

PROPOSED REVENUE PROCEDURE FOR REQUESTING CONSENT TO CHANGE A METHOD OF ACCOUNTING WHERE THE CHANGE IS MADE AS A RESULT OF, OR DIRECTLY RELATED TO, THE ADOPTION OF NEW FINANCIAL ACCOUNTING STANDARDS, “REVENUE FROM CONTRACTS WITH CUSTOMERS.”

Notice 2017-17

**PURPOSE**

This notice invites comments on a proposed revenue procedure that, if finalized, will provide procedures by which a taxpayer may request consent to change a method of accounting for recognizing income when the change is made for the same taxable year for which the taxpayer adopts the new financial accounting revenue recognition standards and the change is made as a result of, or directly related to, the adoption of the new revenue recognition standards (a qualifying same-year method change).

**BACKGROUND**

On May 28, 2014, the Financial Accounting Standards Board (FASB) and the International Accounting Standard Board (IASB) jointly announced new financial accounting standards for recognizing revenue (new standards), titled “Revenue from Contracts with Customers.” See FASB Update No. 2014-09 and IASB International Financial Reporting Standard (IFRS) 15.

The new standards are effective for publicly-traded entities, certain not-for-profit entities, and certain employee benefit plans for annual reporting periods beginning after December 15, 2017. For all other entities, the new standards are effective for annual reporting periods beginning after December 15, 2018. Early adoption is allowed for reporting periods beginning after December 15, 2016. See FASB Update No. 2015-14, “Revenue from Contracts with Customers (Topic 606), Deferral of the Effective Date.”

Since the joint announcement, FASB and IASB have revised the new standards and provided guidance on how to implement the new standards in certain situations. See, e.g., FASB Update No. 2015-14; FASB Update No. 2016-10, “Revenue from Contracts with Customers (Topic 606), Identifying Performance Obligations and Licensing.”

On June 15, 2015, the Department of Treasury (Treasury Department) and the Internal Revenue Service (IRS) published Notice 2015-40, 2015-24 I.R.B. 1057, which requested comments on federal tax accounting issues related to the adoption of the new standards, including, whether the new standards are permissible methods of accounting for federal income tax purposes, the types of accounting method change requests that might result from adopting the new standards, and whether the current procedures for obtaining IRS consent to change a method of accounting are adequate to accommodate those requests. Very few comments were received. Some commenters requested additional time to respond and others reported that, as a result of adopting the new standards, taxpayers might request multiple changes in accounting method. This notice addresses only the procedures for obtaining IRS consent to a qualifying same-year method change. The Treasury Department and the IRS continue to invite comments on issues of conformity between the new standards and the Internal Revenue Code (Code) and the Treasury Regulations (Regulations), and are considering addressing these issues in separate guidance.

Qualifying same-year method changes may include automatic changes for which existing guidance, including Revenue Procedure 2015-13, 2015-1 I.R.B. 419, and Revenue Procedure 2016-29, 2016-21 I.R.B. 880, already provides automatic change procedures. Taxpayers requesting consent for automatic changes for which existing

guidance already provides automatic change procedures must use the existing automatic change procedures to make a request. For qualifying same-year method changes for which existing guidance does not provide automatic change procedures but which comply with § 451 of the Code or other guidance regarding the taxable year of inclusion of income, the taxpayer must make the change under the proposed revenue procedure.

### **REQUEST FOR COMMENTS ON ISSUES OF CONFORMITY BETWEEN THE NEW STANDARDS AND THE CODE AND REGULATIONS**

Adoption of the new standards may create or increase differences between financial accounting and tax accounting rules. The Treasury Department and the IRS recognize that there is interest in clarifying whether the new standards are permissible methods of accounting that may be used for federal income tax purposes. Accordingly, the Treasury Department and the IRS continue to seek comments on the specific issues identified in Notice 2015-40 regarding conformity between the new standards and the Code and the Regulations. Comments are specifically requested on the following issues:

1. To what extent would using the new standards for federal income tax purposes result in acceleration or deferral of income under § 451 or other income provisions of the Code?
2. What industry and/or transaction-specific issues might arise as a result of the new standards that may need to be addressed in future guidance?
3. To what extent do the new standards deviate from the requirements of § 451? In what situations should the IRS allow taxpayers who adopt the new standards to follow

their book method of accounting for tax purposes (for example, where income is always accelerated)?

4. To what extent do the rules regarding allocation of standalone sales price and transaction price in the new standards affect taxpayers' ability to satisfy their tax obligations?

### **REQUEST FOR COMMENTS ON PROCEDURES FOR METHOD CHANGES**

This notice sets forth proposed procedures for obtaining IRS consent to a qualifying same-year method change. In connection with this notice, the Treasury Department and the IRS request comments on all aspects of the proposed procedures and on the specific method change issues identified in Notice 2015-40. Comments are specifically requested on the following issues:

1. Is the exception for small businesses in paragraph 5.02(2) of the proposed revenue procedure appropriate?
2. What types of changes in methods of accounting do taxpayers anticipate requesting?
3. Do taxpayers anticipate requesting changes in methods of accounting prior to the effective dates of the new standards?
4. Which procedures should taxpayers be required to use to request permission for a qualifying same-year method change, the automatic accounting method change procedures or the advance consent procedures?
5. What changes, other than those described in Section 5 of the proposed revenue procedure, do taxpayers expect will be requested in the year the taxpayer adopts the new financial standards, and should they be allowed as automatic changes?

6. What related accounting method changes do taxpayers anticipate requesting that may appropriately be made on a single Form 3115?

7. If multiple changes are requested on a single Form 3115, should the taxpayer report a separate § 481 adjustment for each change and should those adjustments be netted and a single spread period applied?

8. What alternatives to filing a Form 3115 would reduce the burden of compliance?

9. What transition procedures may be helpful?

10. What additional procedural changes would be appropriate and helpful?

### **WHERE TO SEND COMMENTS**

Comments must be submitted by July 24, 2017. Comments, identified by Notice 2017-17, may be submitted using one of the following methods:

- **By Mail:**

Internal Revenue Service  
Attn: CC:PA:LPD:PR (Notice 2017-17)  
Room 5203  
P.O. Box 7602  
Ben Franklin Station  
Washington, D.C. 20044

- **By Hand or Courier Delivery:** Submissions may be hand-delivered Monday through Friday between the hours of 8 a.m. and 4 p.m. to:

Courier's Desk  
Internal Revenue Service  
Attn: CC:PA:LPD:PR  
(Notice 2017-17)  
1111 Constitution Avenue, N.W.  
Washington, D.C. 20224

- **Electronic:** Alternatively, persons may submit comments electronically to [Notice.Comments@irs.counsel.treas.gov](mailto:Notice.Comments@irs.counsel.treas.gov). Please include "Notice 2017-17" in the

subject line of any electronic communications.

All submissions will be available for public inspection and copying in room 1621, 1111 Constitution Avenue, N.W., Washington, D.C., from 9 a.m. to 4 p.m.

## **PROPOSED REV. PROC. [2017-XX]**

### **SECTION 1. PURPOSE**

This revenue procedure provides procedures under § 446 of the Internal Revenue Code (Code) and § 1.446-1(e) of the Income Tax Regulations (Regulations) to obtain consent of the Commissioner of Internal Revenue (Commissioner) to change a method of accounting for recognizing income for federal income tax purposes when the change is a result of, or directly related to, adoption of the new financial accounting standards for recognizing revenue by the taxpayer and is made for the same taxable year as the adoption of the new financial accounting standards for recognizing revenue that were issued by the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB). See FASB Update No. 2014-09, “Revenue from Contracts with Customers (Topic 606),” and IASB International Financial Reporting Standard (IFRS) 15, “Revenue from Contracts with Customers.”

### **SECTION 2. BACKGROUND**

#### **.01 Method of accounting generally.**

(1) Section 446(a) of the Code and § 1.446-1(a)(1) of the Regulations provide that taxable income is computed under the method of accounting the taxpayer regularly uses to compute income in keeping the taxpayer's books.

(2) Section 1.446-1(a)(4) of the Regulations requires a taxpayer to maintain accounting records that include the taxpayer's regular books of account and other

records and data necessary to support the entries on the taxpayer's books of account and on the taxpayer's return.

.02 Consent for a change in method of accounting. Section 446(e) of the Code and § 1.446-1(e)(2)(i) of the Regulations provide that, except as otherwise provided, a taxpayer must secure the consent of the Commissioner before changing a method of accounting for any item for federal income tax purposes.

.03 Accounting for income generally. Section 451(a) of the Code and § 1.451-1(a) of the Regulations provide that any item of gross income must be included in gross income in the year in which it was received by the taxpayer unless it is includible for a different year pursuant to the taxpayer's method of accounting.

.04 New revenue recognition standards.

(1) The FASB and the IASB have announced new financial accounting standards for recognizing revenue (new standards). See FASB Update No. 2014-09, IASB International Financial Reporting Standard (IFRS) 15, and section 3 of this revenue procedure.

(2) The new standards are effective for publicly-traded entities, certain not-for-profit entities, and certain employee benefit plans for annual reporting periods beginning after December 15, 2017. For all other entities, the new standards are effective for annual reporting periods beginning after December 15, 2018. Early adoption is allowed for reporting periods beginning after December 15, 2016. See FASB Update No. 2015-14, "Revenue from Contracts with Customers (Topic 606), Deferral of the Effective Date."

.05 Effect of new revenue recognition standards.

(1) The Internal Revenue Service (Service) anticipates that many taxpayers will request consent to change a method of accounting for one or more items of income as a result of, or directly related, to the adoption of the new revenue standards for the same taxable year that the new standards are adopted for financial accounting purposes.

(2) The Service must balance taxpayers' need to comply with the new standards with the Service's need to approve appropriate method changes.

### **SECTION 3. DEFINITIONS**

.01 Change in Method of Accounting Definitions. The definitions in section 3 of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, or any successor, apply for purposes of this revenue procedure.

.02 New Standards. "New standards" refers to the financial accounting standards for recognizing revenue that were issued in FASB Update No. 2014-09, "Revenue from Contracts with Customers (Topic 606)," and IASB International Financial Reporting Standard (IFRS) 15, "Revenue from Contracts with Customers," as updated and revised hereafter.

.03 Qualifying Same-Year Method Change. A qualifying same-year method change is a change of method of accounting for recognizing income that is made for the same year as the year the taxpayer adopts the new standards and made as a result of, or directly related to, the adoption of those standards.

### **SECTION 4. SCOPE**



This revenue procedure applies to taxpayers that adopt the new standards and that request the Commissioner's consent, pursuant to § 446(e) of the Code and § 1.446-1(e)(3) of the Income Tax Regulations, to make a qualifying same-year method change.

## **SECTION 5. GENERAL APPLICATION PROCEDURES AND AUDIT PROTECTION**

### .01 Qualifying Same-Year Method Change under Existing Automatic Change

#### Guidance.

A method change that is within the scope of section 4 of this revenue procedure that qualifies as an automatic change in the List of Automatic Changes (under Rev. Proc. 2016-29, 2016-21 I.R.B. 880, or any successor) and otherwise satisfies the requirements of paragraphs 5.01(1)(a)-(d) of Rev. Proc. 2015-13 (or any successor), must be implemented by applying the automatic change procedures in Section 6 of Rev. Proc. 2015-13 (or any successor) and the List of Automatic Changes.

### .02 Qualifying Same-Year Method Change that Complies with Income Provision of the Code or the Regulations.

(1) A method change that is within the scope of section 4 of this revenue procedure that is not described in section 5.01 of this revenue procedure, which satisfies the requirements of sections 5.01(1)(c) and (d) of Rev. Proc. 2015-13 (or any successor), and which complies with § 451 of the Code or other guidance, must be implemented by applying the automatic change procedures in section 6 of Rev. Proc. 2015-13 (or any successor). A taxpayer making a change under this section 5.02 must file a Form 3115, check the box for line 1(b), and write "Rev. Proc. 2017-XX" followed by the applicable income provision of the Code or Income Tax Regulations or the applicable relevant guidance. In addition, the taxpayer must attach a brief description of

the change and why it satisfies the applicable income provision or guidance referenced in line 1(b) of the Form 3115.

(2) A taxpayer with one or more separate and distinct trade(s) or business(es), within the meaning of § 1.446-1(d), that individually have (a) total assets of less than \$10 million as of the first day of the taxable year for which a change in method of accounting is requested, or (b) average annual gross receipts of \$10 million or less for the three preceding taxable years, as determined under § 1.263(a)-3(h)(3) (substituting “separate and distinct trade or business” for “taxpayer”), may make the change for each such separate and distinct trade or business on a cut-off basis. Accordingly, a § 481(a) adjustment is neither permitted nor required for each such separate and distinct trade or business. See section 2.07 of Rev. Proc. 2015-13.

(3) A § 481(a) adjustment must be computed for the year of change for all separate and distinct trades or businesses other than those for which paragraph 5.02(2) of this revenue procedure provides otherwise and for taxpayers for which paragraph 5.02(2) of this revenue procedure does not apply. See section 7.02 of Rev. Proc. 2015-13.

.03 Multiple Requests. Multiple requests to make qualifying same-year method changes may be made in one request.

## **SECTION 6. EFFECTIVE DATE**

This revenue procedure is effective for taxable years ending on or after **[INSERT DATE OF PUBLICATION OF FINAL REVENUE PROCEDURE]**.

## **SECTION 7. DRAFTING INFORMATION**

The principal author of this revenue procedure is Charles Gorham of the Office of

Associate Chief Counsel (Income Tax & Accounting). For further information regarding this revenue procedure, contact Mr. Gorham at (202) 317-7003 (not toll-free call), or Peter E. Ford, at (202) 317-7011 (not a toll-free call).