

# Instructions for Form 3115

(Rev. January 1989)

## Application for Change in Accounting Method

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

### 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.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is:

Recordkeeping	98 hrs. 17 min.
Learning about the law or the form	6 hrs. 58 min.
Preparing the form	11 hrs., 40 min.
Copying, assembling, and sending the form to IRS	48 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form more simple, we would be happy to hear from you. You can write to the **Internal Revenue Service**, Washington, DC 20224, Attention: IRS Reports Clearance Officer TR:FP or the **Office of Management and Budget**, Paperwork Reduction Project, Washington, DC 20503.

### General Instructions

#### Purpose of Form

File this form to request a change in your accounting method, including the accounting treatment of any item. If you are requesting a change in accounting period, use **Form 1128**, Application for Change in Accounting Period. For more information, see **Pub. 538**, Accounting Periods and Methods.

When filing Form 3115, taxpayers are reminded to determine if IRS has published a ruling, notice, or procedure dealing with the specific type of change since January 1989 (the current revision date of Form 3115).

Generally, applicants must complete Section A. In addition, complete the appropriate sections (B-1 through H) 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.

#### User Fee

Applicants filing Form 3115 and requesting a change in accounting method under

Revenue Procedure 89-1, 1989-1 I.R.B. 8, must pay a \$200 user fee. A \$300 user fee is required for a late application. Applicants requesting automatic changes or changes based on expeditious procedure rules, such as Revenue Procedure 85-36, are not required to pay the user fee when they file Form 3115.

#### 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 Internal Revenue Service, Associate Chief Counsel (Technical and International) Attention: CC: CORP, P.O. Box 7604, Ben Franklin Station, Washington, DC 20044. Exempt organizations should file with the Assistant Commissioner (Employee Plans and Exempt Organizations), Attention: E:EO, P.O. Box 120, Ben Franklin Station, Washington, DC 20044.

You should normally receive an acknowledgment of receipt 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 as to the receipt of your application by writing to: Control Clerk, CC:IT&A, Internal Revenue Service, Room 5517 1111 Constitution Avenue, NW Washington, DC 20224.

Payment of the user fee (check or money order made payable to the Internal Revenue Service) should be sent with Form 3115 at the time Form 3115 is filed.

See section 5.03 of Rev. Proc. 84-74, 1984-2 C.B. 736 for filing an early application.

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

If you want to make a late election out of the installment method or to revoke an earlier election out of the installment method, do not file this form. Instead, submit a request for a letter ruling to the National Office of the Internal Revenue Service. To request a letter ruling, furnish the information in section 8 of Revenue Procedure 89-1, 1989-1 I.R.B. 8, and submit a check for \$300, as required by Rev. Proc. 89-4, 1989-3 I.R.B. 18. Please note that such requests are rarely granted.

#### 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 and section 6110.

### Identifying Number

**Individuals.**—An individual should enter his or her 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.

**Others.**—The employer identification number of an applicant other than an individual should be entered in this block.

### Signature

**Individuals.**—An individual desiring the change should sign the application. If the application pertains to a husband and wife filing a joint income tax return, 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 general partners and the words "General Partner"

**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 his or her official title. Receivers, trustees, or assignees must sign the 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, personal representative, 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 preparing the application should appear in the space provided on page 6.

**If the individual 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 seeks 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 under section 172(a).

**Item 6, page 2.**—The term "gross receipts" includes total sales (net of returns and allowances) and all amounts received for services. In addition, gross receipts include any income from investments and from incidental or outside sources (e.g., interest, dividends, rents, royalties, and annuities). However, if you are a resaler of

personal property exclude from gross receipts any amounts not derived in the ordinary course of a trade or business. Gross receipts do not include amounts received for sales taxes if, under the applicable state or local law, the tax is legally imposed on the purchaser of the goods or service, and the taxpayer merely collects and remits the tax to the taxing authority.

**Item 7b, page 2.**—If item 7b 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, and whether, in the last 6 years, the business changed its accounting method, or is changing its accounting method as part of this request or as a separate request.

**Item 11, page 2.**—If you cannot provide the requested information, you may sign a statement under penalties 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 IRS later examines your return for the year of the change or for later years, it has the right to verify your statement at that time.

**Item 13, page 2.**—Insert the actual number of tax years. Use of the term 'since inception' is not acceptable. However, 'more than 6 years' is acceptable.

## Section B-1

**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.

## Sections B-2 and B-3

**Limits on the Use of the Cash Method of Accounting.**—Except as provided below, C corporations, partnerships with a C corporation as a partner and tax shelters may not use the cash method of accounting. For purposes of this limit, a trust subject to the tax on unrelated business income under section 511 is treated as a C corporation with respect to its unrelated trade or business activities.

The limit on the use of the cash method (except for tax shelters) does not apply to—

(1) *Farming businesses.*—For this purpose, the term "farming business" is defined in section 263A(e)(4), but it also includes the raising, harvesting, or growing of trees to which section 263A(c)(5) applies. This exception notwithstanding, section 447 requires certain C corporations and partnerships with a C corporation as a partner to use the accrual method.

(2) *Qualified personal service corporations.*—A "qualified personal service corporation" is any corporation: (a) substantially all of the activities of which involve the performance of services in the fields of health, law, engineering, architecture, accounting, actuarial science, performing arts, or consulting, and (b) substantially all of the stock of which is owned by employees performing the services, retired employees who had performed the services, any estate of an employee or retiree described above, or any person who acquired stock of the corporation as a result of the death of an employee or retiree described above if the acquisition occurred within 2 years of death.

(3) *Entities with gross receipts of \$5,000,000 or less.*—To qualify for this exception, the C corporation's or partnership's annual average gross receipts for the 3 years ending with the prior tax year may not exceed \$5,000,000. If the corporation or partnership was not in existence for the entire 3-year period, the period of existence is used to determine whether the corporation or partnership qualifies. If any tax year in the 3-year period is a short tax year the corporation or partnership must annualize the gross receipts by multiplying the gross receipts by 12 and dividing the result by the number of months in the short period.

For more information, see section 448 and Temporary Regulations section 1.448-1T

## Section C

Applicants must give complete details about the present and the proposed methods of valuing inventory. 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 price of goods on hand must be reduced to approximate cost or the lower of cost or market by the adjustments required in Regulations 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 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 value 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 identification and valuation methods conform to the inventory method currently used with respect to non-LIFO inventories, if any, or how such method is otherwise consistent with Regulations section 1.472-6.

(3) The termination event statement required by section 5.10 of Rev. Proc. 84-74, as modified by Rev. Proc. 88-15, 1988-10 I.R.B. 51, and an explanation if there has been a termination event.

## Section D

Applicants requesting to change their method of valuing property produced, property acquired for resale, or long-term

contracts under section 263A or 460 MUST complete section D showing the treatment under both the present and proposed methods.

Applicants must also complete the section 263A checklist contained in Notice 88-92, 1988-34 I.R.B. 23 (reprinted as **Pub. 1426, Automatic Change in Method To Comply With Section 263A**).

## Section E

Section 460(f) provides that the term "long-term contract" means any contract for the manufacture, building, installation, or construction of property that is not completed within the tax year in which it is entered into. However, a manufacturing contract will not qualify as a long-term contract unless the contract involves the manufacture of: (1) a unique item not normally included in your finished goods inventory, or (2) any item that normally requires more than 12 calendar months to complete.

Generally, all long-term contracts entered into after February 28, 1986, must be accounted for using either the percentage of completion-capitalized cost method or the percentage of completion method. See Notice 87-61, 1987-2 C.B. 370; Notice 88-66, 1988-25 I.R.B. 41, and section 460.

An exception applies to real property construction contracts expected to be completed within 2 years by contractors whose average annual gross receipts for the 3 prior tax years does not exceed \$10,000,000; to qualified ship contracts; and to home construction contracts entered into after June 20, 1988, involving single-family residences and dwelling units in buildings containing 4 or fewer dwelling units.

## Section G

This section is to be used only to request a change in a method of accounting for depreciation under section 167

Rev. Proc. 74-11 provides a procedure whereby applicants are considered to have obtained the consent of IRS 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.

**Note: Do not use Form 3115 to make an election under section 168. Such an election may be made only on the tax return for the year in which the property is placed in service. In addition, Form 3115 is not to be used to request approval to revoke an election made under section 168. Such a request must be made in accordance with Rev. Proc. 89-1 (updated annually). Elections with respect to property placed in service after December 31, 1986, are generally irrevocable.**

## Section H

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 section 458, show the applicable information under Regulations section 1.458-10.