an intent to issue regulations adopting the S corporation transition approach), a comment requested additional guidance on issues applicable to S corporations under sections 951 and 951A. Specifically, the comment requested (i) transition rules for taxpayers that elected into the S corporation transition approach; (ii) guidance on the aggregate treatment of S corporations for purposes of sections 951 and 951A; and (iii) the ability of all S corporations to elect entity treatment similar to the S corporation transition approach described in Notice 2020-69, regardless of whether the S corporation has AE&P.<sup>3</sup>

The proposed regulations adopt the S corporation transition approach, as described in Notice 2020-69. *See* proposed §1.958-1(e). The Treasury Department and the IRS have concluded that the S corporation transition approach in the proposed regulations appropriately smooths the transition for S corporations to be on an equal footing with domestic partnerships. The S corporation transition approach ensures that amounts corresponding to income of a CFC already taxed to S corporation shareholders can, even without being distributed by the CFC, be distributed tax-free by the S corporation and have priority over distributions of C corporation AE&P, while the latter will continue to be taxed as dividends when distributed, consistent with section 1368.

Because section 951 and section 951A inclusions at the entity level will generate AAA, S corporations with AE&P will be able to make distributions to shareholders with respect to those amounts rather than distributions of dividends out of AE&P.

The proposed regulations do not extend the S corporation transition approach to all S corporations, regardless of AE&P. The Treasury Department and the IRS believe that permitting all S corporations to elect to be treated as an entity for purposes of sections 951 and 951A is inconsistent with section 1373(a) and the aggregate approach adopted in the final section 951A regulations and the final regulations. Further, the Treasury Department and the IRS have determined that, in recognition of certain issues specific to S corporations with AE&P as of a certain date, the S corporation transition approach, with its conditions, sufficiently transitions those S corporations that elect entity treatment to the aggregate treatment provided in the final section 951A regulations and the final regulations. Accordingly, this comment is not adopted.

#### *C. Entity treatment under section 951A and inapplicability of penalties*

The proposed regulations include the rules announced in Notice 2019-46 that permit domestic partnerships and S corporations to apply the hybrid approach for taxable years ending before June 22, 2019. Consistent with Notice 2019-46, to apply the hybrid approach, domestic partnerships and S corporations must satisfy certain notice requirements. Proposed §1.951A-1(e)(2)(i) and (iii). In addition, if the domestic partnership or S corporation satisfies these notification requirements it will not be subject to certain penalties for failures to file or furnish statements to the extent such failures arise from acting consistently with the 2018 proposed regulations before June 22, 2019. Proposed §1.951A-1(e)(2)(ii).

#### *D. Related person insurance income*

##### *1. Aggregate treatment of partnerships*

A comment in response to the 2019 proposed regulations requested that aggregate treatment be applied to domestic partnerships for purposes of determining RPII and that domestic partnerships be treated the same way as foreign partnerships for this purpose. In addition, the Treasury Department and the IRS recognize that treating a domestic partnership as an entity for purposes of section 953(c) could produce disproportionate RPII inclusions in light of the special rules contained in section 953(c)(5). Therefore, proposed §1.958-1(d)(1) modifies the list of provisions subject to aggregate treatment to include section 953(c), and a domestic partnership is not treated as a RPII U.S. shareholder for the purpose of characterizing income as RPII. The proposed regulations, however, provide that §1.958-1(d)(1) does not apply for purposes of section 953(c)(1)(A) in determining whether any foreign corporation is a controlled foreign corporation as defined in section 953(c)(1)(B), 953(c)(3)(E), or 953(d)(1)(A). Proposed §1.958-1(d)(2)(v). This approach is consistent with §1.958-1(d)(2)(ii) (providing that §1.958-1(d)(1) does not apply for purposes of determining whether a foreign corporation is a controlled foreign corporation as defined in section 957).

Corresponding changes are made to the definition of RPII under proposed §1.953-3 to conform with the aggregate treatment of partnerships under proposed §1.958-1(d)(1). RPII is generally defined as premium and investment income attributable to an annuity, insurance, or reinsurance policy that directly or indirectly provides coverage to a related insured. Proposed §1.953-3(b)(1)(i). The new definition of RPII is modeled on the 1991 proposed regulations but has been modified to account for the aggregate treatment of partnerships and the Insurance Active Financing Ex-

<sup>3</sup>This comment also requested guidance to (i) clarify the determination of a partner's proportionate share of CFC stock in accordance with the allocation of tested items under section 951A to a U.S. shareholder that owns stock in a CFC through an interest in a partnership and (ii) provide rules on the allocation of tested items under section 951A and on the maintenance of previously-taxed earnings and profits (“PTEP”) accounts. The long-standing issues of measuring a partner's proportionate share of income under subpart F as well as the treatment of targeted capital accounts are outside the scope of these proposed regulations and therefore are not addressed. With respect to the request for guidance related to PTEP, the Treasury Department and the IRS intend to separately address certain issues pertaining to partnerships and S corporations. In particular, this guidance will include rules to address the transition of S corporations from entity treatment to aggregate treatment as noted in section 3.04 of Notice 2020-69.

ception. Section 1.953-3(b)(1) of the 1991 proposed regulations is withdrawn.

A related insured is defined to include a RPII U.S. shareholder or a person related to a RPII U.S. shareholder. Proposed §1.953-3(b)(1)(ii)(A) and (B). In addition, if a related insured indirectly owns stock in a RPII CFC through a partnership, the partnership is treated as a related insured. Proposed §1.953-3(b)(1)(ii)(C). This rule applies to foreign and domestic partnerships (other than publicly traded partnerships) and to S corporations.

Proposed §1.953-3(b)(1)(ii)(D) also provides that a person (other than a publicly traded corporation or partnership) is treated as a related insured if it is more than 50 percent owned (directly, indirectly, or constructively) by RPII U.S. shareholders. This rule is intended to prevent the avoidance of RPII when the insured is held by multiple RPII U.S. shareholders (or their affiliates) and is issued pursuant to the authority granted in section 953(c)(8)(A). The Treasury Department and the IRS request comments on whether the final regulations should include a rule under which a U.S. person that holds an option to acquire stock (or another non-stock interest) in a RPII CFC also should be treated as a related insured.

The term “related insured” describes those persons who, if insured, would cause a RPII CFC’s income to be characterized as RPII. A person who is not actually insured by a RPII CFC can meet the definition of a related insured for purposes of the proposed regulations (though a RPII CFC’s income will not be characterized as RPII unless it is attributable to a policy that provides coverage to a related insured). No inference is intended concerning the standard for determining whether a person is characterized as being insured for other tax purposes.

When a partnership is insured by a RPII CFC, the amount of RPII is determined based on the portion of the premium that is allocated to related insureds (other than partnerships or S corporations). Proposed §1.953-3(b)(1)(iii). In the case of tiered partnerships, the proposed regulations take into account the portion of the premium that is allocated to a partner who indirectly owns a partnership through one or more upper-tier partnerships. The proposed regulations

provide that the premium allocated to the relevant partner is determined based on the partnership agreement and section 704(b). Proposed §1.953-3(b)(1)(iii)(C) (*J*). The Treasury Department and the IRS are also considering whether, solely for purposes of determining the amount of RPII, another method of allocating the premium payments should be required under the authority provided in section 953(c)(8). One potential method includes allocating the premium payments in proportion to each partner’s nonseparately stated share of partnership income or loss. Comments are requested on whether this or another alternative would be more appropriate.

The Treasury Department and the IRS request comments on the appropriate application of aggregate principles to RPII. The Treasury Department and the IRS also are considering revising forms and instructions to facilitate information sharing and reporting between RPII U.S. shareholders, RPII CFCs, and partnerships and request comments in this regard.

## 2. Cross-insurance rule

The Treasury Department and IRS are aware of abusive marketed offshore captive insurance arrangements that, notwithstanding the directive in section 953(c)(8)(A) and legislative history described in part IV.C of the Background section of this preamble and the 1991 proposed regulations, attempt to avoid the RPII rules through the use of cross-insurance. Consistent with the Congressional directive, the proposed regulations contain a special rule to address cross-insurance arrangements, which replaces the cross-insurance rule contained in the 1991 proposed regulations. Proposed §1.953-3(b)(5) provides that insurance income is treated as RPII if it is attributable to an arrangement in which a RPII CFC insures a person that is not a related insured and, as part of the same arrangement, another person insures a related insured of the RPII CFC. This rule applies to direct or indirect arrangements involving two or more insurance companies, and also covers other arrangements with a similar degree of cooperative risk sharing and applies regardless of whether the shareholders of each RPII CFC are engaged in a similar line of busi-

ness. Section 1.953-3(b)(5) of the 1991 proposed regulations is withdrawn.

The Treasury Department and the IRS request comments with respect to other parts of the 1991 proposed regulations relating to RPII, including whether other parts should be repropounded, such as the exception for indirect ownership through publicly traded corporations under §1.953-3(b)(2)(iii) of the 1991 proposed regulations.

## III. Net Investment Income Tax

As discussed in part V of the Background section of this preamble, a domestic partnership or S corporation that directly or indirectly (through one or more foreign entities) owns a CFC or QEF may make an election under §1.1411-10(g) with respect to the CFC or QEF, and certain persons that own a CFC or QEF indirectly through a domestic partnership or S corporation may also make such an election, but only if the domestic partnership or S corporation does not make the election.

Consistent with the transition to aggregate treatment and provisions in this rulemaking requiring QEF elections to be made (and QEF inclusions to arise) at the partner or S corporation shareholder level, the Treasury Department and the IRS have determined that elections under §1.1411-10(g) should no longer be permitted to be made by a domestic pass-through entity, but instead should be made only by an individual, estate, or trust that holds the CFC or QEF indirectly through the domestic pass-through entity. This rule permits the election to be made solely by the person whose tax liability is directly affected by the election. Accordingly, proposed §1.1411-10(g)(3)(i) generally requires the election to be made by an individual, estate, or trust that indirectly holds the relevant CFC or QEF indirectly through a partnership or S corporation. However, for taxable years that an S corporation elects to be treated as an entity under proposed §1.958-1(e), the S corporation may make the election under §1.1411-10(g) with respect to CFCs it owns, directly or indirectly; if the S corporation does not make the election under §1.1411-10(g), its shareholders that are individuals, estates, or trusts may make it instead. Proposed §1.1411-10(g)(3)(ii).



The proposed regulations also remove §1.1411-10(g)(2)(iii), which provided rules applicable when a partnership terminated under section 708(b)(1)(B), because section 708(b)(1)(B) was repealed as part of the TCJA.

Finally, the Treasury Department and the IRS are considering providing additional guidance (perhaps in the finalization of these proposed regulations) under section 1411 on the calculation of net gain for indirect shareholders when, for example, PFIC stock is sold by a foreign partnership through which the indirect shareholder owns the PFIC stock in a year after the indirect shareholder includes MTM gain. Compare section 1296(b)(1)(A) (providing an increase to the basis of PFIC stock held by a direct shareholder), with section 1296(b)(2)(A) and proposed §1.1296-1(d)(2)(i) (providing, for purposes of chapter 1 of the Code, an increase to the basis of PFIC stock indirectly held). In light of this difference in wording, and the placement of section 1411 in chapter 2A of the Code, the question arises whether net gain under section 1411 could be overstated. *But see* section 1411(c)(1)(A)(iii) and §1.1411-4(a)(1)(iii) (providing that net investment income includes net gain attributable to the disposition of property but only “to the extent taken into account in computing taxable income.”) Comments are requested on this issue.

#### IV. Applicability Dates

##### A. In general

The regulations under sections 964, 1291, 1293, 1295, 1296, 1298, and 1411 and §1.958-1(d) are proposed to apply to taxable years beginning on or after the date of publication of the Treasury decision adopting these rules as final regulations in the **Federal Register**.

##### B. Entity treatment of certain domestic partnerships and S corporations

With respect to the rules relating to domestic partnerships and S corporations that applied the hybrid approach to determining section 951A inclusions contained in previously proposed §1.951A-5 (83 FR 51072, 51101-51104), proposed

§1.951A-1(e)(2) is proposed to apply to taxable years of foreign corporations ending before June 22, 2019, and to taxable years of U.S. shareholders in which or with which such taxable years end. Taxpayers may continue to rely on Notice 2019-46 until these regulations are finalized.

##### C. Elective entity treatment for certain S corporations

With respect to the rules relating to S corporations with AE&P, proposed §1.958-1(e) is proposed to apply to taxable years of S corporations ending on or after September 1, 2020. However, taxpayers may rely on proposed §1.958-1(e) for taxable years of S corporations ending on or after June 22, 2019, and ending before September 1, 2020, provided that the S corporation and its shareholders that are U.S. shareholders consistently apply those rules with respect to all CFCs whose stock the S corporation owns with the meaning of section 958(a).

##### D. RPII provisions

The general RPII rules in proposed §1.953-3(b)(1) apply to taxable years of foreign corporations beginning on or after the date of publication of the Treasury decision adopting these rules as final regulations in the **Federal Register**, and to taxable years of United States persons in which or with which such taxable years of foreign corporations end.

The cross-insurance rule in proposed §1.953-3(b)(5) applies to taxable years of foreign corporations ending on or after January 24, 2022, and to taxable years of United States persons in which or with which such taxable years of foreign corporations end. As noted in part IV.C of the Background section of this preamble, section 953(c)(8)(A) and the legislative history refer to cross insurance in offshore captive insurance arrangements as avoidance transactions, and the legislative history states that deferral is not intended for such cases. The applicability date of the final regulations is not intended to address the effect of the statute and legislative history on taxpayers who participated in cross-insurance arrangements in years ending before January 24, 2022.

## Special Analyses

### I. Regulatory Planning and Review – Economic Analysis

These regulations are not subject to review under section 6(b) of Executive Order 12866 pursuant to the Memorandum of Agreement (April 11, 2018) between the Treasury Department and the Office of Management and Budget (“OMB”) regarding review of tax regulations.

### II. Paperwork Reduction Act

The Paperwork Reduction Act of 1995 (44 U.S.C. 3501–3520) (“PRA”) generally requires that a federal agency obtain the approval of the OMB before collecting information from the public, whether such collection of information is mandatory, voluntary, or required to obtain or retain a benefit.

The collections of information included in these proposed regulations are in proposed §1.951A-1(e)(2)(iii); proposed §1.958-1(e)(1)(v) and (e)(2); proposed §1.964-1(c)(3)(ii) and (iii); proposed §1.1295-1(d)(2)(i)(A) and (d)(2)(ii)(A); proposed §1.1296-1(h)(1)(i) introductory text and (h)(1)(i)(B); and proposed §1.1298-1(b)(1) and (2). The information in the collections of information provided will generally be used by the IRS for tax compliance purposes or by taxpayers to facilitate proper reporting and compliance.

#### A. Collections of information under existing tax forms

##### 1. Collections of information in proposed §1.951A-1

The collections of information in proposed §1.951A-1(e)(2)(iii) are required to be provided by domestic partnerships and S corporations that elect to apply the rules in proposed §1.951A-5, as contained in the 2018 proposed regulations (83 FR 51072, 51101-51104), for taxable years ending before June 22, 2019. These collections of information are satisfied by the domestic partnership or S corporation attaching a statement to its return. In certain instances, the domestic partnership or S corporation must also file Form 8992,

“U.S. Shareholder Calculation of Global Intangible Low-Taxed Income (GILTI),” with its return and separately state each partner’s or shareholder’s share of any distributions of E&P received by the domestic partnership or S corporation that relate to the GILTI inclusion amount reflected on its Schedules K-1, “Partner’s Share of Income, Deductions, Credits, etc.” or Schedules K-1, “Shareholder’s Share of Income, Deductions, Credits, etc.,” as applicable.

For purposes of the PRA, the reporting burden associated with the collections of information in proposed §1.951A-1(e)(2) (iii) will be reflected in the Paperwork Reduction Act Submissions associated with Forms 1065 and 1120-S (OMB control number 1545-0123).

## 2. Collections of information in proposed §1.958-1

The collection of information in proposed §1.958-1(e)(2) is a statement attached to Form 1120-S that identifies that the S corporation and its shareholders (where applicable) are electing for the S corporation to be treated as an entity for purposes of determining who is subject to income inclusions under sections 951 and 951A for the first taxable year ending on or after September 1, 2020, states the amount of the S corporation’s AE&P, and is signed (where applicable) by a person authorized to sign the S corporation’s Form 1120-S. A similar collection of information is required for taxpayers (certain S corporations and their shareholders) that elect for the S corporation to be treated as an entity for purposes of sections 951 and 951A for taxable years ending before September 1, 2020, and after June 21, 2019.

For purposes of the PRA, the reporting burden associated with the collection of information in proposed §1.958-1(e) (2) will be reflected in the Paperwork Reduction Act Submissions associated with Form 1120-S (OMB control number 1545-0123). Additionally, where an S corporation and its shareholders elect for the S corporation to be treated as an entity for taxable years ending before September 1, 2020, and after June 21, 2019, the reporting burden associated with the collection of information in proposed §1.958-1(e)

(2) will be reflected in the Paperwork Reduction Act Submissions associated with Form 1120-S (OMB control number 1545-0123), the Form 1040 series (OMB control number 1545-0074), and the Form 1041 series (OMB control number 1545-0092).

## 3. Collections of information in §1.964-1 and proposed §1.964-1

The collection of information in proposed §1.964-1(c)(3)(ii) applies to taxpayers that are controlling domestic shareholders of foreign corporations (as defined in §1.964-1(c)(5)) and that make certain elections with respect to, or adopt or change methods of accounting or taxable years for, the foreign corporations. This collection of information is satisfied by the controlling domestic shareholder filing a statement containing certain prescribed information with its own tax return (or information return, if applicable) for its taxable year in which or within which the affected taxable year of the foreign corporation ends. The collection of information in proposed §1.964-1(c)(3)(ii) applies to U.S. shareholder partners (and not to U.S. shareholder partnerships) as a result of proposed §1.958-1(d)(1).

The collection of information in proposed §1.964-1(c)(3)(iii) requires controlling domestic shareholders of foreign corporations to notify certain U.S. persons known to them of actions taken with respect to the foreign corporation, such as certain tax elections and adoptions of or changes to the foreign corporation’s accounting methods or tax years. Under proposed §1.964-1(c)(3)(iii)(A), this collection of information is satisfied by the controlling domestic shareholder providing notice to prescribed U.S. persons known to the controlling domestic shareholder setting forth the name, country of organization, and U.S. employer identification number (if applicable) of the foreign corporation; providing the names, addresses, and stock interests of the controlling domestic shareholders of the foreign corporation; describing the nature of the action taken on behalf of the foreign corporation and the taxable year for which the action was taken; and identifying a designated shareholder that retains a jointly executed consent

confirming that such action has been approved by all of the controlling domestic shareholders and containing the signature of a principal officer of each such shareholder (or its common parent). Proposed §1.964-1(c)(3)(iii)(B) provides that a controlling domestic shareholder will be deemed to satisfy the general notice requirement with respect to U.S. persons known to the controlling domestic shareholder that own stock in the foreign corporation through a domestic partnership by providing the notice containing the same information to the partnership instead of to each U.S. person.

For purposes of the PRA, the reporting burden associated with the collections of information in proposed §1.964-1(c)(3)(ii) and (iii) will be reflected in the Paperwork Reduction Act Submissions associated with the Forms for persons which can be considered controlling domestic shareholders under the proposed regulations, including individuals and certain domestic trusts, domestic estates, domestic corporations, certain tax-exempt entities. Thus, the reporting burden associated with these collections of information will be reflected in the Paperwork Reduction Act Submissions associated with the Form 990 series (OMB control number 1545-0047), the Form 1040 series (OMB control number 1545-0074), the Form 1041 series (OMB control number 1545-0092), and the Form 1120 series (OMB control number 1545-0123).

## 4. Collections of information in proposed §1.1295-1

The collections of information in proposed §1.1295-1(d)(2)(i)(A) and (d)(2) (ii)(A) apply to partners in partnerships and S corporation shareholders that make QEF elections with respect to a PFIC held through a partnership or S corporation. The collections of information in these sections are satisfied, in part, by the partners and S corporation shareholders filing Form 8621 to make the QEF election. For purposes of the PRA, the reporting burden associated with the collection of information in the Form 8621 will be reflected in the Paperwork Reduction Act Submissions associated with Form 8621 (OMB control number 1545-1002).

5. Collection of information in proposed §1.1296-1

The collections of information in proposed §1.1296-1(h)(1)(i) apply to partners in partnerships and S corporation shareholders that make MTM elections with respect to PFICs held through a partnership or S corporation. These collections of information are satisfied, in part, by the partners and S corporation shareholders filing Form 8621 to make the MTM election. For purposes of the PRA, the reporting burden associated with the collections of information in the Form 8621 will be reflected in the Paperwork Reduction Act Submissions associated with Form 8621 (OMB control number 1545-1002).

6. Collections of information in proposed §1.1298-1

The collections of information in proposed §1.1298-1(b)(1) apply to partners in partnerships and S corporation shareholders that own PFICs indirectly through partnerships and S corporations with respect to which they are required to file an annual report in their capacity as PFIC shareholders, as defined in proposed §1.1291-1(b)(7). The collections of information in proposed §1.1298-1(b)(2) apply to certain beneficiaries of domestic estates and domestic nongrantor trusts that own PFICs indirectly through the domestic estate or domestic nongrantor trust. These collections of information are satisfied by annually filing Form 8621. For purposes of the PRA, the reporting burden associated with the col-

lections of information in the Form 8621 will be reflected in the Paperwork Reduction Act Submissions associated with Form 8621 (OMB control number 1545-1002).

7. Estimated number of respondents

The following table displays the number of respondents estimated to be required to satisfy the collections of information described in this part II.A of the Special Analysis. The ranges in the following table may be overstated in some cases for various reasons, including overcounting domestic partnerships or S corporations that are themselves partners in domestic partnerships and overestimating the number of taxpayers who will make an election or take a relevant action.

Tax Forms Impacted		
Collection of information	Number of respondents (estimated)	Forms to which the information may be attached
Proposed §1.951A-1(e)(2)(iii) Election for domestic partnerships to apply the hybrid approach in proposed §1.951A-5 of the 2018 proposed regulations	0 - 7,000	Form 1065
Proposed §1.951A-1(e)(2)(iii) Election for S corporations to apply the hybrid approach in proposed §1.951A-5 of the 2018 proposed regulations	0 - 4,000	Form 1120-S
Proposed §1.958-1(e)(2) Election for S corporations with AE&P to apply entity treatment for purposes of sections 951 and 951A	2,300 - 4,300	Form 1120-S Form 1040 series Form 1041 series
Proposed §1.964-1(c)(3)(ii) and (iii) Statement attached to tax return of controlling domestic shareholders of certain foreign corporations and notification to certain other U.S. persons	6,600 - 7,000	Form 990 series Form 1040 series Form 1041 series Form 1120 series
Proposed §1.1295-1(d)(2)(i)(A) QEF election made by partner that indirectly owns stock of a PFIC through a partnership	1,200,000 - 1,400,000	Form 8621
Proposed §1.1295-1(d)(2)(ii)(A) QEF election made by shareholder of an S corporation that indirectly owns stock of a PFIC through the S corporation	2,000	Form 8621
Proposed §1.1296-1(h)(1)(i) MTM election made by partner that indirectly owns stock of a PFIC through a partnership	75,000 - 200,000	Form 8621
Proposed §1.1296-1(h)(1)(i) MTM election made by shareholder of an S corporation that indirectly owns stock of a PFIC through the S corporation	200 - 300	Form 8621



Tax Forms Impacted		
Collection of information	Number of respondents (estimated)	Forms to which the information may be attached
Proposed §1.1298-1(b)(1) Annual report for partners that indirectly own stock of a PFIC through a partnership	1,250,000 - 1,500,000	Form 8621
Proposed §1.1298-1(b)(1) Annual report for shareholders of S corporations that indirectly own stock of a PFIC through the S corporation	2,300 - 2,500	Form 8621
Proposed §1.1298-1(b)(2) Annual report for certain beneficiaries of domestic estates or domestic grantor trusts that indirectly own stock of a PFIC through the estate or grantor trust	5,000	Form 8621

Source: Research, Applied Analytics and Statistics division (RAAS) (IRS), Compliance Data Warehouse (CDW) (IRS)

## 8. Status of PRA submissions

The current status of the PRA submissions related to the tax forms on which reporting under these regulations will be required is summarized in the following table. The burdens associated with the information collections in the forms are included in aggregated burden estimates for the OMB control numbers 1545-0047 (which represents a total estimated burden time for all forms and schedules for tax-exempt entities of 50.5 million hours and total estimated monetized costs of \$3.59 billion (\$2018)), 1545-0074 (which represents a total estimated burden time for all forms and schedules for individuals of 1.784 billion hours and total estimated monetized costs of \$31.764 billion (\$2017)), 1545-0092 (which represents a total estimated burden time for all forms and schedules for trusts and estates of 307.8 million hours and total estimated monetized costs of \$9.95 billion (\$2016)), and 1545-0123 (which represents a total estimated burden time for all forms and schedules for corporations of 3.157 billion hours and total estimated monetized costs of \$58.148 billion (\$2017)). The burden estimates provided in the OMB control numbers in the following table are aggregate amounts that relate to the entire package of forms associated with the OMB control number and will in the future include, but not isolate, the estimated burden of the tax forms that will be revised as a result of the information collections in these proposed regulations. These numbers are therefore unrelated to the future

calculations needed to assess the burden imposed by these proposed regulations. To guard against over-counting the burden that international tax provisions imposed prior to the Act, the Treasury Department and the IRS urge readers to recognize that these burden estimates have also been cited by regulations (such as the foreign tax credit regulations, 84 FR 69022) that rely on the applicable OMB control numbers in order to collect information from the applicable types of filers.

In 2018, the IRS released and invited comment on drafts of Forms 990-PF (Return of Private Foundation or Section 4947(a)(1) Trust Treated as Private Foundation), 990-T (Exempt Organization Business Income Tax Return), 1040 (U.S. Individual Income Tax Return), (U.S. Income Tax Return for Estates and Trusts), 1065 (U.S. Return of Partnership Income), 1120 (U.S. Corporation Income Tax Return), and 8621 (Return by a Shareholder of a Passive Foreign Investment Company or Qualified Electing Fund). The IRS received comments only regarding Forms 1040, 1065, and 1120 during the comment period. After reviewing all such comments, the IRS made the forms available on December 21, 2018, for use by the public.

No burden estimates specific to the forms affected by the proposed regulations are currently available. The Treasury Department and the IRS have not estimated the burden, including that of any new information collections, related to the requirements under the proposed regulations. The Treasury Department and the IRS request

comments on all aspects of information collection burdens related to the proposed regulations, including estimates for how much time it would take to comply with the paperwork burdens for each relevant form and ways for the IRS to minimize the paperwork burden. In addition, drafts of IRS forms are posted for public review at <https://apps.irs.gov/app/picklist/list/draft-TaxForms.htm>. Comments on these forms can be submitted at <https://www.irs.gov/forms-pubs/comment-on-tax-forms-and-publications>. These forms will not be finalized until after they have been approved by OMB under the PRA.

B. Collections of information for which new OMB control numbers are being requested

### 1. Collection of information in proposed §1.958-1

The collection of information in proposed §1.958-1(e)(1)(v) is required for certain S corporations to make valid elections under proposed §1.958-1(e)(1)(i) to apply entity treatment for purposes of determining income inclusions under sections 951 and 951A. This collection of information is satisfied by the S corporation maintaining sufficient records to support the determination of its AE&P amount.

*Estimated annual reporting burden:* 213

*Estimated total annual monetized cost burden:* \$20,188

*Estimated average annual burden hours per respondent:* 0.5

*Estimated number of respondents:* 425  
*Estimated annual frequency of responses:* Once

## 2. Collections of information in proposed §1.1295-1

Part of the collection of information in proposed §1.1295-1(d)(2)(i)(A) is for a partner to notify the partnership that the partner has made a QEF election with respect to a PFIC it owns indirectly through the partnership. This collection of information is satisfied by the partner notifying the partnership of the election no later than 30 days after filing the return with which the election is made. The partner may notify the partnership in any reasonable manner.

*Estimated annual reporting burden:* 650,000

*Estimated total annual monetized cost burden:* \$61,750,000

*Estimated average annual burden hours per respondent:* 0.5

*Estimated number of respondents:* 1,300,000

*Estimated annual frequency of responses:* One-time election

Part of the collection of information in proposed §1.1295-1(d)(2)(ii)(A) is for an S corporation shareholder to notify the S corporation that the shareholder has made a QEF election with respect to a PFIC it owns indirectly through the S corporation. This collection of information is satisfied by the shareholder notifying the S corporation of the election no later than 30 days after filing the return with which the election is made. The shareholder may notify the S corporation in any reasonable manner.

*Estimated annual reporting burden:* 1,000

*Estimated total annual monetized cost burden:* \$95,000

*Estimated average annual burden hours per respondent:* 0.5

*Estimated number of respondents:* 2,000

*Estimated annual frequency of responses:* One-time election

## 3. Collection of information in proposed §1.1296-1

The collection of information in proposed §1.1296-1(h)(1)(i)(B) is for a

partner or an S corporation shareholder to notify the partnership or S corporation, respectively, that the partner or shareholder has made an MTM election with respect to a PFIC it owns indirectly through the partnership or S corporation. This collection of information is satisfied by the partner or shareholder notifying the partnership or S corporation of the election no later than 30 days after filing the return with which the election is made. The partner or shareholder may notify the partnership or S corporation in any reasonable manner.

*Estimated annual reporting burden:* 35,500

*Estimated total annual monetized cost burden:* \$3,372,500

*Estimated average annual burden hours per respondent:* 0.5

*Estimated number of respondents:* 71,000

*Estimated annual frequency of responses:* One-time election

## 4. Submission to OMB and request for comments

The collections of information contained in proposed §§1.958-1(e)(1)(v); 1.1295-1(d)(2)(i)(A) and (d)(2)(ii)(A); and 1.1296-1(h)(1)(i)(B) are either general recordkeeping or notice requirements and cannot be associated with existing OMB control numbers. These collections of information will be submitted to the Office of Management and Budget for review and, if approved, assigned new OMB control numbers in accordance with the PRA. Comments on the collections of information should be sent to the Office of Management and Budget, Attn: Desk Officer for the Department of the Treasury, Office of Information and Regulatory Affairs, Washington, DC 20503, with copies to the Internal Revenue Service, Attn: IRS Reports Clearance Officer, SE:W:CAR:MP:T:T:SP, Washington, DC 20224. Comments on the collection of information should be received by March 28, 2022. Comments are specifically requested concerning:

Whether the proposed collection of information is necessary for the proper performance of the duties of the IRS, including whether the information will have practical utility;

The accuracy of the estimated burden associated with the proposed collection of information;

How the quality, utility, and clarity of the information to be collected may be enhanced;

How the burden of complying with the proposed collection of information may be minimized, including through the application of automated collection techniques or other forms of information technology; and

Estimates of capital or start-up costs and costs of operation, maintenance, and purchases of services to provide information for the collections discussed in part II.B of this Special Analyses.

## III. Regulatory Flexibility Act

Pursuant to the Regulatory Flexibility Act (5 U.S.C. chapter 6), it is hereby certified that the proposed regulations would not have a significant economic impact on a substantial number of small entities within the meaning of section 601(6) of the Regulatory Flexibility Act (“small entities”).

The Small Business Administration establishes small business size standards (13 CFR part 121) by annual receipts or number of employees. There are several industries that may be identified as small even through their annual receipts are above \$25 million or because of the number of employees. The Treasury Department and the IRS do not have data indicating the number of small entities that will be significantly impacted by the proposed regulations. Nevertheless, regardless of the number of small entities potentially impacted, the Treasury Department and the IRS have concluded that the proposed regulations will not have a significant economic impact on small entities.

First, the proposed regulations provide guidance with respect to domestic partnerships under the PFIC regime, which generally affects U.S. taxpayers that have ownership interests in certain foreign corporations that are not CFCs. To the extent that a foreign entity might be considered a small entity for purposes of the Regulatory Flexibility Act (because it has a place of business in the United States and makes a significant contribution to the U.S. economy, for example), because the proposed

regulations would not affect foreign partnerships, foreign partners of the affected domestic partnerships, or the PFIC itself, there would be no economic impact on those foreign entities. Therefore, a small entity generally would not be affected by the proposed regulations unless it is a U.S. taxpayer that has an ownership interest in a foreign corporation. For purposes of the Regulatory Flexibility Act, natural persons are not considered small entities.

Although data on U.S. businesses that invest in a PFIC is limited, data available to the IRS shows that individuals (Form 1040 filers) make up approximately 70

percent of those who report PFIC income while U.S. businesses of all sizes make up approximately 20 percent of Form 8621 filers. To estimate the magnitude of the taxes currently collected as a result of U.S. businesses investing in PFICs, the Treasury Department and the IRS calculated the ratio of PFIC regime tax to (gross) total income for 2013 through 2018 for corporations that filed Form 1120 (“C corporations”) with a Form 8621 attached. Total income was determined by matching each C corporation filing Form 8621 to its Form 1120. Ordinary QEF income, QEF capital gains, and MTM income were assumed to be taxed at

35 percent (21 percent for 2018), and the section 1291 tax and interest charge tax were included as reported. Only those corporations where a match was found and that had positive total income were included in the analysis. For the approximately 150 to 300 C corporations for which a match was available in a given year, the average annual ratio of the calculated tax to total income was never greater than 0.00035 percent. For the approximately 60 to 200 C corporations per year with \$25 million or less for which a match was available, the average annual ratio was never greater than 1.068 percent.

	2013	2014	2015	2016	2017	2018
	(\$ millions)					
All C corporations						
Tax	5	12	14	8	22	42
Total Income	4,204,795	10,154,520	19,935,845	20,076,876	21,625,159	13,317,244
Tax to Total Income	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%
C corporations with total income of \$25 million or less						
Tax	(*)	(*)	4	4	5	3
Total Income	463	563	627	573	460	741
Tax to Total Income	0.060%	0.014%	0.576%	0.689%	1.068%	0.400%

Source: RAAS, CDW. \* indicates less than \$1 million.

Thus, even if the economic impact of the proposed regulations is interpreted broadly to include the tax liability due under the PFIC regime, which small entities would be required to pay even if the proposed regulations were not issued, the tax-related economic impact should not be regarded as significant under the Regulatory Flexibility Act.

A portion of the economic impact of the proposed regulations derives from the administration of the new rules and the collection of information requirements imposed by the PFIC-related provisions in proposed §§1.1295-1(d)(2)(i)(A) and (d)(2)(ii)(A), 1.1296-1(h)(1)(i), and 1.1298-1(b)(1) and (2). For the collections of information in proposed §§1.1295-1(d)(2)(i)(A) and (d)(2)(ii)(A) and 1.1296-1(h)(1)(i), the Treasury Department and the IRS have determined that the average burden is approximately half an hour per response. The IRS’s Re-

search, Applied Analytics, and Statistics division estimates that the appropriate wage rate for this set of taxpayers is \$95 per hour. Thus, the annual burden per taxpayer from the collection of information requirement for each of these provisions is approximately \$48. Additionally, these requirements apply only if a taxpayer chooses to make an election. For the collections of information in proposed §1.1298-1(b)(1) and (2), the Treasury Department and the IRS have determined that the average burden is approximately 49 hours per response. The IRS’s Research, Applied Analytics, and Statistics division estimates that the appropriate wage rate for this set of taxpayers is \$95 per hour. Thus, the annual burden per taxpayer from the collection of information requirement in this provision is approximately \$4,655. This requirement applies to taxpayers required to file Form 8621 with respect to a PFIC. In each case, the

compliance burden associated with the PFIC-related provisions in the proposed regulations is generally shifted from the entity level to the owner level. For example, under proposed §§1.1295-1(d)(2)(i)(A) and 1.1298-1(b)(1), a domestic partnership no longer makes a QEF election with respect to, and no longer files Form 8621 for, PFICs it owns; rather, the election and associated Form 8621 will be made and filed, respectively, by the partners. While this shift could result in some duplication of the overall compliance burden associated with the PFIC-related provisions in the proposed regulations, the Treasury Department and the IRS do not believe this shift should have a significant economic impact on taxpayers.

Additionally, the proposed regulations provide guidance with respect to several statutory provisions within subpart F, which generally affect U.S. shareholders of CFCs. To estimate the magnitude

of the tax impact of these provisions on small entities, the Treasury Department and the IRS examined the gross receipts of all taxpayers that e-filed Forms 5471 as a Category 4 or 5 filer for 2015 and 2016, which amounted to approximately 25,000 to 35,000 taxpayers in each year. The Treasury Department and the IRS then determined the tax revenue generated from the approximately 25,000 to 35,000 taxpayers' section 951A inclusions<sup>4</sup> estimated by the Joint Committee on Taxation for businesses of all sizes is less than 0.3 percent of gross receipts, as shown in the table that follows. Based

on data for 2015 and 2016, total gross receipts for all businesses with gross receipts under \$25 million is \$60 billion while those over \$25 million is \$49.1 trillion. Given that tax on section 951A inclusions is generally correlated with gross receipts, this results in businesses with less than \$25 million in gross receipts accounting for approximately 0.01 percent of the tax revenue. Additionally, although data are generally not readily available to determine the sectoral breakdown of these entities, the number of domestic partnerships and S corporations subject to these provisions under the pro-

posed regulations should make up only a portion of the totals. For example, the Treasury Department and the IRS estimate that there were approximately 7,000 domestic partnerships that e-filed at least one Form 5471 as a Category 4 or 5 filer in each of 2015 and 2016, amounting to 28 percent of the low-end estimate of all taxpayers filing Form 5471 as a Category 4 or 5 filer and 20 percent of the high-end estimate. Based on this analysis, the proposed regulations do not impose a significant economic impact on smaller businesses, in particular domestic partnerships and S corporations.

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Joint Committee on Taxation (JCT) tax revenue	7.7 billion	12.5 billion	9.6 billion	9.5 billion	9.3 billion	9.0 billion	9.2 billion	9.3 billion	15.1 billion	21.2 billion
Total gross receipts	30727 billion	53870 billion	566676 billion	59644 billion	62684 billion	65865 billion	69201 billion	72710 billion	76348 billion	80094 billion
Percent	0.03	0.02	0.02	0.02	0.01	0.01	0.01	0.01	0.02	0.03

Source: Research, Applied Analytics and Statistics division (IRS), Compliance Data Warehouse (IRS) (E-filed Form 5471, category 4 or 5, C and S corporations and partnerships); Conference Report, at 689.

Thus, even if the economic impact of the proposed regulations is interpreted broadly to include the tax liability due under subpart F, which small entities would be required to pay even if the proposed regulations were not issued, the tax-related economic impact should not be regarded as significant under the Regulatory Flexibility Act.

A portion of the economic impact of the proposed regulations derives from the collection of information requirements imposed by the provisions related to CFCs and other types of foreign corporations in proposed §1.951A-1(e)(2)(iii), proposed §1.958-1(e)(1)(v) and (e)(2), and proposed §1.964-1(c)(3)(ii) and (iii). The Treasury Department and the IRS have determined that the average burden for each of these provisions is approximately half an hour per response. The IRS's Research, Applied Analytics, and Statistics division estimates that the

appropriate wage rate for this set of taxpayers is \$95 per hour. Thus, the annual burden per taxpayer from the collection of information requirement for each of these provisions is approximately \$48. These requirements apply only if a taxpayer chooses to make an election with respect to the CFC or other foreign corporation. In the case of proposed §1.964-1(c)(3)(ii) and (iii), the compliance burden is generally shifted from the U.S. shareholder partnership level to its U.S. shareholder partners. While this shift could result in some duplication of the overall compliance burden associated with these provisions, the Treasury Department and the IRS do not believe this shift should result in a significant economic impact on taxpayers.

Accordingly, it is hereby certified that the proposed regulations would not have a significant economic impact on a substantial number of small entities.

#### IV. Section 7805(f)

Pursuant to section 7805(f), the proposed regulations have been submitted to the Chief Counsel for Advocacy of the Small Business Administration for comment on their impact on small businesses. The Treasury Department and the IRS also request comments from the public on the analysis in part III of the Special Analyses.

#### V. Unfunded Mandates Reform Act

Section 202 of the Unfunded Mandates Reform Act of 1995 (UMRA) requires that agencies assess anticipated costs and benefits and take certain other actions before issuing a final rule that includes any Federal mandate that may result in expenditures in any one year by a state, local, or tribal government, in the aggregate, or by the private sector, of \$100 million in

<sup>4</sup>The Treasury Department and the IRS determined that using section 951A inclusions, rather than section 951 inclusions, would serve as a better indication of the potential tax impact of the proposed regulations on small entities that own CFCs because the base upon which a U.S. shareholder's section 951A inclusion is computed (a CFC's gross income—with certain exceptions—less allocable deductions) is generally broader than the base upon which its section 951 inclusion is computed (a CFC's income from specified transactions).



1995 dollars, updated annually for inflation. This rule does not include any Federal mandate that may result in expenditures by state, local, or tribal governments, or by the private sector in excess of that threshold.

#### VI. Executive Order 13132: Federalism

Executive Order 13132 (entitled “Federalism”) prohibits an agency from publishing any rule that has federalism implications if the rule either imposes substantial, direct compliance costs on state and local governments, and is not required by statute, or preempts state law, unless the agency meets the consultation and funding requirements of section 6 of the Executive order. These proposed regulations do not have federalism implications and do not impose substantial direct compliance costs on state and local governments or preempt state law within the meaning of the Executive order.

#### Comments and Requests for Public Hearing

Before the proposed amendments are adopted as final regulations, consideration will be given to any comments that are submitted timely to the IRS as prescribed in this preamble under the **ADDRESSES** section. The Treasury Department and the IRS request comments on all aspects of the proposed regulations. See also parts I.B.1 and I.C.1 of the Explanation of Provisions requesting comments related to the possibility of delegating authority to domestic partnerships and S corporations to make QEF and MTM elections on behalf of their owners; part II.D of the Explanation of Provisions requesting comments on (i) whether a U.S. person holding an option to acquire stock (or other non-stock interest) in a RPII CFC should be treated as a related insured, (ii) the allocation of premium payments made by a partnership, (iii) the general application of aggregate principles to RPII, (iv) necessary revisions to forms and instructions to facilitate information sharing and reporting for RPII purposes, and (v) other parts of the 1991 proposed regulations relating to RPII, including whether other parts should be repropounded (such as the exception for indirect ownership through

publicly traded corporations); and part III of the Explanation of Provisions requesting comments on the calculation of indirect shareholders’ net gain for purposes of section 1411. Any electronic comments submitted, and to the extent practicable any paper comments submitted, will be made available at [www.regulations.gov](http://www.regulations.gov) or upon request.

A public hearing will be scheduled if requested in writing by any person who timely submits electronic or written comments. Requests for a public hearing are also encouraged to be made electronically. If a public hearing is scheduled, notice of the date and time for the public hearing will be published in the Federal Register. Announcement 2020-4, 2020-17 IRB 1, provides that until further notice, public hearings conducted by the IRS will be held telephonically. Any telephonic hearing will be made accessible to people with disabilities.

#### Drafting Information

The principal authors of these regulations are Edward Tracy, Raphael Cohen, and Josephine Firehock of the Office of Associate Chief Counsel (International), and Caroline E. Hay and Jennifer N. Keeney of the Office of Associate Chief Counsel (Passthroughs and Special Industries). However, other personnel from the Treasury Department and the IRS participated in their development.

#### Statement of Availability of IRS Documents

IRS Revenue Procedures, Revenue Rulings, Notices, and other guidance cited in this document are published in the Internal Revenue Bulletin or Cumulative Bulletin and are available from the Superintendent of Documents, U.S. Government Publishing Office, Washington, DC 20402, or by visiting the IRS website at [www.irs.gov](http://www.irs.gov).

#### Partial Withdrawal of Proposed Regulations

Under the authority of 26 U.S.C. 7805, proposed §1.953-3(b)(1) and (5) contained in the notice of proposed rulemaking that was published in the **Federal Register** on

April 17, 1991 (56 FR 15540), is withdrawn.

#### List of Subjects in 26 CFR Part 1

Income taxes, Reporting and record-keeping requirements.

#### Proposed Amendments to the Regulations

Accordingly, 26 CFR part 1 is proposed to be amended as follows:

#### PART 1—INCOME TAXES

Paragraph 1. The authority citation for part 1 is amended by:

1. Adding a sectional authority for §1.953-3 in numerical order;
2. Revising the sectional authorities for §§1.1293-1, 1.1295-1, and 1.1296-1;
3. Adding sectional authorities for §§1.1297-0 and 1.1297-3 in numerical order;
4. Arranging the sectional authority for §1.1298-1 in numerical order and revising the authority; and
5. Adding a sectional authority for §1.1298-3 in numerical order.

The additions and revisions read as follows:

Authority: 26 U.S.C. 7805 \* \* \*  
Section 1.953-3 also issued under 26 U.S.C. 953(c)(8).

\* \* \* \* \*

Section 1.1293-1 also issued under 26 U.S.C. 1298(g).

\* \* \* \* \*

Section 1.1295-1 also issued under 26 U.S.C. 1295(b)(2) and 1298(g).

\* \* \* \* \*

Section 1.1296-1 also issued under 26 U.S.C. 1298(a)(1)(B) and (g).

\* \* \* \* \*

Section 1.1297-0 also issued under 26 U.S.C. 1298(g).

\* \* \* \* \*

Section 1.1297-3 also issued under 26 U.S.C. 1298(g).

\* \* \* \* \*

Section 1.1298-1 also issued under 26 U.S.C. 1298(f) and (g).

\* \* \* \* \*

Section 1.1298-3 also issued under 26 U.S.C. 1298(g).

\* \* \* \* \*

Par. 2. Section 1.951A-1 is amended by revising paragraph (e) to read as follows:

*§1.951A-1 General provisions.*

\*\*\*\*\*

(e) *Stock owned through domestic partnerships and S corporations*—(1) *Cross-references.* See §1.958-1(d) for rules regarding the ownership of stock of a foreign corporation through a domestic partnership (or S corporation, as defined in section 1361(a)(1), by reason of section 1373(a)) for purposes of section 951A and for purposes of any provision that specifically applies by reference to section 951A or the section 951A regulations. See §1.958-1(e) for rules regarding an election for certain S corporations to be treated as an entity for purposes of section 951A and the section 951A regulations.

(2) *Application of entity treatment for taxable years ending before June 22, 2019*—(i) *General rule.* If a domestic partnership or S corporation satisfies the notification and reporting requirements in paragraph (e)(2)(iii) of this section, the domestic partnership or S corporation may apply the rules in proposed §1.951A-5 as if the amendments proposed on October 10, 2018, had been finalized in their entirety (*proposed GILTI rules*), for taxable years ending before June 22, 2019.

(ii) *Inapplicability of penalties.* If a domestic partnership or S corporation satisfies the requirements of paragraph (e)(2)(iii) of this section, penalties for failures described in sections 6698(a), 6699(a), 6722(a), or any similar provision will not apply to the domestic partnership or S corporation to the extent such failures arise from acting consistently with the proposed GILTI rules before June 22, 2019.

(iii) *Notification and reporting requirements*—(A) *Notification.* To be eligible for the rules described in paragraphs (e)(2)(i) and (ii) of this section, a domestic partnership or S corporation must provide the notification described in paragraphs (e)(2)(iii)(A)(1) through (3) of this section to each partner of the partnership or shareholder of the S corporation. Such notification must be provided no later than the due date (taking into account extensions, if any, or any additional time that would have been granted if the domestic partnership or S corporation had made an exten-

sion request) of the domestic partnership's or S corporation's tax return for the last taxable year ending before June 22, 2019, and may be provided through any reasonable method, including via mail, e-mail, or posting on a website through which the domestic partnership or S corporation would ordinarily disseminate tax information to its partners or shareholders. The domestic partnership or S corporation must also attach the notification described in this paragraph (e)(2)(iii)(A) and Form 8992, "U.S. Shareholder Calculation of Global Intangible Low-Taxed Income (GILTI)," reflecting computations under the proposed GILTI rules to any tax return with respect to which the rules described in paragraph (e)(2)(i) or (ii) of this section are being applied if the tax return has not been filed as of September 9, 2019. The notification required under this paragraph (e)(2)(iii) must provide—

(1) That the Schedule K-1, "Partner's Share of Income, Deductions, Credits, etc.," or the Schedule K-1, "Shareholder's Share of Income, Deductions, Credits, etc.," provided to the partner or shareholder, respectively, is consistent with the proposed GILTI rules;

(2) Whether the domestic partnership or S corporation filed a Form 1065, "U.S. Return of Partnership Income," or Form 1120-S, "U.S. Income Tax Return for an S Corporation," consistent with the proposed GILTI rules or this paragraph (e); and

(3) That the notification is provided in accordance with Notice 2019-46, 2019-37 I.R.B. 695.

(B) *Schedule K-1 distribution reporting.* If a domestic partnership or S corporation furnished a Schedule K-1 based on the proposed GILTI rules, the domestic partnership or S corporation must separately state on Schedules K-1 for subsequent taxable years the partner's or shareholder's distributive share or pro rata share of a foreign corporation's distributions to the domestic partnership or S corporation of earnings and profits that relate to the GILTI inclusion amount of the partnership or S corporation that was reflected on the initially provided Schedules K-1. This information must be provided for each taxable year of the domestic partnership or S corporation following the taxable year to which the first Schedule K-1 relates.

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Par. 3. Section 1.951A-7 is amended by adding paragraph (e) to read as follows:

*§1.951A-7 Applicability dates.*

\*\*\*\*\*

(e) *Entity treatment of domestic partnerships and S corporations.* Section 1.951A-1(e)(2) applies to taxable years of foreign corporations ending before June 22, 2019, and to taxable years of United States shareholders in which or with which such taxable years end.

Par. 4. Section 1.953-3 is revised to read as follows:

*§1.953-3 Related person insurance income.*

(a) [Reserved]

(b) *Related person insurance income*—(1) *Definition of related person insurance income*—(i) *In general.* Insurance income under section 953(a) includes related person insurance income under section 953(c)(2). Related person insurance income is premium and investment income attributable to an annuity, insurance, or reinsurance policy that directly or indirectly provides coverage to a related insured as defined in paragraph (b)(1)(ii) of this section. For purposes of this section, the terms *United States shareholder* and *controlled foreign corporation* have the meaning provided in section 953(c)(1).

(ii) *Related insured.* Except as provided in paragraph (b)(5)(ii) of this section, with respect to a foreign corporation, a related insured means any of the following—

(A) A United States shareholder of the foreign corporation;

(B) A person that is related to a United States shareholder within the meaning of section 953(c)(6);

(C) A pass-through entity, if a related insured (other than a pass-through entity) owns stock in the foreign corporation indirectly (within the meaning of section 958(a)) through the pass-through entity; or

(D) A person (other than a publicly traded corporation or publicly traded partnership) that is more than 50 percent owned by United States shareholders of the foreign corporation as described in paragraph (b)(1)(v) of this section.



(iii) *Amount treated as related person insurance income with respect to a pass-through entity*—(A) *In general*. In the case of a pass-through entity that is a related insured, the amount treated as related person insurance income is equal to the insurance income attributable to the policy that directly or indirectly provides coverage to the pass-through entity multiplied by the fraction described in paragraph (b)(1)(iii)(B) of this section.

(B) *Fraction*. The fraction described in this paragraph (b)(1)(iii)(B) is equal to—

(1) The total amount of premiums paid or accrued by the pass-through entity for the policy that is allocated (directly or indirectly, through one or more pass-through entities) to all related insureds (other than pass-through entities); divided by

(2) The total amount of premiums paid or accrued by the pass-through entity for the policy.

(C) *Allocation*—(1) *Partnerships*. For purposes of paragraph (b)(1)(iii)(B) of this section, the total amount of premiums paid or accrued by a partnership that is allocated to the related insureds is determined in accordance with the partnership agreement and section 704(b).

(2) *S corporations*. For purposes of paragraph (b)(1)(iii)(B) of this section, the total amount of premiums paid or accrued by an S corporation that is allocated to the related insureds is determined on a pro rata basis.

(iv) *Pass-through entities*. For purposes of paragraph (b)(1) of this section, a pass-through entity is an S corporation or a domestic or foreign partnership (other than a publicly traded partnership).

(v) *Ownership*. The ownership threshold described in paragraph (b)(1)(ii)(D) of this section is met if United States shareholders collectively own (after applying the principles of section 958(a) and (b)) more than 50 percent of the stock in a corporation (by vote or value), more than 50 percent of the capital or profits interests in a partnership, or more than 50 percent of the interests in a trust or estate.

(vi) *Stock owned through domestic partnerships or S corporations*. See §1.958-1(d) for rules regarding the ownership of stock of a foreign corporation through a domestic partnership or S corporation for purposes of section 953(c) and for purposes of any provision that

specifically applies by reference to section 953(c) or the regulations in this part under section 953 that relate to section 953(c).

(vii) *Examples*. The following examples illustrate the rules of paragraph (b)(1) of this section.

(A) *Example 1*—(1) *Facts*. FC is a foreign corporation engaged in the insurance business. FC is wholly owned by FP, a foreign partnership. DC, a domestic corporation, owns 25% of the interests in FP. The remaining interests in FP are held by unrelated foreign corporations. Under the partnership agreement, all items of income, gain, loss, deduction, and credit are allocated 25% to DC and 75% to the other partners. In Year 1, FC issues the FP policy, under which FP is insured. FP pays a premium of \$80 for the FP policy. The insurance income attributable to the FP policy (including both premium and investment income) is \$100. FC earns an additional \$1,000 of income that is treated as related person insurance income. Under section 704(b), DC would be allocated \$20 (25%) of the premium paid or accrued by FP.

(2) *Result*. Under paragraph (b)(1)(ii)(C) of this section, FP is treated as a related insured with respect to FC because it is a pass-through entity through which DC indirectly owns stock in FC. Therefore, under paragraph (b)(1)(i) of this section, a portion of the insurance income attributable to the FP policy is treated as related person insurance income. Under paragraph (b)(1)(iii)(A) of this section, the amount of related person insurance income with respect to FP is equal to the insurance income attributable to the FP policy (\$100) multiplied by the fraction described in paragraph (b)(1)(iii)(B) of this section. That fraction is equal to the portion of the premium paid by FP that is allocable to DC (\$20) divided by the total premium paid by FP (\$80), or 25%. Therefore, FC has \$25 of related person insurance income under section 953(c)(2) attributable to the FP policy in Year 1.

(B) *Example 2*—(1) *Facts*. FC is a foreign corporation engaged in the insurance business. Two domestic corporations, DC1 and DC2, each own 50% of the stock of FC. In addition, DC1 and DC2 each own 50% of the stock in DC3, a domestic corporation. In Year 1, FC issues the DC3 policy, under which DC3 is insured. The insurance income attributable to the DC3 policy is \$100. FC earns an additional \$1,000 of income that is treated as related person insurance income.

(2) *Result*. DC3 meets the requirements of paragraph (b)(1)(v) of this section because United States shareholders of FC (DC1 and DC2) collectively own all the stock of DC3. Therefore, under paragraph (b)(1)(ii)(D) of this section, DC3 is treated as a related insured with respect to FC. Consequently, under paragraph (b)(1)(i) of this section, all of FC's \$100 of insurance income attributable to the DC3 policy is treated as related person insurance income under section 953(c)(2).

(2) through (4) [Reserved]

(5) *Cross-insurance arrangements*—(i) *In general*. Related person insurance income includes insurance income attributable to an arrangement (or a substantially similar arrangement with a similar

degree of cooperative risk sharing) whereby a foreign corporation issues an insurance, reinsurance, or annuity contract to a person other than a related insured and, as part of the arrangement (involving one or more other persons), another person issues an insurance, reinsurance, or annuity contract to a related insured of the foreign corporation.

(ii) *Related insured*. For purposes of applying paragraph (b)(5)(i) of this section before the applicability date described in paragraph (c)(1) of this section, the term *related insured* means, with respect to a foreign corporation, a United States shareholder of the foreign corporation or a person that is related to a United States shareholder within the meaning of section 953(c)(6).

(iii) *Example*. Controlled foreign corporation X is owned by 30 unrelated United States shareholders. Controlled foreign corporation Y is owned by 30 unrelated United States shareholders (that is, unrelated to X and Y and the shareholders of X and Y). X agrees to provide insurance protection to Y's shareholders, and Y agrees to provide insurance to X's shareholders. The insurance income of both X and Y that is attributable to insuring the shareholders of the other corporation constitutes related person insurance income.

(c) *Applicability date*—(1) *In general*. Paragraph (b)(1) of this section applies to taxable years of foreign corporations beginning on or after [date of publication of the Treasury decision adopting these rules as final regulations in the **Federal Register**], and to taxable years of United States persons in which or with which such taxable years of foreign corporations end.

(2) *Cross-insurance rule*. Paragraph (b)(5) of this section applies to taxable years of foreign corporations ending on or after January 24, 2022, and to taxable years of United States persons in which or with which such taxable years of foreign corporations end (in each case without regard to when the arrangement was entered into).

Par. 5. Section 1.958-1, as amended in a final rule published elsewhere in this issue of the Federal Register, effective January 25, 2022, is amended by:

1. Revising the first sentence of paragraph (d)(1);
2. Revising paragraph (d)(2)(v);
3. Adding a sentence to the end of paragraph (d)(4)(i); and
4. Adding paragraph (e).

The revisions and addition read as follows:

*§1.958-1 Direct and indirect ownership of stock.*

\*\*\*\*\*

(d) \*\*\* (1) \*\*\* Except as otherwise provided in paragraph (d)(2) of this section, for purposes of sections 951, 951A, 953(c), and 956(a) and §1.964-1(c), and for purposes of any provision that specifically applies by reference to any of such sections or the regulations in this part under section 951, 951A, 953, or 956 (but only as the regulations in this part under section 953 or section 956 relate to section 953(c) or section 956(a), respectively), a domestic partnership is not treated as owning stock of a foreign corporation within the meaning of section 958(a). \*\*\*

(2) \*\* \*

(v) Applying section 953(c)(1)(A) for purposes of determining whether any foreign corporation is a controlled foreign corporation as defined in sections 953(c)(1)(B), 953(c)(3)(E), or 953(d)(1)(A).

\*\*\*\*\*

(4) \*\*\*

(i) \*\*\* Notwithstanding the prior sentences, paragraph (d)(2)(v) of this section and the inclusion of the references to section 953(c) and §1.964-1(c) in paragraph (d)(1) of this section apply to taxable years of foreign corporations beginning on or after [date of publication of the Treasury decision adopting these rules as final regulations in the **Federal Register**], and to taxable years of United States persons in which or with which such taxable years of foreign corporations end.

\*\*\*\*\*

(e) *Elective entity treatment for certain S corporations*—(1) *In general.* Except as otherwise provided in this paragraph (e), with respect to an S corporation (as defined in section 1361(a)(1)), paragraph (d)(1) of this section shall not apply, and such S corporation shall be treated as owning stock of a foreign corporation within the meaning of section 958(a), if—

(i) The S corporation and its shareholders (where applicable) make the election described in paragraph (e)(2) of this section;

(ii) The S corporation made its election under section 1362(a) before June 22, 2019;

(iii) The S corporation would have been treated as owning stock of a controlled foreign corporation within the meaning of section 958(a) on June 22, 2019, if §1.951A-1(e) (as in effect and contained in 26 CFR part 1, as revised April 1, 2021) did not apply to it;

(iv) The S corporation had transition accumulated earnings and profits (as defined in paragraph (e)(3) of this section) on September 1, 2020, or on the first day of any subsequent taxable year; and

(v) The S corporation maintains sufficient records to support the determination of the transition accumulated earnings and profits amount.

(2) *Election*—(i) *Time and manner of making election.* With respect to the first taxable year ending on or after September 1, 2020, an S corporation may irrevocably elect to apply the provisions of paragraph (e)(1) of this section on a timely-filed (including extensions) original Form 1120-S, “U.S. Income Tax Return for an S Corporation,” by attaching a statement to such return including the contents of paragraph (e)(2)(ii) of this section. For taxable years of an S corporation ending before September 1, 2020, and after June 21, 2019, the S corporation and all of its shareholders may irrevocably elect to apply the provisions of paragraph (e)(1) of this section on timely-filed (including extensions) original returns or on amended returns filed by March 15, 2021, by attaching a statement including the contents of paragraph (e)(2)(ii) of this section thereto. An election described in Section 3.02 of Notice 2020-69, 2020-39 I.R.B. 604 that is filed (in the time and manner specified in Section 3.02 of Notice 2020-69) on or before [date of publication of the Treasury decision adopting these rules as final regulations in the **Federal Register**] is deemed to satisfy the election requirement of this paragraph (e)(2).

(ii) *Contents of election statement.* The statement described in paragraph (e)(2)(i) of this section must:

(A) Identify that the S corporation and its shareholders (where applicable) are electing for the S corporation to be treated as owning stock of a foreign corporation within the meaning of section 958(a) under paragraph (e)(2) of this section;

(B) Include the amount of transition accumulated earnings and profits (as defined in paragraph (e)(3) of this section); and

(C) Where applicable, be signed by a person authorized to sign the S corporation’s return that is required to be filed under section 6037.

(3) *Transition accumulated earnings and profits*—(i) *In general.* For purposes of this section, the term *transition accumulated earnings and profits* means, with respect to an S corporation and its shareholders, the amount of accumulated earnings and profits of the S corporation calculated as of September 1, 2020, reduced as described in paragraph (e)(3)(ii) of this section. Transition accumulated earnings and profits are not increased as a result of transactions occurring (or entity classification elections described in §301.7701-3 of this chapter filed) after September 1, 2020. For purposes of this section, transition accumulated earnings and profits are not transferable to another person under any provision of the Code.

(ii) *Reduction solely by distributions.* An S corporation with transition accumulated earnings and profits is treated as having no transition accumulated earnings and profits if, beginning after September 1, 2020, the S corporation distributes in one or more distributions a cumulative amount of accumulated earnings and profits equal to or greater than the amount of the S corporation’s transition accumulated earnings and profits as of September 1, 2020.

(4) *Required aggregate treatment.* In the case of an S corporation that has made an election under paragraph (e)(2) of this section and which satisfies the additional requirements of paragraph (e)(1) of this section, paragraph (d) of this section shall apply beginning with the S corporation’s first taxable year for which the S corporation has no transition accumulated earnings and profits on the first day of that year, and to each subsequent taxable year of the S corporation.

(5) *Examples.* The following examples illustrate the application of paragraph (e).

(i) *Example 1*—(A) *Facts.* Individual A and Individual B, each a United States citizen, respectively own 5% and 95% of the single class of stock of SCX, an S corporation. SCX’s sole asset is 100% of the single class of stock of FC, a controlled foreign corporation, which SCX has held since June 1, 2019. None of SCX, Individual A, or Individual B own shares, directly or indirectly, in any other controlled foreign corporation. Individual A, Individual B, SCX, and FC all use the calendar year as their taxable year. On January 1, 2021, SCX has transition

accumulated earnings and profits of \$100x and AAA of \$0. SCX elects to apply the transition rules under paragraph (e)(1) of this section. During the 2021 taxable year, FC has \$200x of tested income (within the meaning of §1.951A-2(b)(1)) and \$0 of qualified business asset investment (QBAI) (within the meaning of §1.951A-3(b)).

(B) *Analysis—(1) S corporation level.* As an electing S corporation with transition accumulated earnings and profits on the first day of the taxable year (January 1, 2021), SCX is treated as owning (within the meaning of section 958(a)) all the stock of FC for purposes of applying sections 951 and 951A and any provision that applies specifically by reference thereto. Accordingly, SCX, a United States shareholder of FC, determines its GILTI inclusion amount under §1.951A-1(c)(1) for its 2021 taxable year. SCX's pro rata share of FC's tested income is \$200x, and its pro rata share of FC's QBAI is \$0. SCX's net CFC tested income (within the meaning of §1.951A-1(c)(2)) is \$200x, and its net deemed tangible income return (within the meaning of §1.951A-1(c)(3)) is \$0. As a result, SCX's GILTI inclusion amount for 2021 is \$200x. At the end of 2021, SCX increases its AAA by \$200x to reflect the GILTI inclusion amount. Because SCX computes its income as an individual under section 1363(b), it cannot take a section 250 deduction for any GILTI inclusion amount. See §1.250(a)-1(c)(1).

(2) *S corporation shareholder level.* Neither Individual A nor Individual B is treated as owning the stock in FC within the meaning of section 958(a). Accordingly, Individual A and Individual B include in gross income their pro rata shares of SCX's GILTI inclusion amount as described in section 1366(a), which is \$10x (\$200x x 5%) for Individual A and \$190x (\$200x x 95%) for Individual B.

(ii) *Example 2—(A) Facts.* The facts are the same as in paragraph (e)(5)(i) of this section, except that, on December 31, 2021, SCX distributes \$300x to its shareholders. In addition, FC has an additional \$200x of tested income (within the meaning of §1.951A-2(b)(1)) and \$0 of QBAI (within the meaning of §1.951A-3(b)) during the 2022 taxable year.

(B) *Analysis—(1) Determination of transition accumulated earnings and profits.* Before taking into account the distribution on December 31, 2021, the results for taxable year 2021 are the same as in paragraph (e)(5)(i)(B) of this section. For 2021, \$200x, the portion of SCX's \$300x distribution that does not exceed AAA, is subject to section 1368(c)(1). The remaining distribution of \$100x is treated as a dividend under section 316 to the extent of SCX's accumulated earnings and profits. As of January 1, 2022, SCX has \$0 of transition accumulated earnings and profits under paragraph (e)(3) of this section because the cumulative amount of SCX's distributions out of accumulated earnings and profits after September 1, 2020, equals or exceeds the amount of SCX's transition accumulated earnings and profits as of September 1, 2020.

(2) *S corporation level.* Because SCX has no transition accumulated earnings and profits as of January 1, 2022, paragraph (d) of this section applies to SCX for its taxable year 2022 and for each subsequent taxable year. As a result, for purposes of determining a GILTI inclusion amount in its taxable year 2022, SCX is not treated as own-

ing (within the meaning of section 958(a)) the FC stock; instead, SCX is treated in the same manner as a foreign partnership for purposes of determining the FC stock owned by Individual A and Individual B under section 958(a)(2). Accordingly, SCX does not have a GILTI inclusion amount for its 2022 taxable year (or for any subsequent taxable year) and therefore will not increase its AAA as a result of GILTI inclusion amounts attributable to FC stock for its taxable year 2022 (or for any subsequent taxable year).

(3) *S corporation shareholder level.* With respect to Individual A, for purposes of determining the GILTI inclusion amount for taxable year 2022, Individual A is treated as owning 5% of the FC stock under section 958(a). Individual A is not a United States shareholder of FC because Individual A owns (within the meaning of section 958(a) and (b)) less than 10% of the FC stock. Accordingly, Individual A does not have a GILTI inclusion amount for taxable year 2022. With respect to Individual B, for purposes of determining the GILTI inclusion amount for taxable year 2022, Individual B is treated as owning 95% of the FC stock under section 958(a). In addition, Individual B is a United States shareholder of FC because Individual B owns (within the meaning of section 958(a) and (b)) at least 10% of the FC stock. Accordingly, Individual B's pro rata share of FC's tested income is \$190x (\$200x x 95%), and Individual B's pro rata share of FC's QBAI is \$0. Individual B's net CFC tested income is \$190x, and Individual B's net deemed tangible income return is \$0. As a result, Individual B's GILTI inclusion amount for taxable year 2022 is \$190x.

(6) *Applicability date.* This paragraph (e) applies to taxable years of S corporations ending on or after September 1, 2020. Taxpayers may choose to apply this paragraph (e) to taxable years of S corporations ending on or after June 22, 2019, provided that the S corporation and its shareholders that are United States shareholders consistently apply the rules set forth in this paragraph (e) with respect to all controlled foreign corporations whose stock the S corporation owns within the meaning of section 958(a).

\* \* \* \* \*

Par. 6. Section 1.964-1 is amended by:

1. Revising the first sentence of paragraph (c)(2);
2. Removing the language “domestic shareholders” in the first sentence of paragraph (c)(3)(ii) and adding “United States persons” in its place;
3. Revising paragraph (c)(3)(iii);
4. Removing the language “noncontrolled section 902 corporation” in paragraphs (c)(4)(i)(B) and (c)(4)(ii) and adding “noncontrolled foreign corporation” in its place;
5. Revising paragraph (c)(5)(ii);

6. Redesignating paragraph (c)(8) as paragraph (c)(9);

7. Adding a new paragraph (c)(8); and

8. In paragraph (d):

i. Revising the heading;

ii. Removing “Paragraphs (c)(1)(v) through (c)(6),” “26 CFR §§ 1.964-1T(c)(1)(v) through (c)(6),” and “paragraphs (c)(1)(v) through (c)(6)” everywhere they appear and adding “Paragraphs (c)(1)(v) and (vi) and (c)(2) through (6),” “26 CFR 1.964-1T(c)(1)(v) and (vi) and (c)(2) through (6),” and “paragraphs (c)(1)(v) and (vi) and (c)(2) through (6)” in their places, respectively; and

iii. Adding two sentences to the end of the paragraph.

The revisions and additions read as follows:

*§1.964-1 Determination of the earnings and profits of a foreign corporation.*

\* \* \* \* \*

(c) \* \* \*

(2) \* \* \* For the first taxable year of a foreign corporation in which such foreign corporation first qualifies as a controlled foreign corporation (as defined in section 957 or 953) or a foreign corporation (other than a controlled foreign corporation as defined in section 957 or 953) as to which a United States person that is a United States shareholder (within the meaning of section 951(b)) owns stock (within the meaning of section 958(a)) (such corporation, a “noncontrolled foreign corporation”), any method of accounting or taxable year allowable under this section may be adopted, and any election allowable under this section may be made, by such foreign corporation or on its behalf notwithstanding that, in previous years, its books or financial statements were prepared on a different basis, and notwithstanding that such election is required by the Code or regulations in this chapter to be made in a prior taxable year. \* \* \*

(3) \* \* \*

(iii) *Notice—(A) In general.* Except as otherwise provided in paragraph (c)(3)(iii)(B) of this section, on or before the filing date described in paragraph (c)(3)(ii) of this section, the controlling domestic shareholders must provide written notice of the election made or the adoption or change of method or taxable year



effected to all other persons known by them to be United States persons that own (within the meaning of section 958(a)) stock of the foreign corporation (*domestic shareholders*) and to any other United States person that is a “Category 4 filer” of Form 5471, “Information Return of U.S. Persons With Respect to Certain Foreign Corporations,” with respect to the foreign corporation (that is, certain United States persons that control, within the meaning of section 6038(e), the foreign corporation). Thus, for example, this notice is required to be provided to domestic shareholders that own (within the meaning of section 958(a)) stock in the foreign corporation through one or more domestic partnerships. The notice required in this paragraph (c)(3)(iii)(A) must set forth the name, country of organization, and U.S. employer identification number (if applicable) of the foreign corporation, and the names, addresses, and stock interests of the controlling domestic shareholders. Such notice must also describe the nature of the action taken on behalf of the foreign corporation and the taxable year for which made, and identify a designated shareholder that retains a jointly executed consent confirming that such action has been approved by all of the controlling domestic shareholders and containing the signature of a principal officer of each such shareholder (or its common parent). However, the failure of the controlling domestic shareholders to provide such notice to a person required to be notified does not invalidate the election made or the adoption or change of method or taxable year effected.

(B) *Special rule for domestic partnerships.* A controlling domestic shareholder will be deemed to satisfy the notice requirement of paragraph (c)(3)(iii)(A) of this section with respect to any domestic shareholder that is a partner in a domestic partnership by providing notice to a domestic partnership (known to the controlling domestic shareholder) through which the domestic shareholder owns stock of the foreign corporation, instead of to the domestic shareholder.

\*\*\*\*\*

(5) \*\*\*

(ii) *Noncontrolled foreign corporations.* For purposes of this paragraph (c), the controlling domestic shareholders

of a noncontrolled foreign corporation are its majority domestic shareholders. The majority domestic shareholders of a noncontrolled foreign corporation are those United States shareholders (within the meaning of section 951(b)) that own (within the meaning of section 958(a)) stock in the noncontrolled foreign corporation and that, in the aggregate, own (within the meaning of section 958(a)), or are considered as owning by applying the rules of section 958(b), more than 50 percent of the combined voting power of all of the voting stock of the noncontrolled foreign corporation that is owned by all United States shareholders that own (within the meaning of section 958(a)), or are considered as owning by applying the rules of section 958(b), stock of the noncontrolled foreign corporation.

\*\*\*\*\*

(8) *Stock owned through domestic partnerships.* See §1.958-1(d) for rules regarding the ownership of stock of a foreign corporation through a domestic partnership for purposes of paragraph (c) of this section and for purposes of any provision that specifically applies by reference to paragraph (c) of this section.

\*\*\*\*\*

(d) *Applicability dates.* \*\*\* Notwithstanding the preceding sentences in this paragraph (d), paragraphs (c)(2), (c)(3)(ii) and (iii), (c)(4)(i)(B), (c)(4)(ii), (c)(5)(ii), and (c)(8) of this section apply to taxable years of foreign corporations beginning on or after [date of publication of the Treasury decision adopting these rules as final regulations in the **Federal Register**], and to taxable years of United States persons in which or with which such taxable years end. For taxable years of foreign corporations beginning before [date of publication of the Treasury decision adopting these rules as final regulations in the **Federal Register**], and to taxable years of foreign United States persons in which or with which such taxable years end, see §1.964-1(c)(2), (c)(3)(ii) and (iii), (c)(4)(i)(B), (c)(4)(ii), and (c)(5)(ii) as in effect and contained in 26 CFR part 1, as revised April 1, 2021.

Par. 7. Section 1.1291-1 is amended by:

1. Revising paragraphs (b)(7), (c)(4)(i), and (c)(4)(ii)(A) and (B);
2. Adding paragraph (c)(5);

3. Removing the language “Paragraphs (c)(3) and (4)” in paragraph (j)(1) and adding “Paragraph (c)(3)” in its place;

4. Removing the language “paragraphs (b)(2)(ii) and (v), (b)(7) and (8), and (e)(2) of this section” in paragraph (j)(3) and adding “paragraphs (b)(2)(ii) and (v), (b)(8), and (e)(2) of this section” in its place; and

5. Adding paragraph (j)(5).

The revisions and additions read as follows:

*§1.1291-1 Taxation of U.S. persons that are shareholders of section 1291 funds.*

\*\*\*\*\*

(b) \*\*\*

(7) *Shareholder.* Except as otherwise provided in this paragraph (b)(7) or paragraph (e) of this section, a shareholder of a PFIC is a United States person that directly owns stock of a PFIC (a direct shareholder), or that is an indirect shareholder (as defined in paragraph (b)(8) of this section). Notwithstanding the previous sentence, neither a domestic partnership nor an S corporation (as defined in section 1361(a)(1)) is treated as a shareholder of a PFIC. In addition, to the extent that a person is treated under sections 671 through 678 as the owner of a portion of a domestic trust, the trust is not treated as a shareholder of a PFIC with respect to PFIC stock held by that portion of the trust, except for purposes of the information reporting requirements of §1.1298-1(b)(3)(i) (imposing an information reporting requirement on domestic liquidating trusts and fixed investment trusts).

\*\*\*\*\*

(c) \*\*\*

(4) \*\*\* (i) *In general.* If PFIC stock is marked to market for any taxable year under section 475 or any other provision of chapter 1 of the Internal Revenue Code, other than section 1296, regardless of whether the application of such provision is mandatory or results from an election by the shareholder (as defined in paragraph (b)(7) of this section) or another person, then, except as provided in paragraph (c)(4)(ii) of this section, section 1291 and the regulations in this part thereunder do not apply to any distribution with respect to such PFIC stock or to any disposition of such PFIC stock for such taxable year. See

§§1.1295-1(i)(3) and 1.1296-1(h)(3)(i) for rules regarding the automatic termination of an existing election under section 1295 or section 1296 when a shareholder marks to market PFIC stock under section 475 or any other provision of chapter 1 of the Internal Revenue Code.

(ii) \* \* \* (A) Notwithstanding any provision in this section to the contrary, with respect to a shareholder (as defined in paragraph (b)(7) of this section), the rule of paragraph (c)(4)(ii)(B) of this section applies to the first taxable year in which the shareholder's PFIC stock is marked to market under a provision of chapter 1 of the Internal Revenue Code, other than section 1296, if such foreign corporation was a PFIC for any taxable year before the taxable year in which the PFIC stock is marked to market, which is during the shareholder's holding period (as defined in section 1291(a)(3)(A) and §1.1296-1(f) in such stock, and for which such corporation was not treated as a QEF with respect to such shareholder.

(B) For the first taxable year of a shareholder in which the shareholder's PFIC stock is marked to market under any provision of chapter 1 of the Internal Revenue Code, other than section 1296, such shareholder, in lieu of the rules under which the stock is marked to market, applies the rules of §1.1296-1(i)(2) and (3) as if an election had been made under section 1296 for such first taxable year.

(5) *Coordination with section 1297(d)*—(i) *In general.* For purposes of section 1297(d), with respect to a partner or S corporation shareholder that would be considered an indirect shareholder, through its ownership in a domestic partnership or S corporation, with respect to a foreign corporation that is a PFIC and a controlled foreign corporation (as defined in section 957), the term “qualified portion” does not include any portion of such indirect shareholder's holding period during which it was not a United States shareholder (as defined in section 951(b)) with respect to the foreign corporation.

(ii) *Transition rule.* For taxable years of shareholders beginning before [date of publication of the Treasury decision adopting these rules as final regulations in the **Federal Register**], or for taxable years of shareholders of an S corporation in which

the S corporation elects to apply §1.958-1(e), for purposes of section 1297(d), a partner's or S corporation shareholder's qualified portion with respect to the foreign corporation includes the portion of its holding period during which it—

(A) Is an indirect shareholder under paragraph (b)(8)(iii)(A) or (B) of this section with respect to the foreign corporation; and

(B) Included in gross income its distributive or pro rata share of any amount that the domestic partnership or S corporation, respectively, included under sections 951(a)(1) and 951A(a) with respect to stock in the foreign corporation (treating the requirement in this paragraph (c)(5)(ii)(B) as not satisfied to the extent §1.958-1(d)(1) through (3) is applied with respect to the domestic partnership or S corporation before their general applicability date under §1.958-1(d)(4) or the domestic partnership or S corporation relied on the earlier proposed version of such provisions). See, for example, §1.951A-1(e)(2).

\* \* \* \* \*

(j) \* \* \*

(5) Paragraphs (b)(7), (c)(4)(i), (c)(4)(ii)(A) and (B), and (c)(5) of this section apply to taxable years of shareholders beginning on or after [date of publication of the Treasury decision adopting these rules as final regulations in the **Federal Register**]. For taxable years of shareholders beginning before [date of publication of the Treasury decision adopting these rules as final regulations in the **Federal Register**], see §1.1291-1(b)(7), (c)(4)(i), and (c)(4)(ii)(A) and (B) as in effect and contained in 26 CFR part 1, as revised April 1, 2021.

### §1.1291-9 [Amended]

Par. 8. Section 1.1291-9 is amended by:

1. Removing the language “the undistributed earnings and profits, within the meaning of section 902(c)(1)” in paragraph (a)(2)(i) and adding “the amount of the earnings and profits of the foreign corporation (computed in accordance with sections 964(a) and 986)” in its place;

2. Removing the language “section 1297(e) PFIC” in paragraphs (i) and (j)(2)(v) introductory text and adding “section 1297(d) PFIC” in its place wherever it appears; and

3. Removing the language “section 1297(e)(2)” in paragraph (j)(2)(v)(A) and adding “section 1297(d)(2)” in its place.

Par. 9. Section 1.1293-1 is amended by:

1. Adding paragraphs (a)(3) and (4);

2. Revising paragraphs (c)(1) and (2);

3. Redesignating paragraph (c)(3) as paragraph (c)(4);

4. Adding a new paragraph (c)(3); and

5. Revising newly redesignated paragraph (c)(4).

The additions and revisions read as follows:

### §1.1293-1 *Current taxation of income from qualified electing funds.*

(a) \* \* \*

(3) *Pass-through entity defined.* For purposes of this section, the term *pass-through entity* has the meaning provided in §1.1295-1(j)(2).

(4) *Applicability dates.* Paragraph (a)(3) of this section applies to taxable years of shareholders beginning on or after [date of publication of the Treasury decision adopting these rules as final regulations in the **Federal Register**].

\* \* \* \* \*

(c) \* \* \* (1) *In general.* Except as otherwise provided in this paragraph (c), a shareholder that makes a section 1295 election as provided in §1.1295-1(d)(2) with respect to stock in a PFIC that it is treated as owning by reason of an interest in a pass-through entity, or a shareholder that is treated as owning stock in a QEF by reason of an interest in a domestic partnership that has made a preexisting partnership section 1295 election (within the meaning of §1.1295-1(d)(2)(i)(B)) or in an S corporation that has made a preexisting S corporation section 1295 election (within the meaning of §1.1295-1(d)(2)(ii)(B)), includes in income its pro rata share of ordinary earnings and net capital gain attributable to the QEF stock as if the shareholder directly owned its share of the QEF stock held by the pass-through entity.

(2) *Section 1295 election made by domestic nongrantor trust or domestic estate.* Notwithstanding paragraph (c)(1) of this section, if a domestic nongrantor trust or domestic estate makes a section 1295 election as provided in §1.1295-1(d)(2)(iii)(A)(I) with respect to PFIC stock that it owns, the domestic nongrantor trust

or domestic estate includes in income its pro rata share of ordinary earnings and net capital gain attributable to the QEF stock. A shareholder that is treated as owning such QEF stock by reason of an interest in the domestic nongrantor trust or domestic estate accounts for its pro rata share of ordinary earnings and net capital gain attributable to such stock according to the general rules applicable to inclusions of income from the domestic nongrantor trust or domestic estate.

(3) *QEF stock transferred to a pass-through entity*—(i) *In general.* Except as otherwise provided in this paragraph (c) (3), if a shareholder transfers stock in a PFIC subject to a section 1295 election to a pass-through entity in which it is an interest holder, such shareholder continues to include in income its pro rata share of ordinary earnings and net capital gain attributable to the QEF stock held by the transferee pass-through entity, under paragraph (c)(1) of this section. Proper adjustments to reflect an inclusion in income under section 1293 by the indirect shareholder must be made, under the principles of §1.1291-9(f), to the basis of the indirect shareholder's interest in the pass-through entity.

(ii) *Shareholders other than the transferor.* Except as otherwise provided in this paragraph (c)(3), if a shareholder transfers stock in a PFIC subject to a section 1295 election to a pass-through entity and such stock is not subject to a preexisting QEF election made by the pass-through entity, any other person that becomes a shareholder of such PFIC as a result of the transfer will be subject to the income inclusion rules of this section only if such person makes a section 1295 election with respect to the transferred PFIC stock under §1.1295-1(d)(2).

(iii) *QEF stock transferred to domestic nongrantor trust.* Notwithstanding paragraphs (c)(3)(i) and (ii) of this section, if a shareholder transfers stock in a PFIC subject to a section 1295 election to a domestic nongrantor trust in which it is a beneficiary, and the transferee domestic nongrantor trust makes a section 1295 election with respect to that stock pursuant to §1.1295-1(d)(2)(iii)(A)(I), the domestic nongrantor trust, and the transferor and any person that becomes a shareholder of the QEF as a result of

the transfer, take into account their share of ordinary earnings and net capital gain attributable to the QEF shares under paragraph (c)(2) of this section. If the transferee domestic nongrantor trust does not make a section 1295 election with respect to the transferred PFIC stock, the transferor continues to be subject, in its capacity as an indirect shareholder, to the income inclusion rules of paragraph (c) (1) of this section.

(4) *Applicability date.* Paragraph (c) of this section applies to taxable years of shareholders beginning on or after [date of publication of the Treasury decision adopting these rules as final regulations in the **Federal Register**]. For taxable years of shareholders beginning before [date of publication of the Treasury decision adopting these rules as final regulations in the **Federal Register**], see §1.1293-1(c), as in effect and contained in 26 CFR part 1, as revised April 1, 2021.

Par. 10. Section 1.1295-1 is amended by:

1. Revising paragraph (b)(3);
2. Removing the language “are defined in paragraph (j) of this section” in paragraph (c)(1) and adding “are defined in paragraphs (j)(3) and (4) of this section, respectively” in its place;
3. Removing the language “(as defined in paragraph (j) of this section)” in paragraph (c)(2)(iv) and adding “(as defined in paragraph (j)(2) of this section)” in its place;
4. Revising paragraphs (d)(1), (d)(2)(i) (A) and (B), and (d)(2)(ii);
5. In paragraph (d)(2)(iii)(A)(I):
  - i. Removing the language “§1.1293-1(c)(1)” and adding “§1.1293-1(c)(2)” in its place; and
  - ii. Removing the language “domestic trust or estate” and adding “domestic nongrantor trust or domestic estate” in its place;
6. Revising paragraph (f)(2)(i) introductory text;
7. Redesignating paragraph (f)(3) as paragraph (f)(5);
8. Adding a new paragraph (f)(3) and paragraph (f)(4);
9. Removing the language “as defined in paragraph (j) of this section” in paragraph (g)(3) and adding “as defined in paragraph (j)(1) of this section” in its place;

10. Removing the language “(as defined in paragraph (j) of this section)” and “§ 1.1295-1” in paragraph (h) and adding “(as defined in paragraph (j)(4) of this section)” and “this section” in their places, respectively;

11. Removing and reserving paragraph (i)(1)(ii);

12. Revising paragraph (j); and

13. In paragraph (k):

i. Revising the heading;

ii. Removing the language “(b)(3),” in the first sentence;

iii. Removing the language “and (c) through (j) of this section” in the first sentence and adding “(c), (d)(2)(iv), (d)(3) through (d)(6), (e), (f)(1), (f)(2)(ii), (g), (h), (i)(1)(i) and (iii), and (i)(2) through (5) of this section” in its place;

iv. Removing the language “(f) and (g) of this section” in the second sentence of and adding “(f)(1), (f)(2)(ii), and (g) of this section” in its place;

v. Removing the third sentence; and

vi. Adding two sentences at the end of the paragraph.

The revisions and additions read as follows:

#### *§1.1295-1 Qualified electing funds.*

\* \* \* \* \*

(b) \* \* \*

(3) *Application of general rules to stock held by a pass through entity*—(i) *Stock subject to a section 1295 election transferred to a domestic nongrantor trust or domestic estate.* A shareholder's section 1295 election will not apply to a domestic nongrantor trust or domestic estate to which the shareholder transfers stock subject to a section 1295 election, or to any other United States person that is a beneficiary of the domestic nongrantor trust or estate. However, as provided in paragraph (c)(2)(iv) of this section (relating to a transfer to a domestic pass through entity of stock subject to a section 1295 election), a shareholder that transfers stock subject to a section 1295 election to a domestic nongrantor trust or domestic estate will continue to be subject to the section 1295 election with respect to the stock indirectly owned through the domestic nongrantor trust or domestic estate and any other stock of that PFIC owned by the shareholder.



(ii) *Limitation on application of domestic nongrantor trust's or domestic estate's section 1295 election.* Except as provided in paragraph (c)(2)(iv) of this section, a section 1295 election made by a domestic nongrantor trust or domestic estate does not apply to other stock of the PFIC held directly or indirectly by the beneficiary.

(iii) *Effect of partnership termination on preexisting partnership section 1295 election.* The termination of a preexisting partnership section 1295 election (within the meaning of paragraph (d)(2)(i)(B) of this section) by reason of the termination of the partnership under section 708(b) will not terminate the section 1295 election with respect to partners of the terminated partnership that are partners of the new partnership (continuing partners). The stock of the PFIC of which a new partner (partners other than continuing partners) is an indirect shareholder will be treated as stock of a QEF with respect to such partner only if the new partner makes or has made a section 1295 election with respect to that stock under paragraph (d)(2)(i)(A) of this section.

(iv) *Characterization of stock held through a pass-through entity.* Stock of a PFIC held through a pass-through entity will be treated as stock of a pedigreed QEF with respect to a shareholder (as defined in paragraph (j)(3) of this section) that is treated as owning such stock by reason of an interest in the pass-through entity only if—

(A) in the case of PFIC stock acquired (other than in a transaction in which gain is not fully recognized, including pursuant to regulations in this part under section 1291(f)) and held by a domestic pass-through entity, the domestic pass-through entity has made a preexisting section 1295 election under paragraph (d)(2)(i)(B) or (d)(2)(ii)(B) of this section, or makes an election under paragraph (d)(2)(iii)(A)(I) of this section, and the PFIC has been a QEF with respect to the pass-through entity for all taxable years that are included in the pass-through entity's holding period of the PFIC stock and during which the foreign corporation was a PFIC within the meaning of §1.1291-9(j)(1);

(B) in the case of PFIC stock acquired (other than in a transaction in which gain is not fully recognized, including pursuant to regulations in this part under section

1291(f)) and held by a domestic pass-through entity, other than PFIC stock described in paragraph (b)(3)(iv)(A) of this section, through which the shareholder is treated as owning such PFIC stock, the shareholder makes the section 1295 election under paragraph (d)(2)(i)(A), (d)(2)(ii)(A), (d)(2)(iii)(A)(2), or (d)(2)(iii)(B) of this section, and the PFIC has been a QEF with respect to the shareholder for all taxable years that are included in the shareholder's holding period for the PFIC stock, and during which the foreign corporation was a PFIC within the meaning of §1.1291-9(j)(1); or

(C) in the case of PFIC stock transferred by an interest holder or beneficiary to a pass-through entity in a transaction in which gain is not fully recognized (including pursuant to regulations in this part under section 1291(f)), if the pass-through entity made a preexisting section 1295 election under paragraph (d)(2)(i)(B) or (d)(2)(ii)(B) of this section with respect to the PFIC stock, or the shareholder or pass-through entity, as applicable, makes a section 1295 election under paragraph (d)(2)(i)(A), (d)(2)(ii)(A), (d)(2)(iii)(A)(I) or (2), or (d)(2)(iii)(B) of this section, in each case for the taxable year in which the transfer was made, or the shareholder's section 1295 election continues pursuant to paragraph (c)(2)(iv) of this section. If the foreign corporation was a PFIC within the meaning of §1.1291-9(j) at the time of the transfer, the PFIC stock transferred will be treated as stock of a pedigreed QEF with respect to a transferor, however, only if that stock was treated as stock of a pedigreed QEF with respect to the transferor at the time of the transfer. In all cases subject to this paragraph (b)(3)(iv)(C), the PFIC stock will be treated as stock of a pedigreed QEF only if the PFIC has been a QEF for all taxable years of the PFIC that are included wholly or partly in the shareholder's holding period of the PFIC stock during which the foreign corporation was a PFIC within the meaning of §1.1291-9(j).

(v) *Characterization of stock distributed by a partnership.* In the case of PFIC stock distributed by a partnership to one or more partners in a transaction in which gain is not fully recognized (including pursuant to regulations in this part under section 1291(f)), the PFIC stock will be

treated as stock of a pedigreed QEF by a shareholder only if that stock was treated as stock of a pedigreed QEF with respect to the shareholder immediately before the distribution, or, in the case of a distribution of PFIC stock by a partnership to one or more partners in the first year of the distributee partner or partners' holding period of the PFIC stock, the distributee partner or partners make an election as provided in paragraph (d)(2) of this section.

\* \* \* \* \*

(d) \* \* \* (1) *General rule.* Except as otherwise provided in this paragraph (d), any shareholder (as defined in paragraph (j)(3) of this section) of a PFIC, including a shareholder that holds stock of a PFIC in bearer form, may make a section 1295 election with respect to that PFIC. The shareholder need not own directly or indirectly any stock of the PFIC when the shareholder makes the section 1295 election provided the shareholder is a shareholder of the PFIC during the taxable year of the PFIC that ends with or within the taxable year of the shareholder for which the section 1295 election is made.

(2) \* \* \* (i) \* \* \* (A) *In general.* If a partnership (domestic or foreign) holds stock of a PFIC, the section 1295 election with respect to such PFIC is made by a shareholder (as defined in paragraph (j)(3) of this section) indirectly owning the PFIC stock by reason of its interest in the partnership. A section 1295 election made by a shareholder under this paragraph (d)(2)(i)(A) applies to the stock of the PFIC indirectly owned by the shareholder by reason of its interest in the partnership and to any other stock of the PFIC owned by the shareholder. A shareholder making an election under this paragraph (d)(2)(i)(A) must do so in the form and manner provided in paragraph (f) of this section. The shareholder must also notify the partnership of the election no later than 30 days after filing the return in which the election is made; the shareholder may notify the partnership in any reasonable manner. However, the failure of the shareholder to notify the partnership of its election does not invalidate an otherwise valid election under this paragraph (d)(2)(i)(A). A shareholder making an election under this paragraph (d)(2)(i)(A) accounts for its pro rata share of ordinary earnings and net capital

gain attributable to the QEF stock as provided in §1.1293-1(c)(1).

(B) *Preexisting section 1295 election by domestic partnership.* Any section 1295 election made by a domestic partnership with respect to a PFIC effective for taxable years of the PFIC ending on or before [date of publication of the Treasury decision adopting these rules as final regulations in the **Federal Register**] (*preexisting partnership section 1295 election*) will be treated as if it were made by each shareholder that is treated as owning stock in the PFIC by reason of its interest in the domestic partnership on or before such date, and the stock in the PFIC will continue to be treated as stock in a QEF to such shareholder; any partner that becomes a shareholder of the PFIC by acquiring an interest in the domestic partnership after [date of publication of the Treasury decision adopting these rules as final regulations in the **Federal Register**] and wishes to have a section 1295 election applicable with respect to the PFIC may make a section 1295 election under paragraph (d)(2)(i)(A) of this section with respect to stock treated as owned by reason of its interest in the domestic partnership. A shareholder that is treated as owning stock of a QEF by reason of an interest in a domestic partnership that has made a preexisting partnership section 1295 election accounts for its pro rata share of the ordinary earnings and net capital gain attributable to such QEF stock as provided in §1.1293-1(c)(1).

(ii) *S corporation—(A) In general.* If an S corporation holds stock of a PFIC, the section 1295 election with respect to such PFIC is made by a shareholder (as defined in paragraph (j)(3) of this section) indirectly owning the PFIC stock by reason of its interest in the S corporation. A section 1295 election made by a shareholder under this paragraph (d)(2)(ii)(A) applies to the stock of the PFIC held by the shareholder by reason of its interest in the S corporation and to any other stock of the PFIC held by the shareholder. A shareholder making an election under this paragraph (d)(2)(ii)(A) must do so in the form and manner provided in paragraph (f) of this section. The shareholder must also notify the S corporation of the election no later than 30 days after filing the return in which the election is made; the shareholder may notify the S corporation

in any reasonable manner. However, the failure of the shareholder to notify the S corporation of its election does not invalidate an otherwise valid election under this paragraph (d)(2)(ii)(A). A shareholder making an election under this paragraph (d)(2)(ii)(A) accounts for its pro rata share of ordinary earnings and net capital gain attributable to the QEF stock as provided in §1.1293-1(c)(1).

(B) *Preexisting section 1295 election by S corporation.* Any section 1295 election made by an S corporation with respect to a PFIC effective for taxable years of such PFIC ending on or before [date of publication of the Treasury decision adopting these rules as final regulations in the **Federal Register**] (*preexisting S corporation section 1295 election*) will be treated as if it were made by each shareholder that is treated as owning stock in the PFIC by reason of its interest in the S corporation on or before such date, and the stock in the PFIC will continue to be treated as stock in a QEF to such shareholder; any S corporation shareholder that becomes a shareholder of the PFIC by acquiring an interest in the S corporation after [date of publication of the Treasury decision adopting these rules as final regulations in the **Federal Register**] and wishes to have a section 1295 election applicable with respect to the PFIC may make a section 1295 election under paragraph (d)(2)(ii)(A) of this section with respect to stock treated as owned by reason of its interest in the S corporation. A shareholder that is treated as owning stock of a QEF by reason of an interest in an S corporation that has made a preexisting S corporation section 1295 election accounts for its pro rata share of the ordinary earnings and net capital gain attributable to the QEF stock as provided in §1.1293-1(c)(1).

\* \* \* \* \*

(f) \* \* \*

(2) \* \* \* (i) *In general.* A shareholder that makes a section 1295 election with respect to a PFIC, or a shareholder that is treated as owning stock in a QEF by reason of an interest in a domestic partnership that has made a preexisting partnership section 1295 election (within the meaning of paragraph (d)(2)(i)(B) of this section) or by reason of an interest in an S corporation that has made a preexisting S corporation section 1295 election (with-

in the meaning of paragraph (d)(2)(ii)(B) of this section), for each taxable year to which the section 1295 election applies, must—

\* \* \* \* \*

(3) *Preexisting partnership or S corporation section 1295 election.* A shareholder that is treated as owning stock in a QEF by reason of an interest in a domestic partnership that has made a preexisting partnership section 1295 election or by reason of an interest in an S corporation that has made a preexisting S corporation section 1295 election does not need to make a section 1295 election with respect to such QEF under the rules of paragraph (f)(1) of this section. However, such shareholder must comply with the annual election requirements as provided in paragraph (f)(2) of this section.

(4) *Notice requirement for partners and S corporation shareholders.* See paragraphs (d)(2)(i)(A) and (d)(2)(ii)(A) of this section for a notice requirement for partners and S corporation shareholders making a section 1295 election under this section.

\* \* \* \* \*

(j) *Definitions.* For purposes of this section—

(1) *Intermediary.* The term *intermediary* means a nominee or shareholder of record that holds stock on behalf of the shareholder or on behalf of another person in a chain of ownership between the shareholder and the PFIC, and any direct or indirect beneficial owner of PFIC stock (including a beneficial owner that is a pass-through entity) in the chain of ownership between the shareholder and the PFIC.

(2) *Pass-through entity.* The term *pass-through entity* means a partnership, S corporation, trust, or estate.

(3) *Shareholder.* The term *shareholder* has the meaning provided in §1.1291-1(b)(7).

(4) *Shareholder's election year.* The term *shareholder's election year* means the taxable year of the shareholder for which it makes the section 1295 election.

(k) *Applicability dates.* \* \* \* Paragraphs (b)(3), (d)(1), (d)(2)(i) and (ii), (f)(2)(i), (f)(3) and (4), and (j) of this section apply to taxable years of shareholders beginning on or after [date of publication of the Treasury decision adopting these rules

as final regulations in the **Federal Register**. For taxable years of shareholders beginning before [date of publication of the Treasury decision adopting these rules as final regulations in the **Federal Register**], see §1.1295-1(b)(3), (d)(1), (d)(2)(i) and (ii), (f)(2)(i), (i)(1)(ii), and (j) as in effect

and contained in 26 CFR part 1, as revised April 1, 2021.

Par. 11. Section 1.1296-1 is amended by:

1. Adding paragraph (a)(4);
2. Revising paragraph (e)(1);
3. Removing paragraph (g)(3);

4. Revising paragraphs (h)(1)(i) and (j); and

5. For each paragraph listed in the following table, removing the language in the “Remove” column and adding in its place the language in the “Add” column.

<i>Paragraph</i>	<i>Remove</i>	<i>Add</i>
(b)(1)	United States person	shareholder
(b)(2), heading	United States person	shareholder
(b)(2), first sentence	United States person	shareholder
(b)(2), first sentence	U.S. person	shareholder
(b)(2), second sentence	United States person’s	shareholder’s
(b)(3), second sentence	United States person’s	shareholder’s
(b)(3), second sentence	person owns directly	shareholder owns directly
(c)(1)	United States person’s	shareholder’s
(c)(1)	United States person	shareholder
(c)(3)	United States person’s	shareholder’s
(c)(3)	such person	such shareholder
(c)(5)	United States person	shareholder
(d)(1)	United States person	shareholder
(d)(2), heading	certain foreign entities	pass-through entities
(d)(2)(i), first and last sentences	United States person	shareholder
(d)(2)(i), first sentence	certain foreign entities	pass-through entities
(d)(2)(i), first sentence	foreign entity	entity
(d)(2)(i), last sentence	United States person’s	shareholder’s
(e), heading	foreign entities	pass-through entities
(f)	taxpayer	shareholder
(f)	taxpayer’s	shareholder’s
(g)(1)	United States person	shareholder
(g)(2), heading	United States person	shareholder
(g)(2)(i)	United States person	shareholder
(h)(1)(ii)	controlling United States shareholders	controlling domestic shareholders
(h)(2)(ii), first sentence	United States person	shareholder
(h)(2)(ii), last sentence	United States person’s	shareholder’s
(h)(3)(i), first sentence	United States person’s	shareholder’s
(h)(3)(i), first sentence	United States person	shareholder
(h)(3)(ii), second sentence	United States person	shareholder
(i)(1)	United States person’s	shareholder’s
(i)(1)	United States person	shareholder
(i)(2), introductory text	United States person	shareholder
(i)(2)(ii)	United States person’s	shareholder’s
(i)(2)(ii)	taxpayer’s	shareholder’s

The addition and revisions read as follows:

§1.1296-1 Mark to market election for marketable stock.

(a) \* \* \*

(4) *Shareholder*. The term *shareholder* has the meaning provided in §1.1291-1(b)(7).

\* \* \* \* \*

(e) \* \* \* (1) *In general*. Except as provided in paragraph (e)(2) of this section, the following rules apply in determining stock ownership for purposes of this section. PFIC stock owned, directly or indirectly, by or for a partnership (domestic or foreign), S corporation, foreign trust (other than a foreign trust that is described in sections 671 through 679), or foreign estate is considered as being owned proportionately by its partners, shareholders, or beneficiaries, respectively. PFIC stock owned, directly or indirectly, by or for a trust (domestic or foreign) described in sections 671 through 679 is considered as being owned proportionately by its grantors or other persons treated as owners under sections 671 through 679 of any portion of the trust that includes the stock. The determination of a person's proportionate interest in a partnership, S corporation, trust, or estate will be made on the basis of all the facts and circumstances. Stock considered owned by a person by reason of this paragraph is treated as actually owned by such person for purposes of applying the rules of this section.

\* \* \* \* \*

(h) \* \* \* (1) \* \* \* (i) *Shareholders*. Except as otherwise provided in this paragraph (h), a shareholder (as defined in paragraph (a)(4) of this section) that owns marketable stock in a PFIC, or is treated as owning marketable stock under paragraph (e) of this section, on the last day of the shareholder's taxable year, must make a section 1296 election for such taxable year on or before the due date (including extensions) of its income tax return for that year. The section 1296 election must be made on the Form 8621, "Return by a Shareholder of a Passive Foreign Investment Company or Qualified Electing Fund" (or successor form), included with the original or superseding tax return of the shareholder for that year.

(A) *Preexisting section 1296 election*. Notwithstanding paragraph (h)(1)(i) of this section, any section 1296 election

with respect to a PFIC made by a domestic partnership or S corporation effective for taxable years of the PFIC ending on or before [date of publication of the Treasury decision adopting these rules as final regulations in the **Federal Register**] (*preexisting section 1296 election*) will continue to apply, and any stock in the PFIC that a shareholder is treated as owning by reason of its interest in the domestic partnership or S corporation on or before such date will continue to be treated as section 1296 stock to such shareholder; any person that becomes a shareholder of the PFIC by acquiring an interest in the domestic partnership or S corporation after such date that wishes for a section 1296 election to apply with respect to the PFIC may make a section 1296 election as provided in paragraphs (b)(1) and (h)(1)(i) of this section. A shareholder that is treated as owning section 1296 stock by reason of an interest in a domestic partnership or S corporation that has made a preexisting 1296 election under this paragraph (h)(1)(i)(A) accounts for its share, through its ownership in the domestic partnership or S corporation, of any mark to market gain recognized under paragraph (c)(1) of this section and any mark to market loss under paragraph (c)(3) of this section as if it owned the section 1296 stock directly.

(B) *Notice*. A shareholder that makes a section 1296 election with respect to section 1296 stock owned through a partnership or S corporation must notify the partnership or S corporation of the election no later than 30 days after filing the return in which the election is made; the shareholder may provide such notification in any reasonable manner. However, the failure of the shareholder to notify the partnership or S corporation of its election will not invalidate an otherwise valid section 1296 election.

\* \* \* \* \*

(j) *Applicability date*. Except as otherwise provided in this paragraph (j), the provisions in this section apply to taxable years beginning on or after May 3, 2004. The provisions of paragraph (d)(4) of this section relating to section 1022 apply on and after January 19, 2017. The provisions of paragraphs (a)(4); (b)(1) through (3); (c)(1), (3), and (5); (d)(1) and (d)(2)(i); (e)(1); (f); (g)(1), (g)(2)(i), and (g)

(3); (h)(1)(i) and (ii), (h)(2)(ii), and (h)(3)(i) and (ii); and (i)(1), (i)(2) introductory text, and (i)(2)(ii) apply to taxable years of shareholders beginning on or after [date of publication of the Treasury decision adopting these rules as final regulations in the **Federal Register**]. For taxable years of shareholders beginning before [date of publication of the Treasury decision adopting these rules as final regulations in the **Federal Register**], see §1.1296-1(b)(1) through (3); (c)(1), (3), and (5); (d)(1) and (d)(2)(i); (e)(1); (f); (g)(1), (g)(2)(i), and (g)(3); (h)(1)(i) and (ii), (h)(2)(ii), and (h)(3)(i) and (ii); and (i)(1), (i)(2) introductory text, and (i)(2)(ii) as in effect and contained in 26 CFR part 1, as revised April 1, 2021.

**§1.1297-0 [Amended]**

Par. 12. Section 1.1297-0 is amended by removing the language "section 1297(e) PFIC" from the heading for the entry for §1.1297-3 and adding "section 1297(d) PFIC" in its place.

Par. 13. Section 1.1297-3 is amended by:

1. Revising the section heading;
2. Removing the language "section 1297(e)" in paragraph (a) and adding "section 1297(d)" in its place;
3. Removing the language "section 1297(e) PFIC" in paragraphs (b)(1) and (2) and adding "section 1297(d) PFIC" in its place;
4. Removing the language "section 1297(e)(2)" in paragraph (b)(2) and adding "section 1297(d)(2)" in its place;
5. Removing the language "section 1297(e) PFIC" in paragraphs (c)(1) and (2) and adding "section 1297(d) PFIC" in its place;
6. Removing the language "section 1297(e)(2)" in paragraph (c)(2) and adding "section 1297(d)(2)" in its place;
7. Removing the language "the post-1986 undistributed earnings, within the meaning of section 902(c)(1) (determined without regard to section 902(c)(3))" in paragraphs (c)(3)(i)(A) and (B) and adding "the amount of the earnings and profits of the foreign corporation (computed in accordance with sections 964(a) and 986)" in its place; and
8. Removing the language "section 1297(e) PFIC" in paragraphs (d) and (e)



(1) and adding “section 1297(d) PFIC” in its place.

The revision reads as follows:

*§1.1297-3 Deemed sale or deemed dividend election by a U.S. person that is a shareholder of a section 1297(d) PFIC.*

\*\*\*\*\*

Par. 14. Section 1.1298-1 is amended by:

1. Revising paragraphs (b)(1), (b)(2) heading, (b)(2)(i) introductory text, and (b)(2)(ii);

2. Removing paragraph (c)(6);

3. Redesignating paragraphs (c)(7) through (9) as paragraphs (c)(6) through (8), respectively;

4. Removing the language “Except as provided in paragraph (h)(2) of this section” in paragraph (h)(1) and adding “Except as provided in paragraph (h)(2) or (3) of this section” in its place;

5. Removing the language “Paragraph (c)(9)” in paragraph (h)(2) and adding “Paragraph (c)(8)” in its place; and

6. Adding paragraph (h)(3).

The revisions and addition read as follows:

*§1.1298-1 Section 1298(f) annual reporting requirements for United States persons that are shareholders of a passive foreign investment company.*

\*\*\*\*\*

(b) \*\*\* (1) *General rule.* Except as otherwise provided in this section, a United States person that is a shareholder of a PFIC (as defined in §1.1291-1(b)(7)) must complete and file Form 8621, “Information Return by a Shareholder of a Passive Foreign Investment Company or Qualified Electing Fund” (or successor form), under section 1298(f) and this section for the PFIC if, during the shareholder’s taxable year, the shareholder—

(i) Directly owns stock of the PFIC; or

(ii) Is an indirect shareholder under §1.1291-1(b)(8) that holds any interest in the PFIC through one or more entities, domestic or foreign, each of which is not a shareholder of such PFIC within the meaning of §1.1291-1(b)(7).

(2) *Additional requirement to file for certain beneficiaries of domestic estates and domestic nongrantor trusts—*(i)

*General rule.* Except as otherwise provided in this section, an indirect shareholder that owns an interest in a PFIC by reason of an interest in a domestic estate or domestic nongrantor trust (as described in §1.1291-1(b)(8)(iii)(C)) also must file Form 8621 (or successor form) with respect to the PFIC under section 1298(f) and this section if, during the indirect shareholder’s taxable year, the indirect shareholder is—

\*\*\*\*\*

(ii) *Exception to indirect shareholder reporting for certain QEF inclusions and MTM inclusions.* The filing requirements under paragraph (b)(2)(i) of this section do not apply with respect to an interest in a PFIC owned by an indirect shareholder described in paragraph (b)(2)(i)(C) or (D) of this section if the domestic nongrantor trust or domestic estate through which the indirect shareholder owns such interest in the PFIC timely files Form 8621 (or successor form) with respect to the PFIC under paragraph (b)(1) of this section.

\*\*\*\*\*

(h) \*\*\*

(3) Paragraphs (b)(1) and (b)(2)(i) and (ii) of this section apply to taxable years of shareholders beginning on or after [date of publication of the Treasury decision adopting these rules as final regulations in the **Federal Register**]. For taxable years of shareholders beginning before [date of publication of the Treasury decision adopting these rules as final regulations in the **Federal Register**], see §1.1298-1(b)(1) and (b)(2)(i) and (ii) as in effect and contained in 26 CFR part 1, as revised April 1, 2021.

### **§1.1298-3 [Amended]**

Par. 15. Section 1.1298-3 is amended by removing the language “the post-1986 undistributed earnings, within the meaning of section 902(c)(1) (determined without regard to section 902(c)(3))” in paragraph (c)(3)(i) and adding “the amount of the earnings and profits of the foreign corporation (computed in accordance with sections 964(a) and 986)” in its place.

Par. 16. Section 1.1411-10 is amended by:

1. Removing paragraph (g)(2)(iii);

2. Revising paragraph (g)(3);

3. Removing paragraph (g)(4)(ii);

4. Redesignating paragraphs (g)(4)(iii) and (iv) as paragraphs (g)(4)(ii) and (iii), respectively; and

5. Revising newly redesignated paragraph (g)(4)(iii) and paragraph (i).

The revisions read as follows:

*§1.1411-10 Controlled foreign corporations and passive foreign investment companies.*

\*\*\*\*\*

(g) \*\*\*

(3) *Who may make the election—*(i) *In general.* An individual, estate, or trust may make an election under paragraph (g) of this section with respect to each CFC or QEF that it holds directly or indirectly through one or more entities, each of which is a foreign entity or a domestic pass-through entity. The election, if made, for an estate or trust must be made by the fiduciary of the estate or trust.

(ii) *Special rule for certain S corporations.* For taxable years in which an S corporation elects to apply §1.958-1(e), the S corporation may make an election under this paragraph (g)(3)(ii) with respect to each CFC that it holds, directly or indirectly. If an S corporation does not make the election under this paragraph (g)(3)(ii), the election may be made by its shareholders that are individuals, estates, or trusts instead.

(4) \*\*\*

(iii) *Time for making election.* The election under paragraph (g) of this section must be made in the manner prescribed by forms, instructions, or in other guidance on the individual’s, estate’s, or trust’s original or amended return for the taxable year for which the election is made. An election can be made on an amended return only if the taxable year for which the election is made, and all taxable years that are affected by the election, are not closed by the period of limitations on assessments under section 6501. Extensions of time to make the election are not available under any other provision of the law, including §301.9100 of this chapter.

\*\*\*\*\*

(i) *Applicability dates.* Except as otherwise provided in this paragraph (i), this section applies to taxable years beginning

after December 31, 2013. However, taxpayers may apply this section to taxable years beginning after December 31, 2012, in accordance with §1.1411-1(f). Paragraphs (g)(3) and (g)(4)(iii) of this section apply to taxable years beginning on or after [date of publication of the Treasury decision adopting these rules as fi-

nal regulations in the **Federal Register**]. For taxable years beginning before [date of publication of the Treasury decision adopting these rules as final regulations in the **Federal Register**], see paragraphs (g)(3) and (g)(4)(iii) of this section as in effect and contained in 26 CFR part 1, as revised April 1, 2021.

Douglas W. O'Donnell,  
*Deputy Commissioner for Services  
and Enforcement.*

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# Definition of Terms

*Revenue rulings and revenue procedures (hereinafter referred to as "rulings") that have an effect on previous rulings use the following defined terms to describe the effect:*

*Amplified* describes a situation where no change is being made in a prior published position, but the prior position is being extended to apply to a variation of the fact situation set forth therein. Thus, if an earlier ruling held that a principle applied to A, and the new ruling holds that the same principle also applies to B, the earlier ruling is amplified. (Compare with *modified*, below).

*Clarified* is used in those instances where the language in a prior ruling is being made clear because the language has caused, or may cause, some confusion. It is not used where a position in a prior ruling is being changed.

*Distinguished* describes a situation where a ruling mentions a previously published ruling and points out an essential difference between them.

*Modified* is used where the substance of a previously published position is being changed. Thus, if a prior ruling held that a principle applied to A but not to B, and the

new ruling holds that it applies to both A and B, the prior ruling is modified because it corrects a published position. (Compare with *amplified* and *clarified*, above).

*Obsoleted* describes a previously published ruling that is not considered determinative with respect to future transactions. This term is most commonly used in a ruling that lists previously published rulings that are obsoleted because of changes in laws or regulations. A ruling may also be obsoleted because the substance has been included in regulations subsequently adopted.

*Revoked* describes situations where the position in the previously published ruling is not correct and the correct position is being stated in a new ruling.

*Superseded* describes a situation where the new ruling does nothing more than restate the substance and situation of a previously published ruling (or rulings). Thus, the term is used to republish under the 1986 Code and regulations the same position published under the 1939 Code and regulations. The term is also used when it is desired to republish in a single ruling a series of situations, names, etc., that were previously published over a period of time in separate rulings. If the

new ruling does more than restate the substance of a prior ruling, a combination of terms is used. For example, *modified* and *superseded* describes a situation where the substance of a previously published ruling is being changed in part and is continued without change in part and it is desired to restate the valid portion of the previously published ruling in a new ruling that is self contained. In this case, the previously published ruling is first modified and then, as modified, is superseded.

*Supplemented* is used in situations in which a list, such as a list of the names of countries, is published in a ruling and that list is expanded by adding further names in subsequent rulings. After the original ruling has been supplemented several times, a new ruling may be published that includes the list in the original ruling and the additions, and supersedes all prior rulings in the series.

*Suspended* is used in rare situations to show that the previous published rulings will not be applied pending some future action such as the issuance of new or amended regulations, the outcome of cases in litigation, or the outcome of a Service study.

# Abbreviations

*The following abbreviations in current use and formerly used will appear in material published in the Bulletin.*

A—Individual.  
Acq.—Acquiescence.  
B—Individual.  
BE—Beneficiary.  
BK—Bank.  
B.T.A.—Board of Tax Appeals.  
C—Individual.  
C.B.—Cumulative Bulletin.  
CFR—Code of Federal Regulations.  
CI—City.  
COOP—Cooperative.  
Ct.D.—Court Decision.  
CY—County.  
D—Decedent.  
DC—Dummy Corporation.  
DE—Donee.  
Del. Order—Delegation Order.  
DISC—Domestic International Sales Corporation.  
DR—Donor.  
E—Estate.  
EE—Employee.  
E.O.—Executive Order.  
ER—Employer.

ERISA—Employee Retirement Income Security Act.  
EX—Executor.  
F—Fiduciary.  
FC—Foreign Country.  
FICA—Federal Insurance Contributions Act.  
FISC—Foreign International Sales Company.  
FPH—Foreign Personal Holding Company.  
FR.—Federal Register.  
FUTA—Federal Unemployment Tax Act.  
FX—Foreign corporation.  
G.C.M.—Chief Counsel's Memorandum.  
GE—Grantee.  
GP—General Partner.  
GR—Grantor.  
IC—Insurance Company.  
I.R.B.—Internal Revenue Bulletin.  
LE—Lessee.  
LP—Limited Partner.  
LR—Lessor.  
M—Minor.  
Nonacq.—Nonacquiescence.  
O—Organization.  
P—Parent Corporation.  
PHC—Personal Holding Company.  
PO—Possession of the U.S.  
PR—Partner.  
PRS—Partnership.

PTE—Prohibited Transaction Exemption.  
Pub. L.—Public Law.  
REIT—Real Estate Investment Trust.  
Rev. Proc.—Revenue Procedure.  
Rev. Rul.—Revenue Ruling.  
S—Subsidiary.  
S.P.R.—Statement of Procedural Rules.  
Stat.—Statutes at Large.  
T—Target Corporation.  
T.C.—Tax Court.  
T.D.—Treasury Decision.  
TFE—Transferee.  
TFR—Transferor.  
T.I.R.—Technical Information Release.  
TP—Taxpayer.  
TR—Trust.  
TT—Trustee.  
U.S.C.—United States Code.  
X—Corporation.  
Y—Corporation.  
Z—Corporation.

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<sup>1</sup> A cumulative list of all revenue rulings, revenue procedures, Treasury decisions, etc., published in Internal Revenue Bulletins 2020–27 through 2020–52 is in Internal Revenue Bulletin 2020–52, dated December 27, 2021.

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<sup>1</sup> A cumulative list of all revenue rulings, revenue procedures, Treasury decisions, etc., published in Internal Revenue Bulletins 2020-27 through 2020-52 is in Internal Revenue Bulletin 2020-52, dated December 27, 2021.

# **Internal Revenue Service**

## **Washington, DC 20224**

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## **INTERNAL REVENUE BULLETIN**

The Introduction at the beginning of this issue describes the purpose and content of this publication. The weekly Internal Revenue Bulletins are available at [www.irs.gov/irb/](http://www.irs.gov/irb/).

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## **We Welcome Comments About the Internal Revenue Bulletin**

If you have comments concerning the format or production of the Internal Revenue Bulletin or suggestions for improving it, we would be pleased to hear from you. You can email us your suggestions or comments through the IRS Internet Home Page ([www.irs.gov](http://www.irs.gov)) or write to the Internal Revenue Service, Publishing Division, IRB Publishing Program Desk, 1111 Constitution Ave. NW, IR-6230 Washington, DC 20224.