Part III

Administrative, Procedural, and Miscellaneous

26 CFR 601.204: Changes in Accounting Periods and in Methods of Accounting
(Also Part I, §§ 174, 174A, 446, 460; 1.446-1, 1.460-4)

Rev. Proc. 2026-32

SECTION 1. PURPOSE

This revenue procedure modifies section 7 of Rev. Proc. 2025-23, 2025-24 I.R.B. 1476, as modified by Rev. Proc. 2025-28, 2025-38 I.R.B. 393, with respect to 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 research or experimental expenditures (i) to comply with § 174, as in effect after amendment by § 13206(a) of Public Law 115-97, 131 Stat 2054 (Dec. 22, 2017), commonly known as the Tax Cuts and Jobs Act (TCJA), and prior to amendment by § 70302(b)(1) of Public Law 119-21, 139 Stat. 189, 239 (July

[1] Unless otherwise specified, all "section" or "§" references are to sections of the Code or the Income Tax Regulations (26 CFR part 1).

4, 2025), commonly known as the One, Big, Beautiful Bill Act (OBBBA), and (ii) to comply with §§ 174 and 174A, as amended and enacted by the OBBBA, respectively.

This revenue procedure also modifies section 19 of Rev. Proc. 2025-23 with respect to the procedures under § 446 and § 1.446-1(e) for obtaining automatic consent of the Commissioner to change methods of accounting for contracts entered into in taxable years beginning after July 4, 2025, to comply with § 460(e), as amended by the OBBBA.

SECTION 2. BACKGROUND

.01 Certain references used in section 2 of this revenue procedure.

(1) References to § 70302 of the OBBBA. All references hereinafter in section 2 of this revenue procedure to "OBBBA § 70302" refer to provisions of § 70302 of the OBBBA.

(2) References to § 70430 of the OBBBA. All references hereinafter in section 2 of this revenue procedure to "OBBBA § 70430" refer to provisions of § 70430 of the OBBBA.

(3) References to § 174. All references hereinafter in section 2 of this revenue procedure to "TCJA § 174" refer to § 174, as in effect after amendment by § 13206(a) of the TCJA, and prior to amendment by OBBBA § 70302(b)(1). All references hereinafter in section 2 of this revenue procedure to "§ 174" refer to § 174 as amended by OBBBA § 70302(b)(1).

(4) References to research or experimental expenditures. All references hereinafter in section 2 of this revenue procedure to "specified research or experimental expenditures" and "SRE expenditures" refer to research or experimental expenditures paid or incurred in taxable years beginning after December 31, 2021, and before

January 1, 2025, under TCJA § 174. All references hereinafter in section 2 of this revenue procedure to "domestic research or experimental expenditures under TCJA § 174" refer to SRE expenditures other than SRE expenditures attributable to foreign research (within the meaning of § 41(d)(4)(F)).

.02 Treatment of research or experimental expenditures under TCJA § 174.

(1) In general. For expenditures paid or incurred in taxable years beginning after December 31, 2021, TCJA § 174 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 (within the meaning of § 41(d)(4)(F)), beginning with the midpoint of the taxable year in which such expenditures are paid or incurred. The procedures in sections 7.01 and 7.03 of Rev. Proc. 2025-23, as modified by this revenue procedure, provide automatic changes in method of accounting for SRE expenditures under TCJA § 174 for amounts paid or incurred in taxable years beginning before January 1, 2025.

(2) Treatment of foreign research or experimental expenditures under § 174. OBBBA § 70302(b)(1) amended TCJA § 174 to provide that § 174 applies only to foreign research or experimental expenditures and that such expenditures continue to be charged to capital account and amortized ratably over a 15-year period beginning with the midpoint of the taxable year in which such expenditures are paid or incurred. Under § 174(b), as amended by OBBBA § 70302(b)(1)(B), "foreign research or experimental expenditures" are research or experimental expenditures that are paid or incurred by the taxpayer during a taxable year in connection with the taxpayer's trade or

business that are attributable to foreign research (within the meaning of § 41(d)(4)(F)). OBBBA § 70302(e)(1) provides that the OBBBA amendments to TCJA § 174 apply to amounts paid or incurred in taxable years beginning after December 31, 2024.

(3) Treatment of domestic research or experimental expenditures under § 174A. OBBBA § 70302(a) amended part VI of subchapter B of chapter 1 of the Code by adding § 174A applicable to taxable years beginning after December 31, 2024. Section 174A(a) provides that, notwithstanding § 263, a deduction is allowed for any domestic research or experimental expenditures that are paid or incurred by the taxpayer during the taxable year. Section 174A(b) provides that, for purposes of § 174A, the term "domestic research or experimental expenditures" means research or experimental expenditures paid or incurred by the taxpayer in connection with the taxpayer's trade or business other than such expenditures that are attributable to foreign research (within the meaning of § 41(d)(4)(F)). Section 174A(c)(1) allows a taxpayer to make an election, in the case of domestic research or experimental expenditures that would (but for § 174A(a)) be chargeable to capital account but not chargeable to property of a character that is subject to the allowance under § 167 (relating to allowance for depreciation, etc.) or § 611 (relating to allowance for depletion), to charge such expenditures to capital account and amortize such expenditures ratably over a period of not less than 60 months, beginning with the month in which the taxpayer first realizes benefits from such expenditures. Under § 174A(c)(1), such election is made in accordance with regulations or other guidance provided by the Secretary of the Treasury or the Secretary's delegate (Secretary). Section 174A(c)(2) provides that the election described in § 174A(c)(1) may be made for any taxable year, but only if made

no later than the time prescribed by law for filing the return for such taxable year (including extensions thereof). The procedures in section 6 of Rev. Proc. 2025-28 provide guidance on making an election under § 174A(c) for expenditures paid or incurred in taxable years beginning after December 31, 2024. OBBBA § 70302(e)(1) provides that, generally, the amendments made by OBBBA § 70302 to add § 174A to the Code apply to amounts paid or incurred in taxable years beginning after December 31, 2024.

.03 <u>Treatment of Certain Construction Contracts under § 460.</u>

(1) <u>Section 460 in general</u>. Section 460(a) generally requires taxpayers to use the percentage-of-completion method to determine taxable income from a long-term contract. Section 460(f)(1) defines a "long-term contract" as any contract for the manufacture, building, installation, or construction of property if such contract is not completed within the taxable year in which such contract is entered into. Under § 460(e), the requirement to use the percentage-of-completion method and comply with associated rules does not apply to certain types of construction contracts (exempt construction contracts). Section 460(e)(3) defines a "construction contract" as any contract for the building, construction, reconstruction, or rehabilitation of, or the installation of any integral component to, or improvements of, real property.

(2) <u>Treatment of home construction contracts, residential construction contracts, and other construction contracts prior to OBBBA</u>.

(a) <u>Exempt construction contracts</u>. Prior to amendment by the OBBBA, § 460(e)(1)(A) exempted taxpayers from the requirement to use the percentage-of-completion method for home construction contracts. Section 460(e)(1)(B) exempted taxpayers (other than a tax shelter prohibited from using the cash receipts and disbursements method of accounting under § 448(a)(3)) from the requirement to use the percentage-of-completion method for any other construction contract if (i) the taxpayer estimated at the time the contract was entered into that the contract would be completed within the 2-year period beginning on the contract commencement date, and (ii) the taxpayer met the gross receipts test of § 448(c) for the taxable year in which the contract was entered into (small taxpayer exception).

(b) Home construction contracts. Section 460(e)(4)(A), as previously contained in § 460(e)(5)(A) prior to amendment by the OBBBA, defines the term “home construction contract” as any construction contract if 80 percent of the estimated total contract costs (as of the close of the taxable year in which the contract was entered into) are reasonably expected to be attributable to the building, construction, reconstruction, or rehabilitation of (i) dwelling units in buildings containing four or fewer units and (ii) improvements to real property directly related to the dwelling units and located on the site of the dwelling units. For purposes of § 460(e)(4)(A)(i), as previously contained in § 460(e)(5)(A)(i) prior to amendment by the OBBBA, each townhouse or rowhouse is treated as a separate building. Taxpayers were permitted to account for home construction contracts using any exempt contract method under § 1.460-4(c). Permissible exempt contract methods include the percentage-of-completion method, the exempt-contract percentage-of-completion-method (as described in § 1.460-4(c)(2)), the completed contract method (as described in § 1.460-4(d)), and any other permissible method. Under § 460(e)(1), taxpayers were required to apply § 263A to home construction contracts not accounted for under the percentage-of-completion method unless (i) the taxpayer estimated at the time the contract was entered into that the contract would be completed within the 2-year period beginning on the contract commencement date, and (ii) the taxpayer met the gross receipts test of § 448(c) for the taxable year in which the contract was entered into.

(c) Residential construction contracts. Section 460(e)(4)(B), as previously contained in § 460(e)(5)(B) prior to amendment by the OBBBA, defines the term "residential construction contract" as any contract that would be a home construction contract but for the limit on the number of dwelling units in a building. Under § 460(e)(4), prior to its repeal by the OBBBA, taxpayers with residential construction contracts that were not home construction contracts were permitted to account for such contracts using the percentage-of-completion/capitalized-cost method under which the percentage-of-completion method was used for 70 percent of contract income and contract costs and an exempt contract method was used for 30 percent of contract income and contract costs.

(2) OBBBA amendments to § 460(e). The OBBBA did not modify the definitions of home construction contract or residential construction contract under § 460(e). OBBBA § 70430(a)(1)(A) amended § 460(e)(1)(A) to extend the home construction contract exception to the requirement to use the percentage-of-completion method to apply to all residential construction contracts. Similarly, OBBBA § 70430(a)(1)(B) amended § 460(e)(1) to extend the requirement to apply § 263A to a home construction contract that is not accounted for under the percentage-of-completion method to apply to all residential construction contracts unless (i) the taxpayer estimates at the time the contract is entered into that the contract will not be completed within the 2-year period

beginning on the contract commencement date (3-year period beginning on the contract commencement date for residential construction contracts that are not home construction contracts), and (ii) the taxpayer meets the gross receipts test of § 448(c) for the taxable year in which the contract is entered into. OBBBA § 70430(a)(2) removed § 460(e)(4) from the Code, thereby eliminating the ability to use the percentage-of-completion/capitalized-cost method for residential construction contracts. OBBBA § 70430(c) provides that the amendments to § 460(e) are effective for contracts entered into in taxable years beginning after July 4, 2025.

.04 Procedural guidance under Rev. Proc. 2025-28.

(1) Revenue Procedure 2025-28 was released on August 28, 2025, to provide procedures for making certain elections under OBBBA § 70302(f) with respect to domestic research or experimental expenditures. Rev. Proc. 2025-28 also modifies procedures under § 446 and § 1.446-1(e) for obtaining automatic consent to change methods of accounting for research or experimental expenditures under TCJA § 174 and §§ 174 and 174A.

(2) Section 7 of Rev. Proc. 2025-28 modifies section 7 of Rev. Proc. 2025-23 in three ways. First, section 7.01 of Rev. Proc. 2025-23 is modified to provide a change in method of accounting for domestic research or experimental expenditures under TCJA § 174. Second, section 7.02 of Rev. Proc. 2025-23 is modified to provide a change in method of accounting for domestic research or experimental expenditures under § 174A and to make certain transition method changes under the OBBBA. Third, section 7.03 of Rev. Proc. 2025-23 is added to provide a change in method of accounting for foreign SRE expenditures under TCJA § 174 and foreign research or experimental

expenditures under § 174.

.05 Changing methods of accounting under § 446(e).

(1) In general. 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) provides, 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 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) Current guidance on changing methods of accounting. Rev. Proc. 2015-13, 2015-5 I.R.B. 419, as clarified and modified by Rev. Proc. 2015-33, 2015-24 I.R.B. 1067, and as modified by Rev. Proc. 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. 2025-23 contains the current *List of Automatic Changes*.

(3) Changes in method of accounting for research or experimental expenditures under TCJA § 174, § 174, and § 174A.

(a) A change in the treatment of SRE expenditures to comply with TCJA § 174 is a change in method of accounting to which §§ 446(e) and 481, and the corresponding regulations, apply. Similarly, a change in a taxpayer's treatment of foreign or domestic research or experimental expenditures to comply with § 174 or § 174A, respectively, or to use certain transition options provided in OBBBA § 70302(f), is a change in method of accounting to which §§ 446(e) and 481, and the corresponding regulations, apply.

(b) A taxpayer that changes its method of accounting to comply with TCJA § 174, § 174, or § 174A must use the accounting method change procedures in Rev. Proc. 2015-13 or its successor.

(c) Section 3.01 and .02 of this revenue procedure modify section 7.01 of Rev. Proc. 2025-23 (relating to a change in method of accounting for domestic research or experimental expenditures under TCJA § 174) as follows:

(i) To provide that, if a taxpayer previously changed to the recovery of unamortized amount method described in section 7.02(2)(f) of Rev. Proc. 2025-23 for a prior taxable year, the taxpayer's § 481(a) adjustment for a change under section 7.01 of Rev. Proc. 2025-23 must reflect application of the taxpayer's recovery of unamortized amount method;

(ii) To provide that, if a taxpayer makes both a change under section 7.01 and section 7.02(2)(f) of Rev. Proc. 2025-23 for its first taxable year beginning after December 31, 2024, the § 481(a) adjustment period for any net positive § 481(a) adjustment resulting from the change under section 7.01 of Rev. Proc. 2025-23 is the same amortization period elected by the taxpayer under its recovery of unamortized amount method (that is, the net positive § 481(a) adjustment is taken into account either in full in the first taxable year beginning after December 31, 2024, or ratably over the 2-taxable year period beginning with the first taxable year beginning after December 31, 2024);

(iii) To provide that, if a taxpayer previously made a change under section 7.02(2)(f) of Rev. Proc. 2025-23 for a taxable year prior to its year of change for a change under section 7.01 of Rev. Proc. 2025-23, the § 481(a) adjustment period for any net positive § 481(a) adjustment resulting from the change under section 7.01 of Rev. Proc. 2025-23 is taken into account over the amortization period remaining under the taxpayer's recovery of unamortized amount method; and

(iv) To extend the waiver of the eligibility rules in section 5.01(d) and (f) of Rev. Proc. 2015-13 for any change in method of accounting described in section 7.01(1)(a) of Rev. Proc. 2025-23 for any taxable year beginning before 2028.

(d) Section 3.03 of this revenue procedure modifies section 7.02 of Rev. Proc. 2025-23 (relating to a change in method of accounting for domestic research or experimental expenditures under the OBBBA, including certain transition options) to extend the waiver of the eligibility rules in section 5.01(d) and (f) of Rev. Proc. 2015-13 for any change in method of accounting described in section 7.02(3) of Rev. Proc. 2025-23 for any taxable year beginning before 2028.

(e) Section 3.04 and .05 of this revenue procedure modify section 7.03 of Rev. Proc. 2025-23 (relating to a change in method of accounting for foreign research or experimental expenditures) as follows:

(i) To remove the limitation on the applicability of a change in method of accounting for foreign research or experimental expenditures to comply with § 174 that currently limits such change to taxable years beginning before January 1, 2026; and

(ii) To extend the waiver of the eligibility rules in section 5.01(d) and (f) of Rev. Proc. 2015-13 for any change in method of accounting described in section 7.03(1)(a) of Rev. Proc. 2025-23 for any taxable year beginning before 2028.

(4) Changes in method of accounting for residential construction contracts under OBBBA.

(a) A change from the percentage-of-completion method described in § 1.460-4(b) or the percentage-of-completion/capitalized-cost method described in § 1.460-4(e) to an exempt contract method described in § 1.460-4(c) for residential construction contracts to comply with § 460(e)(1)(A) is a change in method of accounting to which §§ 446(e) and 481, and the corresponding regulations, apply. Similarly, a change to start or stop capitalizing costs under § 263A for residential construction contracts to comply with § 460(e)(1) is a change in method of accounting to which §§ 446(e) and 481, and the corresponding regulations, apply.

(b) A taxpayer that changes its method of accounting to comply with § 460(e)(1) or to start or stop capitalizing costs under § 263A pursuant to § 460(e)(1) must use the accounting method change procedures in Rev. Proc. 2015-13 (or its successor).

(c) Section 4.01 of this revenue procedure modifies section 19.01 of Rev. Proc. 2025-23 to allow a taxpayer to obtain automatic consent to stop capitalizing costs under § 263A for residential construction contracts that meet the requirements of § 460(e)(1)(B)(i) and (ii).

(d) Section 4.02 of this revenue procedure adds section 19.03 of Rev. Proc. 2025-23, to allow a taxpayer to obtain automatic consent to change its method of accounting for residential construction contracts that are entered into in taxable years beginning after July 4, 2025, (1) from the percentage-of-completion method of accounting or the percentage-of-completion/capitalized-cost method of accounting to an exempt contract method of accounting, or (2) to start capitalizing costs under § 263A for contracts that do not meet the requirements of § 460(e)(1)(B)(i) and (ii).

SECTION 3. MODIFICATION OF SECTION 7 OF REV. PROC. 2025-23

.01 Modification of section 7.01(3)(a) of Rev. Proc. 2025-23. Section 7.01(3)(a) of Rev. Proc. 2025-23 is modified to read as follows:

(a) Modified § 481(a) adjustment and cut-off.

(i) In general. Except as provided in section 7.01(3)(a)(ii) of this revenue procedure, the change under section 7.01(1)(a) of this revenue procedure is made with a modified § 481(a) adjustment that takes into account only expenditures paid or incurred in taxable years beginning after December 31, 2021, and before January 1, 2025. If the taxpayer previously changed to the recovery of unamortized amounts method described in section 7.02(2)(f) of this revenue procedure for a prior taxable year, the § 481(a) adjustment for the change under this section 7.01 must reflect application of the taxpayer's recovery of unamortized amount method.

(ii) Exception for negative modified § 481(a) adjustment. If a change described in section 7.01(3)(a)(i) of this revenue procedure results in a modified § 481(a) adjustment that is negative, the taxpayer may instead choose to implement the change on a cut-off basis.

(iii) Section 481(a) adjustment period.

(A) Concurrent change to the recovery of unamortized amount method. If a taxpayer makes both a change under this section 7.01 and a change to the recovery of unamortized amount method described in section 7.02(2)(f) of this revenue procedure for its first taxable year beginning after December 31, 2024, the § 481(a) adjustment period for any net positive § 481(a) adjustment for the change under this section 7.01 is the same amortization period elected by the taxpayer under the recovery of unamortized amount method; that is, the net positive § 481(a) adjustment is either taken into account in full in the first taxable year beginning after December 31, 2024, or ratably over the 2-taxable year period beginning with the first taxable year beginning after December 31, 2024.

(B) Previous change to the recovery of unamortized amount method. If the taxpayer previously changed to the recovery of unamortized amounts method described in section 7.02(2)(f) of this revenue procedure for a prior taxable year, any net positive § 481(a) adjustment for the change under this section 7.01 is taken into account over the amortization period that remains under the taxpayer's recovery of unamortized amount method.

.02 Modification of section 7.01(5) of Rev. Proc. 2025-23. Section 7.01(5) of Rev. Proc. 2025-23 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 for any taxable year beginning before January 1, 2028.

(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 which it has used an impermissible method of accounting for only one taxable year (that is, for which it has used an impermissible method of accounting in the taxable year prior to the year of change).

.03 Modification of section 7.02(7) of Rev. Proc. 2025-23. Section 7.02(7) of Rev. Proc. 2025-23 is modified to read as follows:

(7) Certain eligibility rules inapplicable. 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 7.02(3) of this revenue procedure for any taxable year beginning before January 1, 2028.

.04 Modification of section 7.03(1)(a) of Rev. Proc. 2025-23. Section 7.03(1)(a) of Rev. Proc. 2025-23 is modified to read as follows:

(1) Description of change.

(a) In general. This change applies to a taxpayer (applicant) that wants to change its method of accounting for foreign SRE expenditures or foreign research or experimental expenditures, as applicable, paid or incurred in taxable years beginning after December 31, 2021, to:

(i) comply with TCJA § 174 for expenditures paid or incurred in taxable years beginning before January 1, 2025;

(ii) rely on interim guidance provided in section 3, 4, 5, 6, or 7 of Notice 2023-63, 2023-39 I.R.B. 919, as modified by Notice 2024-12, 2024-5 I.R.B. 616; or

(iii) comply with the changes made to § 174 by the OBBBA for expenditures paid or incurred in taxable years beginning after December 31, 2024.

.05 Modification of section 7.03(5) of Rev. Proc. 2025-23. Section 7.03(5) of Rev. Proc. 2025-23 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 7.03(1)(a) of this revenue procedure made by a taxpayer for any taxable year beginning before January 1, 2028.

(b) Changes made in successive taxable years. A taxpayer may make a change described in section 7.03(1)(a) of this revenue procedure for which it has used an impermissible method of accounting for only one taxable year (that is, for which the taxpayer has used an impermissible method of accounting in the taxable year prior to the year of change).

SECTION 4. MODIFICATION OF SECTION 19 OF REV. PROC. 2025-23

.01 Section 19.01 is modified to read as follows:

.01 Small business taxpayer exceptions from requirement to account for certain long-term construction contracts under § 460 or to capitalize costs under § 263A for certain contracts.

(1) Description of change. This change applies to a taxpayer that wants to change its method of accounting:

(a) For exempt construction contracts described in § 460(e)(1)(B), from the percentage-of-completion method of accounting described in § 1.460-4(b) to an exempt contract method of accounting described in § 1.460-4(c);

(b) For contracts entered into in taxable years beginning on or before July 4, 2025, to stop capitalizing costs under § 263A for home construction contracts described in § 460(e)(1)(A), as in effect prior to amendment by Public Law 119-21, 139 Stat. 189 (July 4, 2025), commonly known as the One, Big, Beautiful Bill Act (OBBBA), that meet the requirements of § 460(e)(1)(B)(i) and (ii); or

(c) For contracts entered into in taxable years beginning after July 4, 2025, to stop capitalizing costs under § 263A for residential construction contracts described in § 460(e)(1)(A), as amended by the OBBBA, that meet the requirements of § 460(e)(1)(B)(i) and (ii).

(2) <u>Inapplicability</u>. This change does not apply in the first taxable year in which a taxpayer enters into a particular type of contract for which the taxpayer may adopt a permissible method of accounting. For example, the change described in section 19.01(1)(a) of this revenue procedure does not apply in the first taxable year in which the taxpayer enters into a nonresidential long-term construction contract that meets the requirements of § 460(e)(1)(B). In such case, the adoption of a permissible exempt contract method of accounting described in § 1.460-4(c) for such contract is not a change in method of accounting under § 446(e) and § 1.446-1(e)(2). *See* Rev. Rul. 92-28, 1992-1 C.B. 153.

(3) <u>Manner of making change</u>. This change is made on a cut-off basis and applies only to contracts entered into on or after the first day of the year of change that are subject to the method change. Accordingly, a § 481(a) adjustment is neither permitted nor required.

(4) <u>Reduced filing requirement</u>. A taxpayer is required to complete only the

following information on Form 3115 (Rev. December 2022) to make this change:

(a) The identification section of page 1 (above Part I);

(b) The signature section at the bottom of page 1;

(c) Part I;

(d) Part II, all lines except line 16;

(e) Part IV, line 25; and

(f) Schedule D, Part I.

(5) Certain eligibility rules inapplicable. 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 19.01(1)(c) of this revenue procedure for the taxpayer's first or second taxable year beginning after July 4, 2025.

(6) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 19.01 is "236."

(7) Contact information. For further information regarding changes under this section, contact Michael Finn at (202) 317-4718 (not a toll-free number).

.02 Section 19.03 of Rev. Proc. 2025-23 is added to read as follows:

.03 Certain residential construction contracts excepted from the requirement under § 460 and subject to capitalization under § 263A.

(1) Description of change. This change applies to a taxpayer that wants to change its method of accounting for residential construction contracts (as defined in § 460(e)(4)(B)) that are entered into in taxable years beginning after July 4, 2025:

(a) From the percentage-of-completion method of accounting described in

§ 1.460-4(b) or the percentage-of-completion/capitalized-cost method of accounting described in § 1.460-4(e) to an exempt contract method of accounting described in § 1.460-4(c); or

(b) To start capitalizing costs under § 263A for contracts that do not meet the requirements of § 460(e)(1)(B)(i) and (ii).

(2) Inapplicability. This change does not apply in the first taxable year in which a taxpayer enters into a particular type of contract for which the taxpayer may adopt a permissible method of accounting. For example, the change described in section 19.03(1)(a) of this revenue procedure does not apply in the first taxable year in which a taxpayer enters into a residential construction contract as defined in § 460(e)(4)(B). In such cases, the adoption of a permissible exempt contract method of accounting described in § 1.460-4(c) for such contracts is not a change in method of accounting under § 446(e) and § 1.446-1(e)(2).

(3) Manner of making change. This change is made on a cut-off basis and applies only to contracts entered into on or after the first day of the year of change that are subject to the method change. Accordingly, a § 481(a) adjustment is neither permitted nor required.

(4) Reduced filing requirement. A taxpayer is required to complete only the following information on Form 3115 (Rev. December 2022) to make this change:

(a) The identification section of page 1 (above Part I);

(b) The signature section at the bottom of page 1;

(c) Part I;

(d) Part II, all lines except line 16;

(e) Part IV, line 25; and

(f) Schedule D, Part I.

(5) Transition rule. If, on or before September 21, 2026, a taxpayer filed a Federal income tax return for a taxable year beginning after July 4, 2025, the taxpayer is deemed to have complied with the general procedures under § 446(e), § 1.446-1(e), and this section 19.03 to change its method of accounting for contracts described in section 19.03(1) of this revenue procedure if the taxpayer properly applied the methods of accounting provided in section 19.03(1)(a) or (b), respectively, of this revenue procedure for such taxable year.

(6) Certain eligibility rules inapplicable. The eligibility rules in section 5.01(1)(d) and (f) of Rev. Proc. 2015-13 do not apply to a change described in this section 19.03 for the taxpayer's first or second taxable year beginning after July 4, 2025.

(7) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 19.03 is "275."

(8) Contact information. For further information regarding changes under this section, contact Michael Finn at (202) 317-4718 (not a toll-free number).

SECTION 5. EFFECT ON OTHER DOCUMENTS

This revenue procedure modifies sections 7 and 19 of Rev. Proc. 2025-23.

SECTION 6. EFFECTIVE DATE

.01 In general. Except as otherwise provided in this section 6, sections 7, 19.01, and 19.03 of Rev. Proc. 2025-23, as modified by this revenue procedure, are effective for a Form 3115 filed after September 4, 2026.

.02 Transition rule for taxpayers that properly file the duplicate copy of Form 3115 on or before November 15, 2026, for a change described in sections 7 and 19.01 of Rev. Proc. 2025-23, prior to modification by this revenue procedure.

(1) In general. If, on or before November 15, 2026, a taxpayer properly files the duplicate copy of a Form 3115 for a change described in section 7 or 19.01 of Rev. Proc. 2025-23, prior to modification by this revenue procedure, the Form 3115 is not subject to the effective date provided in section 6.01 of this revenue procedure.

(2) Option to implement change as described in sections 7 and 19.01 of Rev. Proc. 2025-23, as modified by this revenue procedure. If, on or before November 15, 2026, a taxpayer properly files the duplicate copy of a Form 3115 for a change in method of accounting described in section 7 or 19.01 of Rev. Proc. 2025-23, prior to modification by this revenue procedure, that continues to be eligible for the automatic change procedures under section 7 or 19.01 of Rev. Proc. 2025-23, as modified by this revenue procedure, but has not filed its timely filed (including extensions) original Federal income tax return for the year of change implementing the change, the taxpayer may choose to implement the change as described in either (1) section 7 or 19.01 of Rev. Proc. 2025-23, prior to modification by this revenue procedure, or (2) section 7 or 19.01 of Rev. Proc. 2025-23, as modified by this revenue procedure, but not both.

(a) Procedure to implement change as described in section 7 or 19.01 of Rev. Proc. 2025-23, prior to modification by this revenue procedure. A taxpayer who meets the requirements of section 6.02(2) of this revenue procedure and chooses to implement the change as described in section 7 or 19.01 of Rev. Proc. 2025-23, prior to modification by the revenue procedure, is not required to resubmit a duplicate copy of the Form 3115 to the IRS in Ogden, UT. However, if requested by the Director, the taxpayer must provide written substantiation that the duplicate copy of the Form 3115 was filed on or before November 15, 2026, pursuant to section 6.03(1)(a)(i)(B) of Rev. Proc. 2015-13. Such written substantiation may include proof of mailing or faxing, as appropriate, of the duplicate copy of the Form 3115.

(b) Procedure to implement the change as described in section 7 or 19.01 of Rev. Proc. 2025-23, as modified by this revenue procedure. A taxpayer who meets the requirements of section 6.02(2) of this revenue procedure and chooses to implement the change as described in section 7 or 19.01 of this Rev. Proc. 2025-23, as modified by this revenue procedure, must resubmit a duplicate copy (with signature) of the Form 3115 to the IRS in Ogden, UT, for the year of change under this revenue procedure, pursuant to the requirements of section 6.03(1)(a)(i)(B) of Rev. Proc. 2015-13. The resubmitted duplicate copy must include the following statement on the top of page 1 of the Form 3115: “FILED UNDER REV. PROC. 2026-32, AS PROVIDED IN SECTION 6.02(2)(b) OF REV. PROC. 2026-32”. For purposes of the eligibility rules in section 5 of Rev. Proc. 2015-13, the duplicate copy of the resubmitted Form 3115 will be considered filed as of the date the taxpayer originally filed the duplicate copy of the Form 3115 requesting the change under Rev. Proc. 2025-23, prior to modification by this revenue procedure. This section 6.02(2)(b) does not extend the date the taxpayer must file either the resubmitted duplicate copy or original Form 3115 under section 6.03(1)(a) of Rev. Proc. 2015-13. If requested by the Director, the taxpayer must provide written substantiation that the duplicate copy of the Form 3115 requesting the change under Rev. Proc. 2025-23, prior to modification by this revenue procedure, was filed on or before November 15, 2026, pursuant to section 6.03(1)(a)(i)(B) of Rev. Proc. 2015-13. Such written substantiation may include proof of mailing or faxing, as appropriate, of the duplicate copy of the Form 3115.

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

(1) If, before September 21, 2026, 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, 19.01, or 19.03 of Rev. Proc. 2025-23, as modified by this revenue procedure, and the Form 3115 is pending with the national office on September 21, 2026, 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 otherwise eligible to use the automatic method changes described in section 7, 19.01, or 19.03 of Rev. Proc. 2025-23, as modified by this revenue procedure, and the automatic change procedures in Rev. Proc. 2015-13. The taxpayer must notify the national office contact person for the Form 3115 (if unknown, fax the notification to 855-576-2341 or send the notification to the attention of Management Assistant (OA), CC:ITA:B07, Room 4136, at the address specified in section 9.08(6) of Rev. Proc. 2026-1, 2026-1 I.R.B. 1 (or any successor)), 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) October 21, 2026, 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 section 7, 19.01, or 19.03 of Rev. Proc. 2025-23, as modified by 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 accordance with section 9.06 of Rev. Proc. 2026-1 (or its successor), 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 6.03 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 September 21, 2026, for a change in method of accounting described in sections 7, 19.01 and 19.03 of Rev. Proc. 2025-23, as modified by 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 to the automatic change procedures pursuant to this section 6.03.

SECTION 7. 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. An 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 Office of Management and Budget.

The collections of information in this revenue procedure are in section 3. This information is necessary and will be used to determine whether the taxpayer properly changed to an exempt contract method for exempt construction contracts under § 460 and properly changed to start or stop capitalizing costs to exempt construction contracts under § 263A.

These collection requirements are included in the OMB Control Number 1545-0074 for individual filers, 1545-0123 for business filers, 1545-0092 for trust and estate filers, and 1545-0047 for tax-exempt filers, in accordance with the PRA (44 U.S.C. 3507).

SECTION 8. DRAFTING INFORMATION

The principal author of this revenue procedure is Michael Finn from the Office of Associate Chief Counsel (Income Tax & Accounting). For further information regarding a change under § 174 or § 174A, please contact Bruce Chang from the Office of

Associate Chief Counsel (Income Tax & Accounting) at (202) 317-4870 (not a toll-free number). For further information regarding this revenue procedure or a change under § 460, please contact Mr. Finn at (202) 317-4718 (not a toll-free number).