

26 CFR 601.201: Changes in accounting periods and in methods of accounting.
(Also: Part I, § 446; 1.446-1 1.446-7)

Rev. Proc. 2016-39

SECTION 1. PURPOSE

This revenue procedure provides the procedures by which a taxpayer may obtain the automatic consent of the Commissioner of Internal Revenue (Commissioner) to change to or from the net asset value (NAV) method of accounting provided in § 1.446-7 of the Income Tax Regulations for gain or loss on shares in a money market fund (MMF). This revenue procedure modifies Rev. Proc. 2016-29, 2016-21 I.R.B. 1.

SECTION 2. BACKGROUND

.01 Concurrently with the release of this revenue procedure, the Department of the Treasury (Treasury Department) and the Internal Revenue Service are issuing final regulations under § 446 (T.D. 9774) (the final regulations). The final regulations respond to the adoption by the Securities and Exchange Commission of certain amendments to Rule 2a-7 (17 CFR 270.2a-7) under the Investment Company Act of 1940. See 79 FR 47736 (August 14, 2014). The amendments establish circumstances in which MMFs may impose liquidity fees and change how certain MMF shares are priced. The final regulations are intended to simplify tax compliance for holders of

shares in MMFs affected by the amendments. Specifically, § 1.446-7 provides a permissible method of accounting (the NAV method) for gain or loss on shares in an MMF. Under the NAV method, a taxpayer's gain or loss on shares in an MMF is based on the change in the aggregate value of the taxpayer's shares during a computation period selected by the taxpayer and on the net amount of the purchases and redemptions during the computation period. The final regulations generally apply to taxable years ending on or after July 8, 2016.

.02 Except as otherwise expressly provided by the Internal Revenue Code or the regulations thereunder, § 446(e) and § 1.446-1(e)(2) require a taxpayer to secure the consent of the Commissioner before changing a method of accounting for federal income tax purposes. Section 1.446-1(e)(3)(ii) authorizes the Commissioner to prescribe administrative procedures setting forth the terms and conditions necessary for a taxpayer to obtain consent to a change in method of accounting. 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. 2016-1, 2016-1 I.R.B. 1, provides the general procedures by which a taxpayer may obtain automatic consent of the Commissioner to a change in method of accounting described in Rev. Proc. 2016-29.

.03 Section 1.446-7(c)(8) provides that a change to or from the NAV method is a change in method of accounting to which the provisions of § 446 and the regulations thereunder apply and that any such change will be made on a cut-off basis. This revenue procedure provides that, under certain circumstances, such a change must be made under the automatic change procedures in Rev. Proc. 2015-13.

SECTION 3. CHANGE IN METHOD OF ACCOUNTING

.01 In general. A taxpayer that wants to change to or from the NAV method of accounting described in § 1.446-7 must use the automatic change procedures in Rev. Proc. 2015-13, or its successor, and Rev. Proc. 2016-29, or its successor, as modified by section 3.02 of this revenue procedure.

.02 Automatic change. Rev. Proc. 2016-29 is modified to add new section 15.17 to read as follows:

.17 Change to or from the net asset value (NAV) method.

(1) Description of change. This change 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 requirements 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 Form 3115. 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, 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 15.17(4)(c) of this revenue procedure, the taxpayer must file a short Form 3115 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 15.17 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 15.17 is “227.”

(7) Contact Information. For further information regarding a change under this section 15.17, contact Jason Kurth at (202) 317-6842 (not a toll-free number).

SECTION 4. EFFECT ON OTHER DOCUMENTS

Rev. Proc. 2016-29 is modified to include a new section 15.17 that sets forth the accounting method change provided in section 3.02 of this revenue procedure.

SECTION 5. EFFECTIVE DATE

This revenue procedure is effective for taxable years ending on or after July 8, 2016.

SECTION 6. DRAFTING INFORMATION

The principal author of this revenue procedure is Jason Kurth of the Office of Associate Chief Counsel (Financial Institutions & Products). For further information

regarding this revenue procedure contact Mr. Kurth at (202) 317-6842 (not a toll free call).