

## Part III

### Administrative, Procedural, and Miscellaneous

26 CFR 601.204: Changes in accounting periods and in methods of accounting.  
(Also, Part 1, §§ 174, 446; 1.446-1.)

Rev. Proc. 2024-34

#### SECTION 1. PURPOSE

This revenue procedure modifies section 7 of Rev. Proc. 2024-23, 2024-23 I.R.B. 1334, to modify the procedures under § 446 of the Internal Revenue Code (Code)<sup>1</sup> and § 1.446-1(e) for obtaining automatic consent of the Commissioner of Internal Revenue (Commissioner) to change methods of accounting for expenditures paid or incurred in taxable years beginning after December 31, 2021, to comply with § 174 or to rely on interim guidance provided in sections 3 through 7 of Notice 2023-63, 2023-39 I.R.B. 919, as modified by Notice 2024-12, 2024-5 I.R.B. 616. References in this revenue procedure to “former § 174” refer to that section as in effect for research or experimental expenditures paid or incurred in taxable years beginning before January 1, 2022, that is,

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<sup>1</sup> Unless otherwise specified, all “section” or “§” references are to sections of the Code or the Income Tax Regulations (26 CFR part 1).

prior to the effective date of the amendments made to § 174 by § 13206(a) of Public Law 115-97, 131 Stat. 2054 (Dec. 22, 2017), commonly referred to as the Tax Cuts and Jobs Act (TCJA). References to “§ 174” in this revenue procedure refer to § 174 as amended by the TCJA.

## SECTION 2. BACKGROUND

### .01 Treatment of research and experimental expenditures under former § 174.

Former § 174 allowed taxpayers to elect to deduct research or experimental expenditures paid or incurred in connection with a trade or business as current expenses, to capitalize and amortize such expenditures over a period of not less than 60 months, or to charge such expenditures to capital account.

### .02 Treatment of SRE expenditures under § 174.

(1) Section 13206(a) of the TCJA amended former § 174. For amounts paid or incurred in taxable years beginning after December 31, 2021, that meet the definition of specified research or experimental (SRE) expenditures under § 174(b), § 174(a)(1) disallows deductions for such amounts, except as provided in § 174(a)(2). Section 174(a)(2) requires taxpayers to charge SRE expenditures to capital account and allows amortization deductions of such capitalized expenditures ratably over a 5-year period in the case of SRE expenditures attributable to domestic research, or a 15-year period in the case of SRE expenditures attributable to foreign research, beginning with the midpoint of the taxable year in which such expenditures are paid or incurred. Section 13206(a) of the TCJA also made other amendments to former § 174, including amendments to treat any amount paid or incurred in connection with the development of any software as an SRE expenditure and to prevent the accelerated recovery of

unamortized SRE expenditures on account of the disposition, retirement, or abandonment of property with respect to which such expenditures were paid or incurred. For additional background on former § 174 and the TCJA amendments to former § 174, see section 2 of Notice 2023-63.

(2) Section 13206(b) of the TCJA requires taxpayers to treat the amendments made by section 13206(a) of the TCJA as a change in method of accounting for purposes of § 481 that is (i) initiated by the taxpayer, (ii) made with the consent of the Secretary of the Treasury or her delegate, and (iii) applied on a cut-off basis to SRE expenditures paid or incurred in taxable years beginning after December 31, 2021. Thus, no adjustments under § 481(a) are required or permitted with respect to research or experimental expenditures paid or incurred in taxable years beginning before January 1, 2022.

.03 Procedural guidance under Rev. Proc. 2023-11.

On December 29, 2022, the Department of the Treasury (Treasury Department) and the Internal Revenue Service (IRS) issued Rev. Proc. 2023-11, 2023-3 I.R.B. 417, modifying and superseding Rev. Proc. 2023-8, 2023-3 I.R.B. 407, to provide procedures to obtain automatic consent to change methods of accounting for SRE expenditures to comply with § 174. The change in method of accounting provided by Rev. Proc. 2023-11 was subsequently included in section 7.02 of Rev. Proc. 2023-24, 2023-28 I.R.B. 1207.

.04 Interim guidance under Notice 2023-63, as modified by Notice 2024-12.

(1) Notice 2023-63 was issued on September 8, 2023, to announce that the Treasury Department and the IRS intend to issue proposed regulations addressing

(1) the capitalization and amortization of SRE expenditures under § 174, (2) the treatment of SRE expenditures under § 460, and (3) the application of § 482 to cost sharing arrangements involving SRE expenditures. Sections 3 through 9 of Notice 2023-63 provide interim guidance regarding issues intended to be addressed by forthcoming proposed regulations.

(2) Notice 2024-12, 2024-5 I.R.B. 616, was released on December 22, 2023, and published on January 19, 2024, to provide additional interim guidance to clarify and modify Notice 2023-63 regarding (1) the treatment of costs paid or incurred by a research provider for research provided under contract, (2) the requirement that a taxpayer that chooses to rely on any of the rules described in Notice 2023-63 must rely on all the rules described in Notice 2023-63, and (3) the obsolescence of section 5 of Rev. Proc. 2000-50, 2000-1 C.B. 601.

.05 Procedural guidance under Rev. Proc. 2024-9.

(1) Revenue Procedure 2024-9, 2024-5 I.R.B. 628, was released on December 22, 2023, and published on January 19, 2024, to provide procedures for taxpayers to obtain automatic consent to change methods of accounting for expenditures paid or incurred in taxable years beginning after December 31, 2021, to comply with § 174 or to rely on interim guidance under §§ 174 and 460 provided in Notice 2023-63, as modified by Notice 2024-12. The change in method of accounting for § 174 provided in section 3 of Rev. Proc. 2024-9 modified section 7.02 of Rev. Proc. 2023-24. Rev. Proc. 2023-24 was subsequently superseded in part by Rev. Proc. 2024-23. Rev. Proc. 2024-23 renumbered section 7.02 as section 7.01 and removed former section 7.01 as obsolete.

(2) Section 7.01(5)(a) of Rev. Proc. 2024-23 waives the eligibility rules in sections

5.01(1)(d) (regarding changes made in the final year of a trade or business) and 5.01(1)(f) (regarding changes made in the previous 5 years for the same item) of Rev. Proc. 2015-13 for a change described in section 7.01(1)(a) of Rev. Proc. 2024-23 for the taxpayer's first or second taxable year beginning after December 31, 2021.

(3) Section 7.01(5)(b) of Rev. Proc. 2024-23 provides that a taxpayer may make a change described in section 7.01(1)(a) of Rev. Proc. 2024-23 for its second taxable year beginning after December 31, 2021, regardless of whether the taxpayer made a change for the same item for its first taxable year beginning after December 31, 2021.

(4) Section 7.01(6) of Rev. Proc. 2024-23 provides that a taxpayer does not receive audit protection under section 8.01 of Rev. Proc. 2015-13 for a change under section 7.01(1)(a) of Rev. Proc. 2024-23 in the second taxable year beginning after December 31, 2021, with respect to expenditures paid or incurred in the first taxable year beginning after December 31, 2021, if the taxpayer did not change its method of accounting under section 7.01(1)(a) in an effort to comply with § 174 for the first taxable year beginning after December 31, 2021.

.06 Changing methods of accounting under section 446(e).

(1) Except as otherwise expressly provided in the Code and the regulations thereunder, § 446(e) and § 1.446-1(e)(2) require a taxpayer to secure the consent of the Commissioner before changing a method of accounting for Federal income tax purposes. Section 1.446-1(e)(3)(i) states, in part, that except as otherwise provided under the authority of § 1.446-1(e)(3)(ii), to secure the Commissioner's consent to a taxpayer's change in method of accounting the taxpayer generally must file a Form 3115, *Application for Change in Accounting Method*, with the Commissioner during the

taxable year in which the taxpayer desires to make the change in method of accounting. Section 1.446-1(e)(3)(ii) authorizes the Commissioner to prescribe administrative procedures under which taxpayers will be permitted to change their method of accounting. The administrative procedures will prescribe those terms and conditions necessary to obtain the Commissioner's consent to effect the change and to prevent amounts from being duplicated or omitted.

(2) Rev. Proc. 2015-13, 2015-5 I.R.B. 419, as clarified and modified by Rev. Proc. 2015-33, 2015-24 I.R.B. 1067, and as modified by Rev. Proc. 2021-34, 2021-35 I.R.B. 337, Rev. Proc. 2021-26, 2021-22 I.R.B. 1163, Rev. Proc. 2017-59, 2017-48 I.R.B. 543, and section 17.02(b) and (c) of Rev. Proc. 2016-1, 2016-1 I.R.B. 1, sets forth the general administrative procedures by which a taxpayer may obtain the automatic consent of the Commissioner to change a method of accounting described in the *List of Automatic Changes*. Rev. Proc. 2024-23 contains the current *List of Automatic Changes*.

(3) A change in a taxpayer's treatment of expenditures paid or incurred in taxable years beginning after December 31, 2021, to comply with § 174 or to rely on the interim guidance in sections 3 through 7 of Notice 2023-63 is generally a change in method of accounting to which §§ 446(e) and 481, and the corresponding regulations, apply. A taxpayer that changes its method of accounting to comply with § 174 or to rely on the interim guidance in sections 3 through 7 of Notice 2023-63 must use the accounting method change procedures in Rev. Proc. 2015-13 or its successor. Section 3 of this revenue procedure modifies the eligibility rules and limited audit protection rules in section 7.01 of Rev. Proc. 2024-23 to allow taxpayers to obtain automatic consent to

change their method of accounting to comply with § 174 or to rely on the interim guidance provided in sections 3 through 7 of Notice 2023-63 for taxable years beginning after December 31, 2021.

(4) Specifically, the Treasury Department and the IRS are aware that certain taxpayers may not be eligible to file automatic changes in methods of accounting under section 7.01 of Rev. Proc. 2024-23 for a taxable year beginning in 2022 or a taxable year beginning in 2023 if the taxpayer had one or multiple short taxable years during 2022 or 2023. This is because the waiver of the eligibility rules in section 5.01(1)(d) and (f) of Rev. Proc. 2015-13 apply only to a taxpayer's first or second taxable year beginning after December 31, 2021. Therefore, the procedures in section 3 of this revenue procedure modify the eligibility rules in section 7.01(5)(a) of Rev. Proc. 2024-23 to provide that the eligibility rules in section 5.01(1)(d) and (f) of Rev. Proc. 2015-13 do not apply to a change described in section 7.01(1)(a) of Rev. Proc. 2024-23 made by a taxpayer for any taxable year beginning in 2022 or 2023. The procedures in section 3 of this revenue procedure also modify the rules for changes made in successive taxable years in section 7.01(5)(b) of Rev. Proc. 2024-23 to provide that a taxpayer may make a change described in section 7.01(1)(a) of Rev. Proc. 2024-23 for a taxable year beginning in 2022 or 2023, regardless of whether the taxpayer made a change for the same item for any previous taxable year beginning in 2022 or 2023. Finally, the procedures in section 3 of this revenue procedure also modify the limited audit protection rules in section 7.01(6) of Rev. Proc. 2024-23 to provide that a taxpayer does not receive audit protection for a change under section 7.01(1)(a) of this revenue procedure made for any taxable year beginning in 2022 or 2023 (other than the first

taxable year beginning after December 31, 2021) with respect to expenditures paid or incurred in the first taxable year beginning after December 31, 2021, if the taxpayer did not change its method of accounting under section 7.01(1)(a) in an effort to comply with § 174 for the first taxable year beginning after December 31, 2021.

### SECTION 3. MODIFICATIONS TO REV. PROC. 2024-23

.01 Modification of section 7.01(5) and (6) of Rev. Proc. 2024-23. Section 7.01(5) and (6) of Rev. Proc. 2024-23, are modified to read as follows:

(5) Certain eligibility rules inapplicable.

(a) In general. The eligibility rules in section 5.01(1)(d) and (f) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, do not apply to a change described in section 7.01(1)(a) of this revenue procedure made by a taxpayer for any taxable year beginning in 2022 or 2023.

(b) Changes made in successive taxable years. A taxpayer may make a change described in section 7.01(1)(a) of this revenue procedure for a taxable year beginning in 2022 or 2023, regardless of whether the taxpayer made a change for the same item for any previous taxable year beginning in 2022 or 2023.

(6) Limited audit protection. A taxpayer does not receive audit protection under section 8.01 of Rev. Proc. 2015-13 for the change under section 7.01(1)(a) of this revenue procedure with respect to expenditures paid or incurred in taxable years beginning on or before December 31, 2021. Additionally, a taxpayer does not receive audit protection under section 8.01 of Rev. Proc. 2015-13 for a change under section 7.01(1)(a) of this revenue procedure made for any taxable year beginning in 2022 or 2023 (other than the first taxable year beginning after December 31, 2021), with respect



to expenditures paid or incurred in the first taxable year beginning after December 31, 2021, if the taxpayer did not change its method of accounting under section 7.01(1)(a) in an effort to comply with § 174 for the first taxable year beginning after December 31, 2021. See section 8.02(2) of Rev. Proc. 2015-13.

#### SECTION 4. EFFECT ON OTHER DOCUMENTS

This revenue procedure modifies section 7.01 of Rev. Proc. 2024-23.

#### SECTION 5. EFFECTIVE DATE

This revenue procedure is effective for Forms 3115 filed on or after August 29, 2024.

#### SECTION 6. PAPERWORK REDUCTION ACT

The Paperwork Reduction Act of 1995 (44 U.S.C. 3501-3520) (PRA) generally requires that a Federal agency obtain the approval of the Office of Management and Budget (OMB) before collecting information from the public, whether such collection of information is mandatory, voluntary, or required to obtain or retain a benefit. A Federal agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless it displays a valid control number assigned by the OMB. The collection of information in this revenue procedure is in section 3 and is performed using Form 3115. This form is approved under OMB control numbers 1545-0074 for individual filers and 1545-0123 for business filers. This revenue procedure is not changing or creating new collection requirements not already approved by OMB.

#### SECTION 7. DRAFTING INFORMATION

The principal author of this revenue procedure is Bruce Chang of the Office of Associate Chief Counsel (Income Tax & Accounting). For further information regarding this revenue procedure, please contact Mr. Chang at (202) 317-4870 (not a toll-free

number).