

Instructions for Form 3115

(Rev. April 1986)

Application for Change in Accounting Method

General Instructions

(Section references are to the Internal Revenue Code, unless otherwise noted.)

When filing Form 3115, taxpayers are reminded to determine if IRS has published a ruling or procedure dealing with the specific type of change since April 1986 (the current revision date of Form 3115).

You should normally receive an acknowledgement of your application within 30 days. If you do not hear from IRS within 30 days of submitting your completed Form 3115, you may inquire about the status of your application by writing to: Control Clerk, CC:C:C, Internal Revenue Service, Room 5040, 1111 Constitution Ave., NW, Washington, D.C. 20224.

Paperwork Reduction Act Notice

We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

Purpose of Form

File this form to request a change in your accounting method, including the accounting treatment of any item.

Generally, applicants must complete Section A. In addition, complete the appropriate section (B through J) for which a change is desired.

You must give all relevant facts, including a detailed description of your present and proposed methods. You must also state the reason(s) you believe approval to make the requested change should be granted. Attach additional pages if more space is needed for explanations. Each page should show your name, address, and identifying number.

State whether you desire a conference in the National Office if the Service proposes to disapprove your application.

Time and Place for Filing

Generally, applicants must file this form within the first 180 days of the tax year in which it is desired to make the change.

Taxpayers, other than exempt organizations, should file Form 3115 with the Commissioner of Internal Revenue, Attention CC:C:C:1, 1111 Constitution Ave., NW, Washington, D.C. 20224. Exempt organizations should file with the Assistant Commissioner (Employee Plans and Exempt Organizations), 1111 Constitution Ave., NW, Washington, D.C. 20224.

See section 5.03 of Rev. Proc. 84-74 for filing an early application.

Note: *If this form is being filed in accordance with Rev. Proc. 74-11, see Section I below.*

Late Applications

If your application is filed after the 180 day period, it is "Late." The application will be considered for processing only upon a showing of "good cause" and if it can be shown to the satisfaction of the Commissioner that granting you an extension will not jeopardize the Government's interests. For further information, see Rev. Proc. 79-63.

Identifying Number

Individuals.—Individuals should enter their social security number in this block. If the application is made on behalf of a husband and wife who file their income tax return jointly, enter the social security numbers of both. However, if an individual is engaged in a trade or business, enter the employer identification number instead of the social security number.

Other.—Applicants other than an individual should enter their employer identification number in this block.

Signature

Individuals.—An individual desiring the change should sign the application. If the application pertains to a husband and wife, the names of both should appear in the heading and both should sign.

Partnerships.—The form should be signed with the partnership name followed by the signature of one of the partners and the words "Member of Partnership."

Corporations, Cooperatives, and Insurance Companies.—The form should show the name of the corporation, cooperative, or insurance company and the signature of the president, vice president, treasurer, assistant treasurer, or chief accounting officer (such as tax officer) authorized to sign, and their official title.

Receivers, trustees, or assignees must sign any application they are required to file. For a subsidiary corporation filing a consolidated return with its parent, the form should be signed by an officer of the parent corporation.

Fiduciaries.—The form should show the name of the estate or trust and be signed by the fiduciary, executor, executrix, administrator, administratrix, etc., having legal authority to sign, and his or her title.

Preparer other than partner, officer, etc.—The signature of the individual or firm preparing the return should appear in the space provided on page 6.

If the person or firm is also authorized to represent the applicant before the IRS, receive a copy of the requested ruling, or

perform any other act(s), the power of attorney must reflect such authorization(s).

Affiliated Groups

Taxpayers that are members of an affiliated group filing a consolidated return that seek to change to the same accounting method for more than one member of the group, must file a separate Form 3115 for each such member.

Specific Instructions

Section A.—(Item 5a, page 1)—"Taxable income or (loss) from operations" is to be entered before application of any net operating loss deduction in section 172(a).

(Item 6a, page 2)—If item 6a is "Yes," indicate on a separate sheet the following for each separate trade or business: Nature of business (manufacturing, retailer, wholesaler, etc.), employer identification number, overall method of accounting, whether, in the last 10 years, that business has changed its accounting method, or is also changing its accounting method as part of this request or as a separate request.

(Item 10, page 2)—If providing the requested information cannot be accomplished, you may sign a statement under penalty of perjury that:

- (1) Gives your best estimate of the percentage of the section 481(a) adjustment that would have been required if the requested change had been made for each of the 3 preceding years; and
- (2) Explains in detail why you cannot provide the requested information.

See section 5.06(2) of Rev. Proc. 84-74 for the required perjury statement that must be attached.

If we later examine your return for the year of the change or for later years, we have the right to verify your statement at that time.

(Item 12, page 2)—Insert actual number of tax years. Use of term "since inception" is not acceptable. However, "more than 6 years" is acceptable.

Section B.—(Item 1b, page 2)—Include any amounts reported as income in a prior year although the income had not been accrued (earned) or received in the prior year; for example, discount on installment loans reported as income for the year in which the loans were made instead of for the year or years in which the income was received or earned. Advance payments under Rev. Proc. 71-21 or regulations section 1.451-5 must be fully explained and all pertinent information must be submitted with this application.

(Item 1h, page 2)—If your change in overall method involves a change to the reserve method for bad debts, see Rev. Proc. 85-8 for the steps to take in computing the section 481(a) adjustment.

Section D.—(Item 2, page 3)—When the only change in your method of accounting is for bad debts from the specific charge-off method to the reserve method, you must follow the provisions of Rev. Proc. 85-8. Generally, if you comply with Rev. Proc. 85-8, you may assume the change has been approved.

Section E-1.—Applicants must give complete details about the old method of valuing inventory and the proposed method. State whether all or part of your inventory is involved in the change.

Inventories of retail merchants.—The retail method of pricing inventories does not contemplate valuation of goods at the retail selling price. The retail selling prices of goods on hand must be reduced to approximate cost or cost or market, whichever is lower, by the adjustments required in Regulation section 1.471-8.

LIFO inventory changes.—Attach a schedule with all the required computations when changing the method of figuring LIFO inventories. If you are changing from the LIFO to a non-LIFO method, attach a schedule with the following additional information:

- (1) The specific types and classes of goods in the LIFO inventories involved in the proposed changes and the comparative values of such inventories as of the end of the tax year preceding the year of change determined by (a) the LIFO method and (b) the proposed method and basis (such as FIFO cost or lower of cost or market).
- (2) State whether the proposed method and basis conforms to the inventory method currently used with respect to non-LIFO inventories, if any, or that such method is otherwise consistent with Regulation section 1.472-6. See also Rev. Proc. 85-54 for procedures for automatic discontinuance.

Section E-2.—Applicants requesting to change to the full absorption method of inventory costing OR requesting permission to change a method of inventory valuation MUST complete Section E-2 showing the treatment under both their present and proposed methods.

Section F.—When the only change in your method of accounting is for vested vacation pay plans from the cash method to the accrual method, you must comply with the provisions of Rev. Proc. 82-32. Generally, if you comply with Rev. Proc. 82-32, you may assume the change has been approved.

Section G-1.—Regulation section 1.451-3(b)(1) (i) provides that, except as provided in Regulation section 1.451-3(b)(1)(ii), the term “long-term contract” means a building, installation, construction, or manufacturing contract that is not completed within the tax year in which it is entered into.

Section I.—Rev. Proc. 74-11 provides a procedure whereby applicants are considered to have obtained the consent of the Commissioner to change their method of accounting for depreciation. You must file Form 3115 with the Service Center where your return will be filed within the first 180 days of the tax year in which it is desired to make the change. Attach a copy of the form to the income tax return for the tax year of the change.

Section J.—Generally, this section should be used for requesting changes in a method of accounting for which provision has not been made elsewhere on this form. Attach additional pages if more space is needed for a full explanation of the present method used and the proposed change requested.

If you are making an election under Code section 458 or 466, show the applicable information under Regulation section 1.458-10, or Regulation section 1.466-1.