

Administrative, Procedural, and Miscellaneous

26 CFR 601.204: Changes in accounting periods and in methods of accounting.
(Also: Part I, Sections 446, 451; 1.451-1.)

Rev. Proc. 2018-60

SECTION 1. PURPOSE

Section 13221 of the Tax Cuts and Jobs Act, Pub. L. No. 115-97 (December 22, 2017) (TCJA) amended § 451 of the Internal Revenue Code (Code) relating to the timing of the recognition of income for federal income tax purposes for taxable years beginning after December 31, 2017. This revenue procedure modifies Rev. Proc. 2018-31, 2018-22 I.R.B. 637, to provide procedures under § 446 and § 1.446-1(e) of the Income Tax Regulations to obtain automatic consent of the Commissioner of Internal Revenue (Commissioner) to change methods of accounting to comply with § 451(b), as amended by TCJA. In addition, for the first taxable year that begins after December 31, 2017, certain taxpayers are permitted to make a method change to comply with § 451(b) without filing a Form 3115, Application for Change in Accounting Method.

SECTION 2. BACKGROUND

.01 Section 13221 of TCJA made several changes to the timing of income for accrual method taxpayers by redesignating § 451(b) through (i) as (d) through (k), and adding new §§ 451(b) and (c). New §§ 451(b) and (c) are generally effective for tax years beginning after December 31, 2017. Section 451(b), as amended by TCJA, generally provides that for an accrual method taxpayer, the all events test with respect to any item of gross income (or portion thereof) shall not be treated as met any later than when such item (or portion thereof) is taken into account as revenue in the taxpayer's applicable financial statement, or such other financial statement as the Secretary may specify.

.02 Section 13221(d) of TCJA provides rules relating to the coordination with § 481(a) for a qualified change in method of accounting for the taxpayer's first taxable year beginning after December 31, 2017. Section 13221(d)(2) of TCJA provides that a qualified change in method of accounting is a change that: is required by the amendments made by section 13221 of TCJA, or was prohibited under the Code of 1986 prior to such amendments and that is permitted under the Code after such amendments. These method changes are treated as initiated by the taxpayer and as made with the consent of the Secretary. This provision of TCJA does not set forth the administrative procedures to make a change in method of accounting to comply with § 451(b), and does not specify whether a taxpayer is entitled to a section 481(a) spread period, audit protection, or ruling protection.

.03 Section 13221(e) of TCJA provides that in the case of income from a debt instrument having original issue discount (OID), the rules of § 451(b) apply to taxable

years beginning after December 31, 2018, and the § 481(a) adjustment period for any adjustment under § 481(a) for a qualified change in method of accounting is six taxable years.

.04 On May 28, 2014, the Financial Accounting Standards Board (FASB) and International Accounting Standards Board (IASB) jointly announced new financial accounting standards for revenue recognition, titled “Revenue from Contracts with Customers (Topic 606)” (New Standards). See FASB Update No. 2014-09 and IASB International Financial Reporting Standard (IFRS) 15. Publicly-traded entities, certain not-for-profit entities, and certain employee benefit plans are required to adopt the New Standards for annual reporting periods beginning after December 15, 2017. Other entities are required to adopt the New Standards for annual reporting periods beginning after December 15, 2018. However, early adoption was 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 Rev. Proc. 2018-29, 2018-22 I.R.B. 634, as modified by Rev. Proc. 2018-49, 2018-41 I.R.B. 548, added a new automatic method change to Rev. Proc. 2018-31 for taxpayers that want to change their method of accounting for the recognition of income to a method that uses the New Standards (i) to identify performance obligations, (ii) to allocate transaction price to performance obligations, and/or (iii) to consider performance obligations satisfied. Rev. Proc. 2018-29, as modified by Rev. Proc. 2018-49, is effective on May 10, 2018, and applies to taxable years ending on or before May 10, 2021.

.06 Section 1.446-1(e)(3)(ii) provides that the Commissioner may prescribe the

administrative procedures under which a taxpayer will be permitted to change a method of accounting. Except as otherwise provided in § 1.446-1(e)(3)(ii), a taxpayer must file a Form 3115 in order to secure the Commissioner's consent to change a 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, and Rev. Proc. 2017-59, 2017-48 I.R.B. 543, provides the general procedures by which a taxpayer may obtain automatic consent of the Commissioner to change a method of accounting described in the List of Automatic Changes. Rev. Proc. 2018-31 contains the current List of Automatic Changes.

.07 Section 3 of this revenue procedure modifies Rev. Proc. 2018-31 to provide new automatic method changes under § 451, and modifications to an existing automatic change for a taxpayer to change its method of accounting to comply with §§ 451(b)(1)(A) and 451(b)(4). A taxpayer that files a Form 3115 in accordance with this revenue procedure to make a change in method of accounting to comply with § 451(b) may receive audit protection, as provided in section 8.01 of Rev. Proc. 2015-13.

.08 To further ease the administrative burden faced by taxpayers to comply with TCJA amendments to § 451 for the first taxable year beginning after December 31, 2017, this revenue procedure permits certain taxpayers to make changes in method of accounting to comply with § 451(b) using streamlined method change procedures if the change results in a zero § 481(a) adjustment, or if the taxpayer requesting the change is a small business taxpayer as provided in this revenue procedure. Some taxpayers that qualify to use the streamlined method change procedures provided in this revenue

procedure may choose to file a Form 3115 in order to retain a clear record of a change in method of accounting, make permissible concurrent changes on the same Form 3115, or make a change in method of accounting with audit protection. However, other qualifying taxpayers may prefer the administrative convenience of being able to comply with § 451(b) solely by the filing of their federal income tax return. This revenue procedure provides rules for accrual method taxpayers that qualify and prefer to use the streamlined method change procedures.

SECTION 3. AUTOMATIC METHOD CHANGES

.01 Section 16 of Rev. Proc. 2018-31 is modified to add new section 16.12 to read as follows:

.12 Changes in the timing of income recognition under § 451(b) for a taxpayer with an applicable financial statement (AFS).

(1) Description of change. This change applies to taxable years beginning after December 31, 2017. However, in the case of income from a debt instrument having original issue discount (OID), this change applies to taxable years beginning after December 31, 2018. This change applies to an accrual method taxpayer with an AFS that wants to change its method of accounting for the recognition of income to a method of accounting that complies with § 451(b)(1)(A). This change also applies to an accrual method taxpayer with an AFS that wants to change its method of accounting to a method under § 451(b)(4).

(2) Applicability. This change applies to a taxpayer that:

(a) wants to change to a method of accounting that treats an item of gross income, or portion thereof, as meeting the all events test no later than when such item,

or portion thereof, is taken into account as revenue in its AFS under § 451(b)(1)(A), and/or

(b) is not adopting the New Standards (as defined in section 16.11(1) of this revenue procedure) for the year of change, and wants to allocate the transaction price to performance obligations under § 451(b)(4).

(3) Inapplicability. This change does not apply to a taxpayer that:

(a) wants to make a change for federal income tax purposes to a method that adopts the New Standards, as provided in section 16.11 of this revenue procedure. See, however, section 16.11 of this revenue procedure for a change to adopt the New Standards;

(b) wants to make a change in method of accounting to a method described in § 451(b)(2); or

(c) does not have an AFS, as defined in § 451(b)(1)(A)(i) or (ii).

(4) Manner of making change.

(a) Short Form 3115. A taxpayer making a change under this section 16.12 is required to complete only the following information on Form 3115 (Rev. December 2015):

(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 16.12, the statement required for Line 26 of Form 3115 should list the § 481(a) adjustment(s),

and a description of where the § 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.

(b) Section 481(a) adjustment period for changes relating to items of income involving OID. In the case of income from a debt instrument having OID, the § 481(a) adjustment period for any qualified change in method of accounting described in this section 16.12(4)(b) is six taxable years (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 debt instrument having OID to a method that is required by § 451(b), as added by section 13221 of the Tax Cuts and Jobs Act (TCJA) Public Law 115-97, 131 Stat. 2054 (Dec. 22, 2017), for such income, but only for the taxpayer's first taxable year beginning after December 31, 2018.

(c) Streamlined method change procedures for certain taxpayers.

(i) Applicability. The procedures described in this section 16.12(4)(c) may be used by a taxpayer to make a change in method of accounting described in section 16.12(2) of this revenue procedure in the taxpayer's first taxable year beginning after December 31, 2017. A taxpayer is permitted to use the streamlined method change 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"). 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; or

(B) the taxpayer is making one or more changes to comply with § 451(b)(1)(A) and/or § 451(b)(4), and the § 481(a) adjustment required by each of the changes is zero. A taxpayer making more than one change in method of accounting under section 16.12(2) of this revenue procedure 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 16.12(8)(a) of this revenue procedure for more information on making a permitted concurrent change.

(ii) Inapplicability. In addition to the inapplicability rules provided in section 16.12(3) of this revenue procedure, a taxpayer may not use these streamlined method change procedures if the taxpayer wants to make a concurrent automatic change described in section 16.12(8)(b) of this revenue procedure.

(iii) 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 16.12 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 16.12.

(5) Certain eligibility rule inapplicable.

(a) In general. Except as otherwise provided in this section 16.12(5), the eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13 does not apply to a change under this section 16.12 for a taxpayer's first, second, or third taxable year beginning after December 31, 2017.

(b) Changes related to debt instruments having OID. For a change related to income from a debt instrument having OID, the eligibility rule in section 5.01(1)(f) 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, 2018.

(c) Changes made under the streamlined method change procedures. For a change made using the streamlined procedures of section 16.12(4)(c) of this revenue procedure, the eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13 does not apply to this change for a taxpayer's first taxable year beginning after December 31, 2017.

(6) No audit protection. A taxpayer making a change in method of accounting using the streamlined method change procedures provided in section 16.12(4)(c) of this revenue procedure does not receive audit protection under section 8.01 of Rev. Proc. 2015-13.

(7) No ruling on method used. The consent granted under section 9 of Rev. Proc. 2015-13 for a change made under section 16.12 of this revenue procedure 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).

(8) Concurrent automatic changes.

(a) In general. A taxpayer that wants to make one or more concurrent changes in method of accounting under this section 16.12 may file a single Form 3115 that

includes all of the changes, must separately state the § 481(a) adjustment for each change, if applicable, and may not net the § 481(a) adjustment for a change with § 481(a) adjustments from other changes. A taxpayer that makes a change under both section 16.12(2)(a) and (2)(b) of this revenue procedure is required to implement the change under section 16.12(2)(b) before making the change under section 16.12(2)(a). See section 6.03(1)(b) of Rev. Proc. 2015-13 for information on making concurrent changes.

(b) Concurrent change in the timing of recognition of income due to the New Standards. Except as provided in section 16.12(4)(c)(i) of this section, a taxpayer that wants to make a change under section 16.12(2)(a) of this revenue procedure and a change under section 16.11 of this revenue procedure for the same year of change may file a single Form 3115 for both changes and enter the designated automatic accounting method change number for both changes on the appropriate line of Form 3115. A taxpayer that makes both changes is required to make the change under section 16.11 of this revenue procedure before making the change under this section 16.12(2)(a).

(9) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 16.12 is “239.”

(10) Contact information. For further information regarding a change under this section, contact Peter E. Ford at (202) 317-7003 (not a toll-free call). For further information regarding a change under this section for OID, contact Charles W. Culmer at (202) 317-4528 (not a toll-free call).

.02 Section 15.01 of Rev. Proc. 2018-31, as modified by Rev. Proc. 2018-44, 2018-37 I.R.B. 416, is modified as follows:

(1) Section 15.01(1)(a) of Rev. Proc. 2018-31 is modified to add a new paragraph at the end thereof to read as follows:

Lastly, a taxpayer with an applicable financial statement (AFS) qualifies to use this section 15.01 for a taxable year beginning after December 31, 2017, to comply with § 451(b)(1)(A), and, if applicable, § 451(b)(4). However, a taxpayer that wants to make a change for the recognition of income for federal income tax purposes to a method under the New Standards, as defined in section 16.11(1) of this revenue procedure, for allocating transaction price to performance obligations for the same year of change must use section 16.11 of this revenue procedure to make the change for purposes of complying with § 451(b)(4).

(2) Section 15.01(1)(b) of Rev. Proc. 2018-31 is modified to add new division (ix) to read as follows:

(ix) a taxpayer with an AFS that wants to make a change for the recognition of income for federal income tax purposes to a method under the New Standards, as defined in section 16.11(1) of this revenue procedure, for allocating transaction price to performance obligations for the same year of change that it wants to change to an accrual method.

(3) Section 15.01(2)(b) of Rev. Proc. 2018-31 is modified to read as follows:

(b) Accrual method of accounting is a method identified by § 446(c)(2) and §§ 1.446-1(c)(1)(ii), 1.451-1(a), and 1.461-1(a)(2). For a taxable year beginning after December 31, 2017, a taxpayer with an AFS treats the all events test with respect to an

item of income, or portion of an item of income, as met no later than when the item, or portion of that item, is taken into account as revenue in its AFS.

(4) Section 15.01(3)(b) of Rev. Proc. 2018-31 is modified to read as follows:

(b) Certain eligibility rule inapplicable.

(i) 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.

(ii) Certain eligibility rule temporarily inapplicable. For a taxpayer with an AFS that changes to an overall accrual method that complies with § 451(b)(1)(A), and, if applicable, § 451(b)(4) under this section, the eligibility rule in section 5.01(1)(e) of Rev. Proc. 2015-13 does not apply to this change for the taxpayer's first, second, or third taxable year ending beginning after December 31, 2017.

(5) Section 15.01(3) of Rev. Proc. 2018-31 is modified to add new subparagraphs (f) and (g) to read as follows:

(f) Concurrent automatic changes for a taxpayer with an AFS that complies with § 451(b). A taxpayer with an AFS that changes to an overall accrual method that complies with § 451(b)(1)(A) under this section 15.01 that also wants to make a change under this section 15.01 to comply with § 451(b)(4) must file a single Form 3115. The taxpayer must separately state the § 481(a) adjustment for each change and may not net these § 481(a) adjustments. A taxpayer must make the change for § 451(b)(4) before making the change for § 451(b)(1)(A). See section 6.03(1)(b) of Rev. Proc. 2015-13 for information on making concurrent changes.

(g) Concurrent change in the timing of recognition of income due to the New Standards. A taxpayer that wants to make a change under this section 15.01 and a change under section 16.11 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 number for both changes on the appropriate line of Form 3115. A taxpayer that makes both changes is required to make the change under section 16.11 of this revenue procedure before making the change under this section 15.01.

(6) Section 15.01(4)(b) of Rev. Proc. 2018-31 is modified to read as follows:

(b) Certain eligibility rule inapplicable.

(i) Prior change eligibility rule inapplicable. For a taxpayer making a change from the cash method in the first § 448 year, any prior change to the overall cash method is disregarded for purposes of section 5.01(1)(e) of Rev. Proc. 2015-13.

(ii) Certain eligibility rule temporarily inapplicable. For a taxpayer with an AFS that changes to an overall accrual method that complies with § 451(b)(1)(A), and, if applicable, § 451(b)(4) under this section, the eligibility rule in section 5.01(1)(e) 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.

(7) Section 15.01 of Rev. Proc. 2018-31 is modified to renumber existing paragraphs 15.01(5) and (6) as paragraphs 15.01(6) and (7), respectively, and add new paragraph 15.01(5) to read as follows:

(5) No ruling on method used. The consent granted under section 9 of Rev. Proc. 2015-13 for a change made under section 15.01 of this revenue procedure 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).

SECTION 4. EFFECTIVE DATE

.01 In general. This revenue procedure is effective on November 29, 2018, for a taxable year beginning after December 31, 2017.

.02 Return of Form 3115 filed under the non-automatic change procedures. The National Office will return any Form 3115 requesting a change in method of accounting that was filed with the National Office on or before November 29, 2018, under the non-automatic procedures of Rev. Proc. 2015-13 for a taxable year beginning after December 31, 2017, that is pending with the National Office on November 29, 2018, and that is described in section 3 of this revenue procedure. The National Office will send a letter to the taxpayer acknowledging the return of the Form 3115, and will return the user fee submitted with the Form 3115. For purposes of the eligibility rules in section 5 of Rev. Proc. 2015-13, the timely resubmitted Form 3115 will be considered filed as of the date the taxpayer originally filed the Form 3115 under the non-automatic change procedures in Rev. Proc. 2015-13. This paragraph does not extend the date the taxpayer must file the original (returned) Form 3115 under section 6.03(1)(a)(i)(A) of Rev. Proc. 2015-13.

SECTION 5. EFFECT ON OTHER DOCUMENTS

This revenue procedure modifies Rev. Proc. 2018-31.

SECTION 6. DRAFTING INFORMATION

The principal author of this revenue procedure is Peter E. Ford of the Office of the Associate Chief Counsel (Income Tax & Accounting). For further information regarding this revenue procedure, contact Mr. Ford on (202) 317-7003 (not a toll free call).