

Part III

Administrative, Procedural, and Miscellaneous

26 CFR 601.204: Changes in accounting periods and in methods of accounting.
(Also: Part I, Sections 446, 451, 1275; 1.451-1, 1.451-3, 1.451-8, 1.1275-2.)

Rev. Proc. 2021-34

SECTION 1. PURPOSE

This revenue procedure modifies Rev. Proc. 2019-43, 2019-48 I.R.B. 1107, to provide procedures under § 446 of the Internal Revenue Code (Code) 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 final regulations under §§ 1.451-3, 1.451-8, and 1.1275-2(l) and to change methods of accounting for certain inventory costs to comply with §§ 263A, 461, and 471 if such changes are made in connection with a change to comply with § 1.451-3 and/or § 1.451-8, as applicable. This revenue procedure also modifies 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 further modified by Rev. Proc. 2016-1, 2016-1 I.R.B. 1, Rev. Proc. 2017-59,

2017-48 I.R.B. 543, and Rev. Proc. 2021-26, 2021-22 I.R.B. 1163, to provide procedures for a taxpayer to obtain the consent of the Commissioner to change its method of accounting to comply with §§ 1.451-3 and/or 1.451-8, as applicable, by providing rules related to cost offset method changes.

SECTION 2. BACKGROUND

.01 On December 22, 2017, §§ 451(b) and (c) were amended by section 13221 of Public Law 115-97, 131 Stat. 2054, 2113, commonly referred to as the Tax Cuts and Jobs Act (TCJA). Section 451(b) was amended to provide that, for a taxpayer using an accrual method of accounting, the all events test 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 revenue in an applicable financial statement (AFS) (AFS Income Inclusion Rule). Section 451(b) also overturned the historical Federal income tax treatment of credit card late fees, credit card cash advance fees, and interchange fees by subjecting the fees to the AFS Income Inclusion Rule instead of the original issue discount (OID) timing rules. Section 451(c) was amended to provide that an accrual method taxpayer may use the deferral method of accounting provided in § 451(c) for advance payments.

.02 On April 12, 2018, the Department of Treasury (Treasury Department) and the Internal Revenue Service (IRS) issued Notice 2018-35, 2018-18 I.R.B. 520, to provide transitional guidance relating to advance payments under 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. The notice provides that the Treasury Department and the IRS expect to issue future guidance regarding the treatment of advance payments incorporating the

TCJA amendments to § 451(c) and that until such guidance is applicable, taxpayers may continue to rely on Rev. Proc. 2004-34 for the treatment of advance payments. Notice 2018-35 is obsolete for taxable years beginning on or after January 1, 2021. See TD 9941, 86 FR 810 (January 6, 2021), corrected by 86 FR 126 (January 8, 2021) and 86 FR 2974 (January 14, 2021) (as so corrected, TD 9941).

.03 On May 29, 2018, the Treasury Department and the IRS issued Rev. Proc. 2018-29, 2018-22 I.R.B. 634, modified by Rev. Proc. 2018-49, 2018-41 I.R.B. 548, which added section 16.11 to the List of Automatic Changes, as defined in section 3.09 of Rev. Proc. 2015-13, to provide procedures for a taxpayer to change its method of accounting for the recognition of income for Federal income tax purposes to a method of accounting described in the new financial accounting standards on revenue from contracts with customers issued by the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) (New Standards) if such change is made for the taxable year in which the taxpayer adopts the New Standards. A change under this section required that the taxpayer's method comply with § 451, as amended by the TCJA. Rev. Proc. 2018-29 indicated that the IRS expected to issue future guidance addressing the TCJA amendments to § 451.

.04 On December 17, 2018, the Treasury Department and the IRS issued Rev. Proc. 2018-60, 2018-51 I.R.B. 1045, which added section 16.12 to the List of Automatic Changes for a taxpayer to change its method of accounting for the timing of income recognition for Federal income tax purposes to comply with § 451(b) for taxable years beginning after December 31, 2017 (or, December 31, 2018, in the case of income from a debt instrument having OID). Rev. Proc. 2018-60 permits a taxpayer to change its

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 defined in the guidance.

.05 On September 9, 2019, the Treasury Department and the IRS published proposed regulations under § 1.451-3 (REG-104870-18; 84 FR 47205) (proposed § 1.451-3), § 1.451-8 (REG-104554-18; 84 FR 47191) (proposed § 1.451-8), and § 1.1275-2(l) (REG-104870-18; 84 FR 47205) (proposed § 1.1275-2(l)). Proposed § 1.451-3 provided rules relating to the taxable year of inclusion in gross income under § 451(b). Proposed § 1.451-8 provided rules relating to the use of the deferral method for advance payments under § 451(c). Proposed § 1.1275-2(l) provides rules clarifying that an item of income that is subject to the timing rules in proposed § 1.451-3, such as specified credit card fees, is not taken into account in determining the amount of OID on a debt instrument. Concurrent with the issuance of the proposed regulations, the Treasury Department and the IRS issued Rev. Proc. 2019-37, 2019-39 I.R.B. 731, which modified sections 16.10, 16.11, and 16.12 in the List of Automatic Changes to provide procedures for a taxpayer to obtain the automatic consent of the Commissioner to make a method change to comply with § 451(b), proposed § 1.451-3, proposed § 1.451-8, and proposed § 1.1275-2(l), as applicable.

.06 On December 30, 2020, the Treasury Department and the IRS issued final regulations under § 1.451-3, § 1.451-8, and § 1.1275-2(l). See TD 9941. The regulations are generally applicable for taxable years beginning on or after January 1, 2021. However, the rules in § 1.451-3(j) and § 1.1275-2(l)(1) for specified fees that are

not specified credit card fees, as defined in § 1.451-3(j)(2), apply for taxable years beginning on or after January 6, 2022.

.07 However, a taxpayer and its related parties, within the meaning of §§ 267(b) and 707(b), may choose to apply both the rules in § 1.451-3 and, to the extent relevant, the rules in § 1.451-8 for a taxable year beginning after December 31, 2017 and before January 1, 2021, provided the rules in § 1.451-3 and, to the extent relevant, the rules in § 1.451-8 are applied in their entirety and in a consistent manner for such taxable year and all subsequent years. In addition, for specified credit card fees, a taxpayer and its related parties may apply both the rules in §§ 1.451-3 and 1.1275-2(l) that apply to specified credit card fees for a taxable year beginning after December 31, 2018 and before January 1, 2021, provided that the rules in §§ 1.451-3 and 1.1275-2(l) that apply to specified credit card fees are applied in their entirety and in a consistent manner for such taxable year and all subsequent taxable years.

.08 Alternatively, a taxpayer may rely on proposed § 1.451-3, proposed § 1.451-8, and/or proposed § 1.1275-2(l), as applicable, for taxable years beginning after December 31, 2017 (or December 31, 2018, in the case of specified credit card fees) and before January 1, 2021. For a specified fee that is not a specified credit card fee, a taxpayer may neither choose to apply the final regulations to, nor rely on the proposed regulations for, a taxable year beginning before January 6, 2022.

.09 The final regulations obsolete Rev. Proc. 2004-33, 2004-1 C.B. 989, Rev. Proc. 2004-34, Rev. Proc. 2005-47, 2005-2 C.B. 269, Rev. Proc. 2011-18, Rev. Proc. 2013-29, and Notice 2018-35 for taxable years beginning on or after January 1, 2021. A taxpayer that relied on the now obsoleted guidance must determine whether a change

in method of accounting occurs once it ceases to use the obsoleted guidance.

.10 A change to comply with the final regulations under §§ 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 481 and the accompanying regulations apply. Except as otherwise provided by the Code or the regulations, § 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 that provide the terms and conditions necessary for a taxpayer to obtain consent to a change in method of accounting. Rev. Proc. 2015-13 provides the general procedures by which a taxpayer may obtain automatic consent of the Commissioner to a change in method of accounting described in the List of Automatic Changes. Section 6.03(1) of Rev. Proc. 2015-13 sets forth the application procedures for timely filing a change in method of accounting under the automatic change procedures. Such procedural guidance provides that a taxpayer may not request, or otherwise make, a retroactive change in method of accounting on an amended Federal income tax return, unless specifically authorized by the Commissioner or by statute. See section 2.05 of Rev. Proc. 2015-13, 2015-5 I.R.B 419, 425. A taxpayer that chooses to early apply the final regulations under §§ 1.451-3, 1.451-8, and/or 1.1275-2(l), as applicable, to a taxable year beginning before January 1, 2021, must follow the rules for changes in method of accounting under § 446, the accompanying regulations, and the applicable procedural guidance, as described above. Accordingly, such taxpayer cannot change its method(s)

of accounting to early apply the final regulations under §§ 1.451-3, 1.451-8, and/or 1.1275-2(l), as applicable, on an amended Federal income tax return.

.11 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.

.12 Rev. Proc. 2013-26, 2013-22 I.R.B. 1160, describes the proportional method of accounting for OID on a pool of credit card receivables. Under § 1.1275-2(l), OID no longer includes a specified fee, such as a specified credit card fee, that is subject to the timing rules of § 1.451-3. Therefore, Rev. Proc. 2021-35, 2021-35 I.R.B. 355, modifies Rev. Proc. 2013-26 to make clear that the proportional method no longer applies to a specified fee, including a specified credit card fee. See section 16.12 of Rev. Proc. 2019-43, as modified by 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). Pursuant to that change, a taxpayer that is already using the proportional method of accounting is required to

remove any specified credit card fees from its pools of credit card receivables. See Rev. Proc. 2021-35.

.13 Rev. Proc. 2019-43 provides the current List of Automatic Changes to which the automatic change procedures in Rev. Proc. 2015-13 apply. Section 3 of this revenue procedure modifies Rev. Proc. 2019-43 to provide procedures for a taxpayer to obtain the automatic consent of the Commissioner to change its methods of accounting to comply with §§ 1.451-3, 1.451-8, and/or 1.1275-2(l), as applicable, including special terms and conditions for certain changes to comply with §§ 1.451-3, 1.451-8, and/or 1.1275-2(l), as applicable. Section 3 of this revenue procedure also makes changes to the current automatic changes in Rev. Proc. 2019-43 by:

(1) modifying sections 12.01, 12.02, 22.05, 22.11, and 22.18 of Rev. Proc. 2019-43 to temporarily waive the eligibility rule in section 5.01(f) of Rev. Proc. 2015-13 for certain inventory changes made in connection with changes to comply with §§ 1.451-3 and 1.451-8.

(2) modifying the change in overall method of accounting from the cash method to an accrual method in section 15.01 for taxpayers with an AFS;

(3) removing the automatic change for credit card late fees in section 16.06;

(4) modifying the automatic change for advance payments under section 16.07 by making the change inapplicable for a year of change beginning on or after January 1, 2021;

(5) removing the automatic change for credit card cash advance fees in section 16.08;

(6) modifying section 16.11 to make it inapplicable for changes to comply with §§ 451(b) and (c) and the regulations thereunder, and modifying sections 16.10 and 16.12 to provide terms and conditions that are similar to those provided under section 16.11 for certain changes made in the year in which the taxpayer adopts the New Standards that are no longer permitted to be made under section 16.11 and that are now made under sections 16.10 or 16.12;

(7) modifying section 16.12 to remove the automatic change to comply with § 451(b);

(8) correcting sections 16.11 and 16.12 of Rev. Proc. 2019-43 by providing that changes in method of accounting made under sections 16.11 and 16.12 with regard to taxpayers who are members of consolidated groups generally are governed by sections 16.11 and 16.12, as applicable, rather than by § 1.1502-17(b)(2), which is 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);

(9) modifying section 16.12 to provide that the rules for netting the § 481(a) adjustment provided in section 16.12(4)(b)(iii) of Rev. Proc. 2019-43, as modified by this revenue procedure, generally apply to certain changes related to the cost offset methods under §§ 1.451-3(c) and § 1.451-8(e) that are required to be filed under the non-automatic change procedures;

(10) modifying section 20 to provide a temporary automatic change under new section 20.13 for a taxpayer to change its method of accounting for inventory costs to comply with §§ 1.461-1(a)(2) and 1.461-4(d)(4) if the taxpayer: (a) presently takes

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; (b) 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); and (c) meets certain other requirements; and

(11) modifying the automatic change for OID on a pool of credit card receivables in section 30.02 (proportional method).

.14 Section 4 of this revenue procedure modifies Rev. Proc. 2015-13 to provide procedures for a taxpayer to obtain the consent of the Commissioner to change its method of accounting to comply with §§ 1.451-3 and/or 1.451-8, as applicable, by:

(1) adding a new automatic change eligibility rule under section 5.01(1)(g) that requires certain taxpayers making a cost-offset related inventory method change, as defined in new section 5.06, to also make the corresponding cost offset change for the same year of change; and

(2) adding concurrent automatic method change language in section 6.03(1)(b) to provide for certain taxpayers to make one or more cost-offset related inventory method changes and one or more corresponding cost offset changes on the same Form 3115, Application for Change in Accounting Method.

SECTION 3. MODIFICATIONS TO REV. PROC. 2019-43

.01 Modification to section 12.01 of Rev. Proc. 2019-43, relating to certain uniform capitalization (UNICAP) methods used by resellers and reseller-producers. Section 12.01(2) of Rev. Proc. 2019-43 is modified by adding new subparagraph (c) to read as follows:

(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 16.12(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 16.12(2)(a)(iii) of this revenue procedure and, to the extent the taxpayer receives advance payments for the sale of inventory, section 16.12(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 16.12(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 16.12(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.

.02 Modification to section 12.02 of Rev. Proc. 2019-43, relating to certain uniform capitalization (UNICAP) methods used by producers and reseller-producers. Section 12.02(4) of Rev. Proc. 2019-43 is modified to read as follows:

(4) Eligibility rule temporarily inapplicable.

(a) 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.

(b) 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 16.12(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 16.12(2)(a)(iii) of this revenue procedure and, to the extent the taxpayer receives advance payments for the sale of inventory, section 16.12(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 16.12(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 16.12(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.

.03 Modifications to section 15.01 of Rev. Proc. 2019-43, relating to changes in overall method of accounting from the cash method to an accrual method.

(1) Section 15.01(1)(a) of Rev. Proc. 2019-43 is modified by replacing the last paragraph thereof with the following:

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.

A taxpayer that uses this section 15.01 to comply with § 1.451-3 must attach a statement to its Form 3115 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).

(2) Section 15.01(1)(b) of Rev. Proc. 2019-43 is modified by removing division (ix), and adding new divisions (ix) through (xiii) to read as follows:

(ix) 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);

(x) 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 16.12 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;

(xi) 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;

(xii) 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

(xiii) 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).

(3) Section 15.01(2)(b) of Rev. Proc. 2019-43 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), 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).

(4) Section 15.01(2)(d) of Rev. Proc. 2019-43 is modified to read as follows:

(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 section 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).

(5) Section 15.01(3)(a) of Rev. Proc. 2019-43 is modified by adding new division (iii) to read as follows:

(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 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. 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.

(6) Section 15.01(3)(b)(ii) of Rev. Proc. 2019-43 is modified to read as follows:

(ii) Certain eligibility rule temporarily inapplicable. 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.

(7) Section 15.01(3)(d)(i) of Rev. Proc. 2019-43, is modified to read as follows:

(i) Concurrent automatic changes. Except as provided in section 15.01(3)(d)(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 16.07 or 16.12 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.

(8) Section 15.01(3) of Rev. Proc. 2019-43 is modified by:

(a) removing subparagraph (f), titled “Concurrent automatic changes for a taxpayer with an AFS that complies with § 451(b).”; and

(b) removing subparagraph (g), titled “Concurrent change in the timing of recognition of income due to the New Standards.”

(9) Section 15.01(5) of Rev. Proc. 2019-43 is modified 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 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(b) 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(5) 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.

.04 Modification to section 16.06 of Rev. Proc. 2019-43, relating to credit card late fees. Section 16.06 of Rev. Proc. 2019-43 is modified to remove the automatic change in method of accounting in section 16.06 for credit card late fees and to read as follows:

.06 [Reserved]

.05 Modification to section 16.07 of Rev. Proc. 2019-43, relating to advance payments. Section 16.07(1) of Rev. Proc. 2019-43 is modified by: redesignating subparagraph (b) as division (b)(i) with a new heading that reads “In general.”; adding a heading to subparagraph (b) that reads “Inapplicability.”; and adding new division (b)(ii) to read as follows:

(ii) Limited time to make change. This change does not apply to taxable years beginning on or after January 1, 2021.

.06 Modification to section 16.08 of Rev. Proc. 2019-43, relating to credit card cash advance fees. Section 16.08 of Rev. Proc. 2019-43 is modified to remove the automatic change in method of accounting in section 16.08 for credit card cash advance fees and to read as follows:

.08 [Reserved]

.07 Modification of section 16.10 of Rev. Proc. 2019-43, relating to changes in applicable financial statements for purposes of applying certain revenue recognition methods of accounting.

(1) Section 16.10 of Rev. Proc. 2019-43 is modified to read as follows:

.10 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 16.10(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 16.10(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 16.10(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 16.10(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 16.10(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 16.10(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 16.12(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

16.10(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 16.10(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 16.10 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 16.10(2)(a)(i)(B) of this revenue procedure, a change made under section 16.10(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 16.10(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 16.10(1)(a)(iii) or (iv) of this revenue procedure as a result of adopting the New Standards, as defined in section 16.11(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 16.10(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 16.11(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 16.12(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

16.12(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 16.10(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 16.10(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 16.10. 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 16.10 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 16.10(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 applicant 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 16.10 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) 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 16.10 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).

.08 Modification to section 16.11 of Rev. Proc. 2019-43, relating to changes in the timing of recognition of income due to the New Standards.

(1) Section 16.11(2) of Rev. Proc. 2019-43 is modified by deleting the last two sentences.

(2) Section 16.11(3) of Rev. Proc. 2019-43 is modified by removing the “or” at the end of section 16.11(3)(d), inserting at the end of section 16.11(3)(e) an “; or” and adding a new subparagraph (f) at the end thereof to read as follows:

(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 section 451(b) regulations (REG-104870-18; 84 FR 47205) (proposed § 1.451-3), the proposed section 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 section 16.11 of this revenue procedure. See, however, sections 16.07, 16.10, or 16.12, as applicable, of this revenue procedure.

(3) Section 16.11(4) of Rev. Proc. 2019-43 is modified by replacing the date “May 10, 2021” with the date “May 10, 2022.”

(4) Section 16.11(5)(a) of Rev. Proc. 2019-43 is modified to read as follows:

(a) Cut-off basis or § 481(a) adjustment. A taxpayer making a change under this section 16.11 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 16.11 must be implemented using a cut-off basis, and (iii) a § 481(a) adjustment is neither permitted nor required. Changes under this section 16.11 with regard to taxpayers who are members of consolidated groups generally are governed by this section 16.11 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).

(5) Section 16.11(6) of Rev. Proc. 2019-43 is removed and paragraphs (7)–(11) are renumbered (6)-(10), respectively.

(6) Newly renumbered section 16.11(6) of Rev. Proc. 2019-43 is modified by replacing the date “May 10, 2021” with the date “May 10, 2022.”

(7) Newly renumbered section 16.11(10) of Rev. Proc. 2019-43 is modified to read as follows:

(10) Contact information. For further information regarding a change under this section, contact Sharon Horn at (202) 317-7003 (not a toll-free number).

.09 Modifications to section 16.12 of Rev. Proc. 2019-43, relating to changes in the timing of income recognition under § 451(b) and (c).

(1) Section 16.12 of Rev. Proc. 2019-43 is modified to read as follows:

.12 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 16.12(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 16.12(2)(b) of this revenue procedure.

(b) Applicable terms. For this section 16.12, 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 16.12(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;

(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 16.12(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;

(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 16.12(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; or

(F) a change to a payment allocation method described in § 1.451-8(d)(4)(ii).

(3) Inapplicability. Section 16.12(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 items(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 16.12(2)(a)(iii)(E), section 16.12(2)(a)(iv)(F) or section 16.12(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 16.12(2)(a)(iii)(E), section 16.12(2)(a)(iv)(F) or section 16.12(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 16.10 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 16.12(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 16.12 for its early application year, as defined in section 16.12(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 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 16.12, 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 16.12(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 section 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 16.12(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 16.12 with regard to taxpayers who are members of consolidated groups generally are governed by this section 16.12, 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 16.12(2)(a)(i) of this revenue procedure when taxpayer is also adopting the New Standards. Except as otherwise provided in this section 16.12(4)(b)(ii), a taxpayer making a change described in section 16.12(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 16.11 of this revenue procedure. A taxpayer described in section 16.12(4)(c)(i)(B) or (C) of this revenue procedure that uses the streamlined procedures provided in section 16.12(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 16.12(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 16.12(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 16.12(4)(b)(ii), a taxpayer making a change described in section 16.12(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 16.12(4)(c)(i)(B) of this revenue procedure that uses the streamlined procedures provided in section 16.12(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 16.12(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 section 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 section 481(a) adjustment. An AFS change to adopt the New Standards,

as defined in section 16.11(1) of this revenue procedure, is an example of a change in accounting principle.

(iii) Netting of the section § 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 16.12(2)(a)(iii)(C) or (D) of this revenue procedure and one or more changes described in section 16.12(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 16.12(2)(a)(iv)(D) or (E) of this revenue procedure and one or more changes described in section 16.12(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 16.12(2)(b)(ii)(C) or (D) of this revenue procedure and one or more changes in method of accounting described in section 16.12(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 16.12(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 16.12(4)(b)(iii) of this revenue procedure would otherwise apply if the taxpayer were eligible to make the change under section 16.12 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 16.12(2)(a)(iii)(E). A taxpayer that makes more than one method change under section 16.12(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 16.12(4)(b)(iv)(D) of this revenue procedure.

(B) Required netting rule for changes described in section 16.12(2)(a)(iv)(F). A taxpayer that makes more than one method change under section 16.12(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 16.12(4)(b)(iv)(D) of this revenue procedure.

(C) Required netting rule for changes described in section 16.12(2)(b)(ii)(E).

A taxpayer that makes more than one method change under section 16.12(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 16.12(4)(b)(iv)(D) of this revenue procedure.

(D) Special § 481(a) adjustment spread period. For purposes of sections 7.02 and 7.03 of Rev. Proc. 2015-13, the § 481(a) adjustment spread period for a cost offset change described in section 16.12(2)(a)(iii)(E), section 16.12(2)(a)(iv)(F), or section 16.12(2)(b)(ii)(E) of this revenue procedure, whether the § 481(a) adjustment is positive or negative, is the same as the § 481(a) spread 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 spread period for the § 481(a) adjustment for the cost-offset related inventory method change, which is used to determine the § 481(a) adjustment spread period for a positive or negative § 481(a) adjustment for the corresponding cost offset change described in section 16.12(2)(a)(iii)(E), section 16.12(2)(a)(iv)(F), or section 16.12(2)(b)(ii)(E) of this revenue procedure. If the taxpayer must net the § 481(a) adjustments for cost offset changes under section 16.12(4)(b)(iv)(A), (B) or (C) of this revenue procedure, as applicable, the spread period for any such net § 481(a) adjustment is the same as the

§ 481(a) spread 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 spread period for the net § 481(a) adjustment determined under section 16.12(4)(b)(iv)(A), (B), or (C), as applicable. This section 16.12(4)(b)(iv)(D) does not apply if, after applying the netting rules in section 16.12(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 section § 481(a) adjustment for the taxpayer's corresponding change described in section 16.12(2)(a)(iii)(E), section 16.12(2)(a)(iv)(F), or section 16.12(2)(b)(ii)(E) of this revenue procedure is zero as a result, this section 16.12(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 16.12(2)(a)(iii)(A) of this revenue

procedure and to apply the AFS cost offset method pursuant to section 16.12(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 16.12(2)(a)(iii)(A) of this revenue procedure. Since A made a change described in section 16.12(2)(a)(iii)(C) of this revenue procedure and a change described in section 16.12(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 16.12(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 16.12(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 section 481(a) adjustment period under section 16.12(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 16.12(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 16.12(2)(a)(iii)(E) of this revenue procedure results in a negative § 481(a) adjustment. Section 16.12(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 16.12(4)(c) may be used by a taxpayer to make a change in method of accounting described in section 16.12(2)(a)(iii)(A), (B), (F), and/or (G), section 16.12(2)(a)(iv)(A), (B), (C), (G), and/or (H), or section 16.12(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 16.12(4)(c). For purposes of section 16.12, 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 16.12(4)(c) may be used to make a change in method of accounting described in section 16.12(2)(a)(iii)(A), (B), (F), and/or (G), section 16.12(2)(a)(iv)(A), (B), (C), (G), and/or (H), or section 16.12(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 this section 16.12(4)(c). A taxpayer may not use the streamlined procedures for any change in method of accounting described in section 16.12(2) of this revenue procedure if the taxpayer is also making a change in method of accounting described in sections 16.12(2)(a)(iii)(C), (D), and/or (E), sections 16.12(2)(a)(iv)(D), (E), and/or (F), or sections 16.12(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 16.12(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 16.12(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;

(B) the taxpayer is making one or more changes described in section 16.12(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 16.12(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 16.12, a taxpayer making more than one change in method of accounting under section 16.12(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 16.12(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 16.12(2)(a)(iv)(A), (B), (C), (G), and/or (H), or section 16.12(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 16.12(2)(a)(iv)(A), (B), (C), (G), and/or (H), or section 16.12(2)(b)(ii)(A), (B), and/or (F) of this revenue procedure under the streamlined method change procedures. Notwithstanding any provisions of this section 16.12, a taxpayer making more than one change in method of accounting under section 16.12(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 16.12(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 16.12 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.

(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 16.12(2)(a)(iii)(E), section 16.12(2)(a)(iv)(F), or section 16.12(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 method change procedures of Rev. Proc. 2015-13 for the same year of change may make the corresponding cost offset change described in section 16.12(2)(a)(iii)(E), section 16.12(2)(a)(iv)(F), or section 16.12(2)(b)(ii)(E) on an amended Federal income tax return for the cost offset year of change (as defined in section 16.12(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 method 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 16.12(2)(a)(iii)(E), section 16.12(2)(a)(iv)(F), or section 16.12(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 16.12(2)(a)(iii)(E), section 16.12(2)(a)(iv)(F), or section 16.12(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 16.12(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 16.12(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 16.12(2)(a)(iii)(E), section 16.12(2)(a)(iv)(F), or section 16.12(2)(b)(ii)(E) of this revenue procedure in accordance with section 16.12(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 required 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 16.12(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 rule inapplicable.

(a) Eligibility rule temporarily inapplicable for changes under sections 16.12(2)(a)(i), (2)(a)(ii), or (2)(b)(i) of this revenue procedure. Except as otherwise provided in section 16.12(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

16.12(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 16.12(2)(a)(iii), (2)(a)(iv), or (2)(b)(ii) of this revenue procedure. Except as otherwise provided in section 16.12(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 16.12(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 16.12(4)(c)(i) of this revenue procedure. Except as otherwise provided in this section 16.12(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 16.12(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 16.12(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 16.12(2)(a)(iii) of this revenue procedure for the taxpayer's early application year, as defined in section 16.12(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 16.12(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 16.12(2)(a)(iii)(E), section 16.12(2)(a)(iv)(F) or section 16.12(2)(b)(ii)(E) of this revenue procedure.

(6) Audit protection.

(a) Streamlined procedures. A taxpayer making a change in method of accounting under this section 16.12 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.

(b) Taxpayers under examination.

(i) In general – certain audit protection exception temporarily inapplicable. Except as otherwise provided in section 16.12(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 16.12(2)(a)(i), (2)(a)(ii) or (2)(b)(i) of this revenue procedure. In addition, except as otherwise provided in section 16.12(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 a change in method of accounting made under section 16.12(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 16.12(4)(c)(i) of this revenue procedure. Except as otherwise provided in section 16.12(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 16.12(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 16.12(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 16.12(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 16.12(2)(a)(i) of this revenue procedure for specified credit card fees. In addition, except as otherwise provided in section 16.12(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 16.12(2)(a)(iii) of this revenue procedure for the taxpayer's early application year, as defined in section 16.12(4)(c)(i)

of this revenue procedure. Except as otherwise provided in section 16.12(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 16.12(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 16.12(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 16.12(6)(b)(i) and (ii) of this revenue procedure do not apply to a taxpayer that uses the streamlined method change procedures under section 16.12(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 16.12(2)(a)(iii)(E), section 16.12(a)(iv)(F), or section 16.12(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 16.12. 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. Except as otherwise required by section 16.12(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 16.12(2)(a)(i), (iii), or (iv) or section 16.12(2)(b)(ii) of this revenue procedure, the taxpayer is required to make the allocation change before any other change described in section 16.12(2)(a)(i), (iii), or (iv) or section 16.12(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 16.12(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 16.12(2)(a)(iii)(E), (a)(iv)(F), or (b)(ii)(E) of this revenue procedure, as applicable.

(8) Limited applicability. Notwithstanding the inapplicability rules in section 16.12(3) of this revenue procedure, the changes described in section 16.12(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 16.12.

(a) Changes under proposed §§ 1.451-3 and 1.451-8.

Description of change	SECTION # in REV. PROC. 2019-43	DESIGNATED CHANGE NUMBER (DCN)
Timing of Income Recognition - Taxpayer with an AFS		
Changes to proposed § 1.451-3	16.12(2)(a)(i)	242
Changes to account for advance payments under proposed § 1.451-8(a) or (c)	16.12(2)(a)(ii)	242
Timing of Income Recognition - Taxpayer without an AFS		
Changes to account for advance payments under proposed § 1.451-8(a) or (d)	16.12(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. 2019-43	DESIGNATED CHANGE NUMBER (DCN)
Changes related to § 1.451-3 other than cost offset	16.12(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	16.12(2)(a)(iii)(C), (D)	251
Changes related to the deferral method for advance payments - § 1.451-8 other than cost offset	16.12(2)(a)(iv)(A)-(C), (G) and (H), (2)(b)(ii)(A), (B) or (F)	252
Changes related to cost offset under § 1.451-8, except concurrent cost-offset related inventory method changes	16.12(2)(a)(iv)(D), (E), 16.12(2)(b)(ii)(C) or (D)	253
Changes related to full-inclusion method under § 1.451-8(b)	16.12(2)(a)(iv)(A), (b)(ii)(A)	254
Changes related to cost offsets resulting from concurrent cost-offset related inventory changes	16.12(2)(a)(iii)(E), 16.12(a)(iv)(F), and 16.12(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).

.10 Section 20 of Rev. Proc. 2019-43 is modified to add new section 20.13 to read as follows:

.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 16.12(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 16.12(2)(a)(iii) of this revenue procedure and, to the extent the taxpayer receives advance payments for the sale of inventory, section 16.12(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 16.12(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, 22.05, 22.11, 22.18, or 22.19 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 16.12(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. Section 20.13 of this revenue procedure 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 sections 12.01, 12.02, 22.05, 22.11, 22.18, or 22.19 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, 22.05, 22.11, 22.18, or 22.19 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).

.11 Modification to section 22.05 of Rev. Proc. 2019-43, relating to Impermissible methods of identification and valuation of inventories. Section 22.05(1) of Rev. Proc. 2019-43 is modified to add a new subparagraph (d) to read as follows:

(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 22.05 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 16.12(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 16.12(2)(a)(iii) of this revenue procedure and, to the extent the

taxpayer receives advance payments for the sale of inventory, section 16.12(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 16.12(2)(b)(ii) of this revenue procedure; and

(iii) the taxpayer makes the change under this section 22.05 for its early application year, as defined in section 16.12(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.

.12 Modification to section 22.11 of Rev. Proc. 2019-43, relating to Permissible methods of identification and valuation of inventories. Section 22.11(1) of Rev. Proc. 2019-43 is modified to add new subparagraphs (d) and (e) to read as follows:

(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 22.11 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 16.12(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 16.12(2)(a)(iii) of this revenue procedure and, to the extent the taxpayer receives advance payments for the sale of inventory, section 16.12(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 16.12(2)(b)(ii) of this revenue procedure; and

(iii) the taxpayer makes the change under this section 22.11 for its early application year, as defined in section 16.12(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 22.11(1)(d) of this revenue procedure is not a determination by the Commissioner that the taxpayer's present method of accounting described in section 22.11(1)(d)(i) of this revenue procedure is a permissible method of accounting. The method of accounting described in section 22.11(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.

.13 Modification to section 22.18 of Rev. Proc. 2019-43, relating to Change from currently deducting inventories to permissible methods of identification and valuation of inventories. Section 22.18(1) of Rev. Proc. 2019-43 is modified to add a new subparagraph (d) to read as follows:

(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 22.18 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 16.12(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 16.12(2)(a)(iii) of this revenue procedure and, to the extent the taxpayer receives advance payments for the sale of inventory, section 16.12(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 16.12(2)(b)(ii) of this revenue procedure; and

(iii) the taxpayer makes the change under this section 22.18 for its early application year, as defined in section 16.12(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.

.14 Modification to section 30.02 of Rev. Proc. 2019-43. Section 30.02 of Rev. Proc. 2019-43 is modified to read as follows:

(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 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 the 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 16.12 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).

SECTION 4. MODIFICATIONS TO REV. PROC. 2015-13

.01 Modifications to section 5.01(1) of Rev. Proc. 2015-13, relating to the eligibility of automatic changes. Section 5.01(1)(e) of Rev. Proc. 2015-13 is modified by deleting the word “and” at the end of the sentence, section 5.01(1)(f) of Rev. Proc. 2015-13 is modified by deleting the period at the end of the sentence and adding “; and”, and section 5.01 of Rev. Proc. 2015-13 is modified by adding a new subparagraph (g) to read as follows:

(g) in the case of a taxpayer that uses the AFS cost offset method in § 1.451-3(c) and/or the advance payment cost offset method in § 1.451-8(e) and wants to make a cost-offset related inventory method change, as defined in SECTION 5.06, that is described in the List of Automatic Changes, the taxpayer makes a concurrent change under section 16.12(2)(a)(iii)(E) and/or section 16.12(2)(a)(iv)(F) or section 16.12(2)(b)(ii)(E) of Rev. Proc. 2019-43, 2019-48 I.R.B. 1107, (or successor), as applicable.

.02 Modification to section 5 of Rev. Proc. 2015-13, relating to the eligibility rules. Section 5 of Rev. Proc. 2015-13 is modified by adding a new paragraph .06 to read as follows:

.06 Definition of “Cost-offset related inventory method change.” A “cost-offset related inventory method change” is any change in method of accounting for inventory or any change in method of accounting for a liability, as defined in § 1.446-1(c)(1)(ii)(B), that affects or could affect the taxpayer’s cost of goods in progress offset under § 1.451-3(c) and/or § 1.451-8(e). For example, a cost-offset related inventory method change includes:

(1) a change in method of accounting for one or more costs that the taxpayer currently references to determine its cost of goods in progress offset under its present AFS cost offset method and/or its present advance payment cost offset method, including costs the taxpayer has impermissibly capitalized and/or allocated under its present method of accounting for inventory;

(2) a change in method of accounting for one or more costs that the taxpayer is required by § 1.451-3(c)(5)(ii) and/or § 1.451-8(e)(8)(ii) to reference to determine its cost of goods in progress offset under § 1.451-3(c) and/or § 1.451-8(e), regardless of whether the taxpayer currently references such cost under its present AFS cost offset method and/or its present advance payment cost offset method;

(3) a change in method of identifying inventories; or

(4) a change in method of valuing inventories.

.03 Modification to section 6.03(1)(b) of Rev. Proc. 2015-13, relating to certain concurrent changes in method of accounting for an automatic change. Section 6.03(1)(b) of Rev. Proc. 2015-13 is modified by moving the existing text within subparagraph (b) to a new division (i) with the heading “In general.”, and adding a new division (ii) to read as follows:

(ii) Concurrent cost offset change and cost-offset related inventory method change. A taxpayer that makes one or more changes under section 16.12(2)(a)(iii)(E), (a)(iv)(F), or (b)(ii)(E) of Rev. Proc. 2019-43, 2019-48 I.R.B. 1107, (or successor) to comply with § 1.451-3(c)(5)(ii) and/or § 1.451-8(e)(8)(ii) of TD 9941, 86 FR 810, corrected by 86 FR 126 and 86 FR 2974, as applicable, and one or more cost-offset related inventory method changes, as defined in SECTION 5.06, that are described in

the List of Automatic Changes for the same year of change should file a single Form 3115 for such changes and put the designated automatic accounting change numbers for such changes on the appropriate line of that Form 3115. As provided in section 16.12(7)(b) of Rev. Proc. 2019-43, a taxpayer is required to implement the cost-offset related inventory method change(s), as defined in SECTION 5.06, before it implements the change(s) under section 16.12(2)(a)(iii)(E), (a)(iv)(F), or (b)(ii)(E) of Rev. Proc. 2019-43, as applicable.

SECTION 5. EFFECTIVE DATE

.01 In general. Except as provided in section 5.02 of this revenue procedure, this revenue procedure is effective for a Form 3115 filed on or after August 12, 2021.

.02 Return of Form 3115 filed under the non-automatic change procedures.

(1) 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 August 12, 2021, 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 August 12, 2021, and that is eligible for the automatic change procedures as described in section 3 of this revenue procedure. The National Office will send a letter to notify the taxpayer of the return of the Form 3115 and will return the user fee submitted with the Form 3115.

(2) A taxpayer that resubmits the Form 3115 under the automatic change procedures for a change in method of accounting described in this revenue procedure must resubmit the Form 3115 that conforms to the automatic change procedures to the IRS in Ogden, UT, by the earlier of (a) the 60th calendar day after the date of the National Office's letter acknowledging the return of the Form 3115, 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.

(3) For the rules 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 section 5.02 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.

.03 Forms 3115 for changes in methods of accounting that can no longer be filed under the automatic change procedures of Rev. Proc. 2015-13, as a result of modifications made by sections 3 and 4 of this revenue procedure. If before August 12, 2021, a taxpayer properly filed the duplicate copy of a Form 3115 under the automatic change procedures in Rev. Proc. 2015-13 before modification by this revenue procedure, for a change in method of accounting that can no longer be filed under the automatic change procedures of Rev. Proc. 2015-13 as a result of modifications made by this revenue procedure, the taxpayer may make that change in method of accounting under the automatic change procedures in Rev. Proc. 2015-13 before modification by this revenue procedure.

SECTION 6. EFFECT ON OTHER DOCUMENTS

.01 This revenue procedure modifies and amplifies Rev. Proc. 2019-43.

.02 Rev. Proc. 2015-13 is modified.

SECTION 7. PAPERWORK REDUCTION ACT

The collection of information contained in this revenue procedure has been submitted to the Office of Management and Budget for review under OMB control number 1545-0123 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 collection of information in this revenue procedure is in sections 3.03(1) and 3.07. 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.

SECTION 8. DRAFTING INFORMATION

The principal author of this revenue procedure is Jo Lynn L. Ricks of the Office of the Associate Chief Counsel (Income Tax & Accounting). For further information regarding this revenue procedure, contact Douglas Kim at (202) 317-7003 (not a toll free call).