

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. 2025-8

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)¹ 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,

¹ 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 deduct research or experimental expenditures paid or incurred in connection with a trade or business as current expenses, or alternatively, charge such expenditures to capital account and amortize them ratably over a period of not less than 60 months.

.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. 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 § 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.

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. Notice 2024-12 was issued on December 22, 2023, to provide

additional interim guidance to clarify and modify Notice 2023-63.

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

Revenue Procedure 2024-9, 2024-5 I.R.B. 628, was issued on December 22, 2023, 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.

.06 Procedural guidance under Rev. Proc. 2024-34.

(1) Revenue Procedure 2024-34, 2024-38 I.R.B. 604, was issued on August 29, 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 provided in sections 3 through 7 of Notice 2023-63, as modified by Notice 2024-12. Section 3 of Rev. Proc. 2024-34 modified section 7.01(5) and (6) of Rev. Proc. 2024-23.

(2) Section 7.01(5)(a) of Rev. Proc. 2024-23, as modified by section 3.01 of Rev. Proc. 2024-34, waives the eligibility rules in section 5.01(1)(d) (regarding changes made in the final year of a trade or business) and section 5.01(1)(f) (regarding changes made in the previous five 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 made by a taxpayer for any

taxable year beginning in 2022 or 2023.

(3) Section 7.01(5)(b) of Rev. Proc. 2024-23, as modified by section 3.01 of Rev. Proc. 2024-34, provides 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.

(4) Section 7.01(6) of Rev. Proc. 2024-23, as modified by section 3.01 of Rev. Proc. 2024-34, provides the following: First, 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 with respect to expenditures paid or incurred in taxable years beginning on or before December 31, 2021. Second, 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 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.

.07 Changing methods of accounting under § 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 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 2024. This is because the waiver of the eligibility rules in section 5.01(1)(d) and (f) of Rev. Proc. 2015-13 applies only 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. 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, 2023, or 2024. 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, 2023, or 2024, regardless of whether the taxpayer made a change for the same item for any previous taxable year beginning in 2022, 2023, or 2024.

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

.01 Modification of section 7.01(5) of Rev. Proc. 2024-23. Section 7.01(5) of Rev.

Proc. 2024-23, is 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, 2023, or 2024.

(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, 2023, or 2024, regardless of whether the taxpayer made a change for the same item for any previous taxable year beginning in 2022, 2023, or 2024.

SECTION 4. EFFECT ON OTHER DOCUMENTS

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

SECTION 5. EFFECTIVE DATE

.01 In general. Except as otherwise provided under this section 5, this revenue procedure is effective for Forms 3115 filed on or after December 17, 2024.

.02 Limited time period to convert a Form 3115 filed under the non-automatic change procedures in Rev. Proc. 2015-13.

(1) If, before December 17, 2024, a taxpayer properly filed a Form 3115 under the non-automatic change procedures in Rev. Proc. 2015-13 requesting the Commissioner's consent for a change in method of accounting described in section 7.01(1)(a) of Rev. Proc. 2024-23, and the Form 3115 is pending with the national office on December 17, 2024, the taxpayer may choose to make the change in method of accounting under the automatic change procedures in Rev. Proc. 2015-13 if the

taxpayer is now eligible to use the automatic accounting method change described in section 7.01(1)(a) of Rev. Proc. 2024-23 as a result of the modifications made by this Rev. Proc. 2025-8 (and is otherwise eligible to use section 7.01(1)(a) of Rev. Proc. 2024-23 and the automatic change procedures in Rev. Proc. 2015-13). The taxpayer must notify the national office contact person (if unknown, fax the notification to 855-574-9031 or send the notification to the attention of Control Clerk, CC:ITA, Room 4512 at the address specified in section 9.08(6) of Rev. Proc. 2024-1, 2024-1 I.R.B. 1 (or its successor)) for the Form 3115 of the taxpayer's intent to make the change in method of accounting under the automatic change procedures in Rev. Proc. 2015-13 before the later of (a) January 17, 2025, or (b) the issuance of a letter ruling granting or denying consent for the change. The notification should indicate that the taxpayer chooses to convert the Form 3115 to the automatic change procedures in Rev. Proc. 2015-13. If the taxpayer timely notifies the national office that it chooses to convert the Form 3115 to the automatic change procedures in Rev. Proc. 2015-13, the national office will send a letter to the taxpayer acknowledging its request and will return the user fee submitted with the Form 3115.

(2) A taxpayer converting a Form 3115 to the automatic change procedures in Rev. Proc. 2015-13 for a change in method of accounting described in this revenue procedure must resubmit a Form 3115 that conforms to the automatic change procedures, with a copy of the national office letter sent acknowledging the taxpayer's request attached, to the IRS in Ogden, UT by the earlier of (a) the 30th calendar day after the date of the national office's letter acknowledging the taxpayer's request, 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 purposes of the eligibility rules in section 5 of Rev. Proc. 2015-13, the duplicate copy of the timely resubmitted Form 3115 will be considered filed as of the date the taxpayer originally filed the converted 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 (converted) Form 3115 under section 6.03(1)(a)(i)(A) of Rev. Proc. 2015-13.

(4) A Form 3115 filed under the non-automatic change procedures in Rev. Proc. 2015-13 before December 17, 2024, for a change in method of accounting described in this revenue procedure, will be disregarded for purposes of the prior five-year change rules in section 5.04 and 5.05 of Rev. Proc. 2015-13 if the taxpayer converts the Form 3115 pursuant to this section 5.02.

SECTION 6. PAPERWORK REDUCTION ACT

The collection of information contained in this revenue procedure has been reviewed and approved by the Office of Management and Budget under OMB control numbers 1545-0074 for individual filers, 1545-0123 for business filers, and 1545-0047 for tax-exempt filers, 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 section 5.02 of this revenue procedure. This information is necessary and will be used to determine whether the taxpayer properly changed to a permitted method of accounting.

The collection of information is required for the taxpayer to obtain consent to change its method of accounting.

SECTION 7. DRAFTING INFORMATION

The principal author of this revenue procedure is Jeremy Pfeifer of the Office of Associate Chief Counsel (Income Tax & Accounting). For further information regarding this revenue procedure, please contact Mr. Pfeifer at (202) 317-4176 (not a toll-free number).