



# Internal Revenue Service

DEPARTMENT OF THE TREASURY

## LB&I Process Unit

<b>Unit Name</b>	Examining a Reseller's 263A Computation	
<b>Primary UIL Code</b>	0263A.01-02	Property Acquired for Resale

<b>Library Level</b>	<b>Title</b>
<b>Knowledge Base</b>	Corporate/Business Issues & Credits
<b>Shelf</b>	Inventory and IRC 263A
<b>Book</b>	UNICAP 263A
<b>Chapter</b>	Resellers

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# Process Overview

## Examining a Reseller's IRC 263A Computation

This Practice Unit provides tax law and audit steps for reviewing a reseller's uniform capitalization cost computations under IRC 263A. Treas. Reg. 1.263A-3 focuses on the costs a reseller must capitalize to inventory.

The regulations define resellers as retailers, wholesalers, and other taxpayers that acquire property described in IRC 1221(a)(1) for resale. IRC 1221(a)(1) property is the taxpayer's stock in trade or other property of a kind that the taxpayer would properly include in its inventory if on hand at the close of the taxable year, or property the taxpayer held primarily for sale to customers in the ordinary course of its trade or business.

There are several exceptions to the IRC 263A rules, which you can find in Treas. Reg. 1.263A-1(b). The common exceptions you may encounter when examining a reseller are the service provider and small reseller exceptions (for tax years beginning on or before December 31, 2017) and the small business taxpayer (IRC 263A(i) for tax years beginning after December 31, 2017). See Step 2 for a further explanation.

 **CAUTION:** This Practice Unit focuses on the simplified production method and does not cover the final IRC 263A Treasury Regulations that are effective November 20, 2018. The final treasury regulations still contain the simplified production method. The definitions and methods are covered in *Alternative Method for Determine Section 471 costs for UNICAP Purposes* and *Modified Simplified Production Method* Practice Units.

# Summary of Process Steps

## Examining a Reseller's IRC 263A Computation

### Process Steps

The process steps below explain how to audit a reseller's IRC 263A computation.

<a href="#">Step 1</a>	Review Law and Concepts for Resellers
<a href="#">Step 2</a>	Consider Exceptions and Special Rules
<a href="#">Step 3</a>	Identify Section 471 Costs
<a href="#">Step 4</a>	Identify Additional Section 263A Costs

# Summary of Process Steps (cont'd)

## Examining a Reseller's IRC 263A Computation

### Process Steps

These process steps below explain how to audit a reseller's IRC 263A computation.

<a href="#">Step 5</a>	Allocate Additional Section 263A Costs
<a href="#">Step 6</a>	Capitalize Section 263A Costs to Ending Inventory
<a href="#">Step 7</a>	Evaluate the Taxpayer's Method
<a href="#">Step 8</a>	Impose a Change in Accounting Method

# Step 1: Review Law and Concepts for Resellers

## Examining a Reseller's IRC 263A Computation

### Step 1

Review the basic law and concepts under IRC 263A for resellers.

Considerations	Resources
<p>A taxpayer who is a reseller must allocate costs to resale activities.</p> <p>Under IRC 263A, taxpayers must capitalize direct costs and an allocable share of their indirect costs to property they purchase for resale.</p> <p>When determining capitalizable direct and indirect costs, taxpayers must first allocate or apportion costs to various activities, including production, resale, and other activities not subject to IRC 263A.</p> <p>After the taxpayer allocates direct, indirect, and additional section 263A costs to the appropriate resale activities, they must then allocate these costs to the items of property it purchased for resale during the taxable year, capitalizing these costs to the items that remain on hand at the end of the taxable year. Treas. Reg. 1.263A-1(c). See Step 6.</p>	<ul style="list-style-type: none"><li>▪ IRC 263A</li><li>▪ Treas. Reg. 1.263A-1(c)</li><li>▪ Treas. Reg. 1.263A-1(e)</li><li>▪ Treas. Reg. 1.263A-1(d)(3)</li></ul>

# Step 2: Consider Exceptions and Special Rules

## Examining a Reseller's IRC 263A Computation

### Step 2

Consider Exceptions and Special Rules.

Considerations	Resources
<p>There are several exceptions to the IRC 263A rules. These can be found in Treas. Reg. 1.263A-1(b). The common exceptions you may encounter when examining a reseller are:</p> <ul style="list-style-type: none"> <li>▪ Small business taxpayers (for tax years beginning after December 31, 2017),</li> <li>▪ Service providers, and</li> <li>▪ Small resellers (for tax years beginning on or before December 31, 2017).</li> </ul> <p><u>Small Business Taxpayer</u></p> <p>Effective for tax years beginning after 12/31/2017, a small business taxpayer does not have to capitalize costs under IRC 263A. See IRC 263A(i). A small business taxpayer is a taxpayer that:</p> <ul style="list-style-type: none"> <li>▪ Has average annual gross receipts of \$25 million or less (indexed for inflation) for the 3 prior tax years, and</li> <li>▪ Is not a tax shelter (as defined in IRC 448(d)(3)).</li> </ul>	<ul style="list-style-type: none"> <li>▪ IRC 263A</li> <li>▪ IRC 263A(i)</li> <li>▪ IRC448(d)(3)</li> <li>▪ Treas. Reg. 1.263A-1(b)</li> </ul>



# Step 2: Consider Exceptions and Special Rules (cont'd)

## Examining a Reseller's IRC 263A Computation

### [Step 2](#)

Considerations	Resources
<p><u>Service Providers</u></p> <p>A service provider does not have to apply IRC 263A to property provided to a client or customer incident to the provision of services. The property must satisfy all the following tests:</p> <ol style="list-style-type: none"><li>1. The property the service provider provides is not inventory in the hands of the service provider.</li><li>2. The property the service provider provides must be de minimis, meaning the acquisition or direct materials cost of the property the service provider provides is equal to or less than 5% of the price the service provider charges for the service and property. If the acquisition or direct materials cost of the property exceeds five percent of the price charged for the services and property, the property may be de minimis if additional facts and circumstances so indicate. See Treas. Reg. 1.263A-1(b)(11)(iii).</li></ol> <p>Examples of property that a service provider provides to a client or customer incident to the provision of services include wills that attorneys prepare and blueprints that architects prepare.</p>	<ul style="list-style-type: none"><li>▪ IRC 263A</li><li>▪ Treas. Reg. 1.263A-1(b)(11)(iii)</li></ul>

# Step 2: Consider Exceptions and Special Rules (cont'd)

## Examining a Reseller's IRC 263A Computation

### [Step 2](#)

Considerations	Resources
<p><u>Small Reseller</u></p> <p>If the taxpayer is a new taxpayer (one in existence for less than three taxable years), then it determines average annual gross receipts based on the number of taxable years (including short taxable years) they (or their predecessor) existed. If there is a short taxable year involved, the taxpayer must annualize gross receipts for the short period.</p> <p>An example of the calculation for a new taxpayer in business for one and one-half (1½) years is as follows:</p> <p>Facts:</p> <ul style="list-style-type: none"><li>▪ Short year is 6 months beginning July 1 and ending December 31.</li><li>▪ Gross receipts for the short year are \$7,000,000.</li><li>▪ Gross receipts for the second full year are \$60,000,000</li></ul> <p>Step 1: To annualize gross receipts for the short year, multiply the gross receipts by 12, then divide by the number of the months in the short year. The annualized gross receipts for the short year are \$14,000,000, which is computed by multiplying gross receipts of \$7,000,000 by 12 months to annualize, then dividing by 6 months in short year.</p>	

# Step 2: Consider Exceptions and Special Rules (cont'd)

## Examining a Reseller's IRC 263A Computation

### [Step 2](#)

Considerations	Resources										
<p data-bbox="84 504 410 536"><u>Small Reseller (cont'd)</u></p> <p data-bbox="84 582 1317 651">Step 2: To compute the average annual gross receipts for the two years, add the Step 1 annualized gross receipts to the Year 2 gross receipts, then divide by 2.</p> <table border="1" data-bbox="209 688 1249 1025"><tbody><tr><td data-bbox="215 692 803 753">Year 1 Annualized Gross Receipts</td><td data-bbox="803 692 1249 753">\$14,000,000</td></tr><tr><td data-bbox="215 753 803 821">Year 2 Gross Receipts</td><td data-bbox="803 753 1249 821">\$60,000,000</td></tr><tr><td data-bbox="215 821 803 888">Total</td><td data-bbox="803 821 1249 888">\$74,000,000</td></tr><tr><td data-bbox="215 888 803 955">Divide by 2</td><td data-bbox="803 888 1249 955">2</td></tr><tr><td data-bbox="215 955 803 1022">Average Annual Gross Receipts</td><td data-bbox="803 955 1249 1022">\$37,000,000</td></tr></tbody></table> <p data-bbox="84 1068 1307 1136">In this case, the new taxpayer would not meet the small reseller exception because the average annual gross receipts are greater than \$10,000,000.</p>	Year 1 Annualized Gross Receipts	\$14,000,000	Year 2 Gross Receipts	\$60,000,000	Total	\$74,000,000	Divide by 2	2	Average Annual Gross Receipts	\$37,000,000	
Year 1 Annualized Gross Receipts	\$14,000,000										
Year 2 Gross Receipts	\$60,000,000										
Total	\$74,000,000										
Divide by 2	2										
Average Annual Gross Receipts	\$37,000,000										

# Step 2: Consider Exceptions and Special Rules (cont'd)

## Examining a Reseller's IRC 263A Computation

### [Step 2](#)

Considerations	Resources
<p><u>Special Rules for Resellers with Production Activities</u></p> <p>You must evaluate resellers with production activities to determine the amount of production activities involved. This is important because the magnitude of the production activities will determine the types of costs to capitalize and will dictate the method(s) allowed for capitalization as outlined below. See Treas. Reg. 1.263A-2(a)(2) to Treas. Reg. 1.263A-3(a)(4) for further explanation of the different scenarios:</p> <ul style="list-style-type: none"> <li>▪ Small reseller with de minimis production activity is not required to capitalize additional section 263A costs, see Treas. Reg. 1.263A-3(a)(2)(ii).</li> <li>▪ Small reseller with more than de minimis production activity is required to capitalize additional section 263A costs, see Treas. Reg. 1.263A-3(a)(2)(i). May use the Simplified Production Method (SPM) not the Simplified Resale Method (SRM).</li> <li>▪ Large reseller with de minimis production activity is required to capitalize resale and production costs. May use the SPM or the SRM see Treas. Reg. 1.263A-3(a)(4)(ii).</li> <li>▪ Large reseller with more than de minimis production activity is required to capitalize resale and production costs. May use the SPM but not the SRM, see Treas. Reg. 1.263A-3(a)(2)(i).</li> <li>▪ Large reseller with private label goods is required to capitalize resale and production costs. May use the SPM or the SRM, see Treas. Reg. 1.263A-3(a)(4)(iii).</li> </ul>	<ul style="list-style-type: none"> <li>▪ Treas. Reg. 1.263A-3(a)(2)(i)</li> <li>▪ Treas. Reg. 1.263A-3(a)(2)(ii)</li> <li>▪ Treas. Reg. 1.263A-3(a)(4)(ii)</li> <li>▪ Treas. Reg. 1.263A-3(a)(4)(iii)</li> </ul>

# Step 3: Identify Section 471 Costs

## Examining a Reseller's IRC 263A Computation

### Step 3

Identify Section 471 Costs.

Considerations	Resources
<p>You should start with reviewing section 471 costs when examining an IRC 263A computation. Certain costs the taxpayer incurs when acquiring goods for resale may be capitalized to ending inventory under either IRC 471 or IRC 263A.</p> <p>Before determining costs that the taxpayer is required to capitalize under IRC 263A for tax purposes, you must first determine the costs the taxpayer included in their ending inventory under IRC 471 so that there will be no duplication upon the allocation of costs to ending inventory. Note: IRC 263A requires capitalization of certain additional costs that the taxpayer has not inventoried under IRC 471.</p> <p>When a taxpayer acquires property for resale, they should include section 471 costs that Treas. Reg. 1.471-3 requires:</p> <ul style="list-style-type: none"> <li>▪ Invoice price less trade or other discounts,</li> <li>▪ Plus, freight-in,</li> <li>▪ Plus, other necessary charges in acquiring possession of the goods.</li> </ul> <p>See the Issue Snapshot - <i>Determination of IRC 471 costs for Resellers</i> for additional information on section 471 costs.</p>	<ul style="list-style-type: none"> <li>▪ IRC 263A</li> <li>▪ IRC 471</li> <li>▪ Treas. Reg. 1.263A-1(d)(2)</li> <li>▪ Treas. Reg. 1.471-3</li> <li>▪ Issue Snapshot – <i>Determination of IRC 471 Costs for Resellers</i></li> </ul>

# Step 3: Identify Section 471 Costs (cont'd)

## Examining a Reseller's IRC 263A Computation

### [Step 3](#)

Considerations	Resources
<p>For tax years beginning before November 20, 2018, determine if the taxpayer is pre-enactment or post-enactment for purposes of identifying IRC 471 costs.</p> <p><u>Section 471 Costs for Pre-enactment Taxpayer</u></p> <p>Section 471 applies to property a taxpayer acquires for resale in the ordinary course of its trade or business. Accordingly, section 471 does not apply to the costs a taxpayer is required to capitalize to the basis of capital assets.</p> <p>For a taxpayer in existence prior to the enactment of IRC 263A, a taxpayer's section 471 costs are the costs, other than interest, the taxpayer capitalized under their method of accounting immediately prior to the effective date of IRC 263A. See Treas. Reg. 1.263A-1(d)(2)(i).</p> <p>For a Pre-enactment taxpayer, section 471 costs include non-inventory costs capitalized under the taxpayer's method of accounting, even if the law did not require a taxpayer to capitalize such costs to inventory. For example, if a taxpayer capitalized advertising cost to inventory, it would be a section 471 cost for IRC 263A purposes. In addition, if the taxpayer only included cost of the goods, the taxpayer's section 471 costs would be limited to the cost of those goods. If a pre-enactment taxpayer does not include freight-in costs in their section 471 costs, the freight-in would be an additional section 263A cost.</p>	<ul style="list-style-type: none"> <li>▪ IRC 263A</li> <li>▪ IRC 471</li> <li>▪ Treas. Reg. 1.263A-1(d)(2)(i)</li> <li>▪ Treas. Reg. 1.471-2(f)(7)</li> <li>▪ Treas. Reg. 1.471-11</li> </ul>

# Step 3: Identify Section 471 Costs (cont'd)

## Examining a Reseller's IRC 263A Computation

### [Step 3](#)

Considerations	Resources
<p><u>Section 471 Costs for Post-enactment Taxpayer</u></p> <p>In the case of a post-enactment taxpayer (“new taxpayer”), section 471 costs are acquisition costs, other than interest that the taxpayer would have been required to capitalize if the taxpayer had been in existence immediately prior to December 31, 1986, the effective date of IRC 263A. See Treas. Reg. 1.263A-1(d)(2)(ii).</p> <p>Thus, a taxpayer’s section 471 costs are costs they were required to include in inventory costs as detailed in Treas. Reg. 1.471-3. Consequently, if a new taxpayer’s method of accounting omits required costs from inventory costs, that taxpayer’s section 471 costs should be adjusted. For example, if a new taxpayer does not include freight-in costs in their section 471 costs, an adjustment for freight-in costs should be made to section 471 costs in inventory and not to section 263A costs.</p>	<ul style="list-style-type: none"><li>▪ IRC 263A</li><li>▪ Treas. Reg. 1.263A-1(d)(2)(ii)</li><li>▪ Treas. Reg. 1.471-3</li></ul>

# Step 4: Identify Additional Section 263A Costs

## Examining a Reseller's IRC 263A Computation

### Step 4

Identify additional section 263A costs.

Considerations	Resources
<p>IRC 263A costs are the sum of the taxpayer's section 471 costs, additional section 263A costs, and interest capitalizable under IRC 263A(f). See Treas. Reg. 1.263A-1(d)(4).</p> <p>For pre-enactment taxpayers, additional section 263A costs are the costs (other than interest) a taxpayer is required to capitalize under IRC 263A, which the taxpayer did not capitalize under their method of accounting immediately before the effective date of IRC 263A. These costs consist of indirect and service costs. If a pre-enactment taxpayer does not include an indirect cost such as rent in their IRC 471 costs, the rent expense would be an additional 263A cost. See Treas. Reg. 1.263A-1(d)(3).</p> <p>For new taxpayers, additional section 263A costs are the costs (other than interest) a taxpayer must capitalize under IRC 263A, which the taxpayer would not have been required to capitalize if the taxpayer had been in existence prior to the effective date of IRC 263A. See Treas. Reg. 1.263A-1(d)(3). For example, if a new taxpayer does not include an indirect cost such as rent in their section 471 costs, an adjustment should be made to IRC 471 costs in inventory and not to section 263A costs.</p>	<ul style="list-style-type: none"> <li>▪ IRC 263A</li> <li>▪ IRC 263A(f)</li> <li>▪ Treas. Reg. 1.263A-1(d)(3)</li> </ul>



# Step 4: Identify Additional Section 263A Costs (cont'd)

## Examining a Reseller's IRC 263A Computation

### [Step 4](#)

Considerations	Resources
<p>Additional section 263A costs are costs that directly benefit resale activities or that a taxpayer incurs because of their performance of resale activities, and that the taxpayer did not capitalize under their method of accounting for inventories.</p> <p>A taxpayer should treat certain additional costs associated with property that they acquire for resale as capitalizable costs as provided in IRC 263A and Treas. Reg. 1.263A-3(c).</p> <p>Capitalizable costs include:</p> <ol style="list-style-type: none"> <li>1. Purchasing costs,</li> <li>2. Handling costs,</li> <li>3. Off-site storage and warehousing costs, and</li> <li>4. Mixed Service costs related to the above three listed costs.</li> </ol> <p>Treas. Reg. 1.263A-3(c)(2) states the following:</p> <p>The costs attributable to purchasing, handling, and storage activities generally consist of direct and indirect labor costs (including the costs of pension plans and other fringe benefits); occupancy expenses, including rent, depreciation, insurance, security, taxes, utilities and maintenance; materials and supplies; rent, maintenance, depreciation, and insurance on vehicles and equipment, tools, telephone, travel; and the general and administrative costs that directly benefit or are incurred by reason of the taxpayer's activities.</p>	<ul style="list-style-type: none"> <li>▪ Treas. Reg. 1.263A-1(d)(3)</li> <li>▪ Treas. Reg. 1.263A-3(c)</li> <li>▪ Treas. Reg. 1.263A-3(c)(2)</li> <li>▪ Treas. Reg. 1.263A-3(c)(3)</li> </ul>

# Step 4: Identify Additional Section 263A Costs (cont'd)

## Examining a Reseller's IRC 263A Computation

### [Step 4](#)

Considerations	Resources
<p><u>Purchasing Costs</u></p> <p>Purchasing costs are defined in Treas. Reg. 1.263A-3(c)(3) as all costs associated with the taxpayer's operating a purchasing department or office within a trade or business.</p> <p>Treas. Reg. 1.263A-3(c)(3) describes personnel costs such as buyers, assistant buyers, and clerical workers related to:</p> <ol style="list-style-type: none"><li>1. The selection of merchandise,</li><li>2. The maintenance of stock assortment and volume,</li><li>3. The placement of purchase orders,</li><li>4. The establishment and maintenance of vendor contracts, and</li><li>5. The comparison and testing of merchandise.</li></ol>	<ul style="list-style-type: none"><li>▪ Treas. Reg. 1.263A-3(c)(3)</li><li>▪ Treas. Reg. 1.263A-3(c)(5)(ii)(A)</li><li>▪ Treas. Reg. 1.263A-3(c)(5)(ii)(B)</li></ul>

# Step 4: Identify Additional Section 263A Costs (cont'd)

## Examining a Reseller's IRC 263A Computation

### [Step 4](#)

Considerations	Resources
<p><u>Purchasing Costs (cont'd)</u></p> <p>A taxpayer may elect the 1/3-2/3 rule for allocating labor costs of persons performing both purchasing and non-purchasing activities. If elected, the taxpayer must allocate the labor costs of all such persons using the 1/3-2/3 rule. If the person's purchasing labor cost is greater than 2/3, the taxpayer allocates all of that person's labor cost to purchasing, and in contrast, if it is less than 1/3, the taxpayer allocates none of that person's labor cost to purchasing. For persons with between 1/3 and 2/3 of their activities related to purchasing, the taxpayer must reasonably allocate labor costs between purchasing and non-purchasing activities.</p> <p>If the taxpayer has not elected the 1/3-2/3 rule, the taxpayer must reasonably allocate labor costs between purchasing and non-purchasing activities for all persons performing both purchasing and non-purchasing activities.</p> <p>NOTE: As an audit technique, look to the functions an individual performs and not just the individual's job title to determine how to treat the costs as additional section 263A costs.</p>	<ul style="list-style-type: none"><li>▪ <a href="#">Treas. Reg. 1.263A-3(c)(4)</a></li></ul>

# Step 4: Identify Additional Section 263A Costs (cont'd)

## Examining a Reseller's IRC 263A Computation

### [Step 4](#)

Considerations	Resources
<p><u>Handling Costs</u></p> <p>Handling costs are defined in Treas. Reg. 1.263A-3(c)(4), as all the costs associated with the taxpayers operating a handling department or office within a trade or business or can include:</p> <ul style="list-style-type: none"> <li>▪ Processing – minor alterations,</li> <li>▪ Assembly,</li> <li>▪ Repacking,</li> <li>▪ Transportation.</li> </ul> <p>Transportation costs: Under Treas. Reg. 1.263A-3(c)(4), transportation costs such as freight and trucking costs, that a taxpayer is generally required to capitalize include costs incurred in the transporting of property –</p> <ul style="list-style-type: none"> <li>▪ From the vendor to the taxpayer,</li> <li>▪ From one of the taxpayer's storage facilities to another of their storage facilities,</li> <li>▪ From the taxpayer's storage facility to their retail sales facility,</li> <li>▪ From the taxpayer's retail sales facility to their storage facility,</li> <li>▪ From one of the taxpayer's retail sales facilities to another of their retail sales facilities.</li> </ul> <p>Other similar activities provided the activities do not come within the meaning of "produce." Produce, as defined in Treas. Reg. 1.263A-2(a)(1), includes construct, build, install, manufacture, raise, or grow. If the reseller has production activities, then see Treas. Reg. 1.263A-3(a)(2).</p>	<ul style="list-style-type: none"> <li>▪ Treas. Reg. 1.263A-2(a)(1)</li> <li>▪ Treas. Reg. 1.263A-3(a)(2)</li> <li>▪ Treas. Reg. 1.263A-3(c)(4)</li> <li>▪ Treas. Reg. 1.263A-3(c)(5)</li> </ul>

# Step 4: Identify Additional Section 263A Costs (cont'd)

## Examining a Reseller's IRC 263A Computation

### [Step 4](#)

Considerations	Resources
<p><u>Storage Costs</u></p> <p>Storage costs are defined in Treas. Reg. 1.263A-3(c)(5) as all the costs attributable to the operation of a storage or warehousing facility, which can include on-site, off-site and dual function facilities. The storage facilities types are explained as follows:</p> <ol style="list-style-type: none"> <li>1. On-site storage facilities are physically attached to and are an integral part of a retail sales facility where retail customers make purchases in person. Taxpayers are not required to capitalize on-site storage costs.</li> <li>2. Off-site storage sites are facilities that are not an on-site facility. A taxpayer must allocate costs for off-site storage facilities to inventory.</li> <li>3. A facility that serves both as an on-site and off-site facility is a dual-function storage facility, see Treas. Reg. 1.263A-3(c)(5)(ii)(F). In this situation, the taxpayer must allocate costs between the on-site and off-site functions, see Treas. Reg. 1.263A-3(c)(5)(iii). The dual-function storage facility allocation ratio is:           <math display="block">\frac{\text{Gross On-site Sales of the Facility}^*}{\text{Total Gross Sales of the Facility}^{**}}</math> </li> </ol> <p>*This is gross sales the taxpayer makes to retail customers visiting the premises in person and purchasing merchandise stored therein.</p> <p>** For this purpose, total gross sales include the value of items the taxpayer ships to their other facilities.</p>	<ul style="list-style-type: none"> <li>▪ Treas. Reg. 1.263A-3(c)(5)(ii)(F)</li> <li>▪ Treas. Reg. 1.263A-3(c)(5)(iii)</li> <li>▪ Treas. Reg. 1.263A-3(c)(5)</li> </ul>

# Step 4: Identify Additional Section 263A Costs (cont'd)

## Examining a Reseller's IRC 263A Computation

### [Step 4](#)

Considerations	Resources
<p><u>Storage Costs (cont'd)</u></p> <p>Consider the dual storage de minimis 90-10 rule – under Treas. Reg. 1.263A-3(c)(5)(iii)(C):</p> <ul style="list-style-type: none"> <li>▪ If 90% or more of the costs of a facility are attributable to on-site storage, the entire storage facility is deemed an on-site storage facility.</li> <li>▪ If 90% or more of the costs of a facility are attributable to off-site storage, the entire storage facility is deemed an off-site storage facility.</li> <li>▪ See a detailed description of this issue: <i>Audit Tool - Handling Costs at a Dual Function Storage Facility</i>.</li> </ul>	<ul style="list-style-type: none"> <li>▪ <i>Audit Tool - Handling Costs at a Dual Function Storage Facility</i></li> <li>▪ Treas. Reg. 1.263A-3(c)(5)(iii)(C)</li> </ul>

# Step 4: Identify Additional Section 263A Costs (cont'd)

## Examining a Reseller's IRC 263A Computation

### [Step 4](#)

Considerations	Resources
<p><u>Service Costs</u></p> <p>A service cost is an indirect cost (such as general and administrative costs) that a taxpayer incurs within a service department or function. Service departments include administrative, service or support departments. A department incurring acquisition cost is not a service department because the cost that the taxpayer identifies or associates with property acquired for resale should be allocated to such property. Examples of service departments include Accounting, Human Resources, Legal and Information Technology.</p> <p>Service costs can be capitalizable, deductible or mixed service costs. Capitalizable service costs are costs that directly benefit or are incurred because of the resale activities. For example, the accounting department may employ a plant accountant whose job is specific to the resale activity.</p> <p>Deductible service costs include costs that departments responsible for overall management incur. These costs are generally not allocable to resale activities when no substantial cost of such departments benefit a particular resale activity. Overall management and policy departments include those involved in insurance or risk management, internal audit, marketing, selling or advertising.</p>	

# Step 4: Identify Additional Section 263A Costs (cont'd)

## Examining a Reseller's IRC 263A Computation

### Step 4

Considerations	Resources
<p><u>Mixed Service Costs</u></p> <p>Mixed service costs (MSC) are a subset of additional section 263A costs and are a type of indirect cost requiring capitalization under IRC 263A. See Treas. Reg. 1.263A-1(d)(3). Mixed service costs are service costs that are partially allocable to resale activities and partially allocable to non-resale activities such as Accounting, IT, and Security Departments. These departments benefit and support reselling operations even though they are not directly involved in the reselling process. Verify that purchasing, storage and handling costs are not included in the MSC. See TAM 200446024.</p> <p>Generally, additional IRC 263A costs are costs that a taxpayer does not capitalize under their book method of accounting but are required to be capitalized under IRC 263A. If a taxpayer capitalized a mixed service cost under the taxpayer's method of accounting prior to the enactment of IRC 263A, it is not an additional IRC 263A cost (it is an IRC 471 cost). If the taxpayer did not capitalize the mixed service cost under their book method of accounting and the taxpayer did not exist prior to the enactment of IRC 263A, it is an additional IRC 263A cost.</p>	<ul style="list-style-type: none"> <li>▪ IRC 263A</li> <li>▪ IRC 471</li> <li>▪ Treas. Reg. 1.263A-1(d)(3)</li> <li>▪ Treas. Reg. 1.263A-1(e)(4)</li> <li>▪ TAM 200446024</li> </ul>



# Step 5: Allocate Additional Section 263A Costs

## Examining a Reseller's IRC 263A Computation

### Step 5

Determining additional section 263A costs to allocate to the resale activity.

Considerations	Resources
<p><u>Mixed Service Costs (cont'd)</u></p> <p>Generally, the taxpayer will use the simplified service cost method (SSCM) to allocate MSC between resell and non-resell activities using the labor-based allocation ratio. See Treas. Reg. 1.263A-1(h)(4). The taxpayer multiplies their total MSC by the allocation ratio to obtain MSC allocable to resell activities.</p> <p>The Labor cost allocation ratio formula is:</p> $\frac{\text{Section 263A Labor Costs}^*}{\text{Total Labor Costs}^{**}}$ <p>*Section 263A labor costs are the total labor costs (excluding labor costs included in MSC) the taxpayer incurs during the tax year that are allocable to property acquired for resale under IRC 263A.</p> <p>**Total labor costs are the total labor costs (excluding labor costs included in MSC) the taxpayer incurs during the tax year.</p>	<ul style="list-style-type: none"><li>▪ IRC 263A</li><li>▪ Treas. Reg. 1.263A-1(h)(4)</li></ul>

# Step 5: Allocate Additional Section 263A Costs (cont'd)

## Examining a Reseller's IRC 263A Computation

### [Step 5](#)

Considerations	Resources
<p><u>Mixed Service Costs (cont'd)</u></p> <p>Treas. Reg. 1.263A-1(h)(6) defines total MSC when the taxpayer elects the SSCM to allocate the costs to resale activities as follows:</p> <p>Total MSC are the total costs of all departments or functions of the taxpayer's trade or business that perform mixed service activities. See Treas. Reg. 1.263A-1(e)(4)(ii)(C).</p> <p>In determining total MSC, the taxpayer must include all costs incurred in its mixed service departments and cannot exclude any otherwise deductible service costs. For example, if the accounting department is a mixed service department, the taxpayer cannot exclude from their total MSC the costs of personnel in the accounting department that perform services relating to non-resale activities (for instance, accounts receivable or customer billing activities). Instead, the entire cost of the accounting department must be included in the total MSC.</p>	<ul style="list-style-type: none"><li>▪ Treas. Reg. 1.263A-1(h)(6)</li><li>▪ Treas. Reg. 1.263A-1(e)(4)(ii)(C)</li></ul>

# Step 5: Allocate Additional Section 263A Costs (cont'd)

## Examining a Reseller's IRC 263A Computation

### [Step 5](#)

Considerations	Resources
<p><u>Mixed Service Costs (cont'd)</u></p> <p>Determine which method the taxpayer used to allocate MSC. Taxpayers may use a variety of methods to allocate MSC among property they acquire for resale. For example, two methods are the “facts-and- circumstances” method and the SSCM. See Issue Snapshot – <i>Identifying and Allocating Costs under the Uniform Capitalization Rules of IRC 263A</i>.</p>	<ul style="list-style-type: none"><li>▪ IRC 263A</li><li>▪ Issue Snapshot - <i>Allocation of Mixed Service Costs when Computing Additional 263A Costs</i></li><li>▪ Job Aid - <i>IRC 263A Mixed Service Cost Allocation Methods</i></li><li>▪ Issue Snapshot – <i>Identifying and Allocating Costs under the Uniform Capitalization Rules of IRC 263A</i></li></ul>

# Step 5: Allocate Additional Section 263A Costs (cont'd)

## Examining a Reseller's IRC 263A Computation

### [Step 5](#)

Considerations	Resources
<p><u>Audit Techniques:</u></p> <ul style="list-style-type: none"> <li>▪ Review the taxpayer's IRC 263A workpapers and supporting documents. Ensure there are allocations for deductible, capitalizable, and MSC from administrative departments, accounting, human resources, IT, etc.</li> <li>▪ Using professional judgment, sample and secure cost center reports (or similar reports), which would demonstrate the activities and interaction of departments, department identification numbers, supervisors, etc. This may lead to identification of potential costs related to resale activities included in certain cost centers.</li> <li>▪ Review the functions of the taxpayer's departments to determine the costs present in each department. Costs will be one of three types: deductible, capitalizable, or mixed.</li> <li>▪ Gather information about officers' activities. Officers involved in resale activities may have a portion of their salaries allocated to resale activities. Depending on the level of involvement and activities of the officers, the officers' salaries could be indirect or mixed.</li> </ul> <p>Note: These are audit technique ideas that an examiner may use based on judgment and risk assessment of the taxpayer's return and records.</p>	

# Step 6: Capitalize Section 263A Costs to Ending Inventory

## Examining a Reseller's IRC 263A Computation

### Step 6

Capitalize section 263A costs to ending inventory.

Considerations	Resources
<p>Once all additional IRC 263A costs are identified, the taxpayer must allocate these costs to the items remaining in ending inventory. Review the method the taxpayer used to make the allocation of costs to ending inventory.</p> <p>The regulations set forth various detailed or specific (facts-and-circumstances) cost allocation methods that taxpayers may use to allocate direct and indirect costs to property acquired for resale.</p> <p>In addition, in lieu of a facts-and-circumstances allocation method, most resellers use the simplified resale method. See Treas. Reg. 1.263A-1(f).</p>	<ul style="list-style-type: none"><li>▪ IRC 263A</li><li>▪ Treas. Reg. 1.263A-1(f)</li><li>▪ Treas. Reg. 1.263A-3(d)</li><li>▪ IRC 471</li></ul>

# Step 6: Capitalize Section 263A Costs to Ending Inventory (cont'd)

## Examining a Reseller's IRC 263A Computation

### [Step 6](#)

Considerations	Resources
<p><u>Simplified Resale Method</u></p> <p>Treas. Reg. 1.263A-3(d) provides for the Simplified Resale Method (SRM). The general formula for the SRM multiplies the section 471 costs on hand at year-end by a combined absorption ratio. The combined absorption ratio is the sum of the storage and handling ratio and the purchasing ratio. The steps for the method are as follows:</p> <p>1. Storage and Handling Ratio:</p> $\frac{\text{Current Year's Storage and Handling Costs}^*}{\text{Beginning Inventory} + \text{Current Year Purchases}^{**}}$ <p>*Current year's storage and handling costs are defined as the total storage cost plus the total handling cost, including allocable MSC, incurred during the taxable year that relate to property acquired for resale and other eligible property.</p> <p>**Current year's purchases generally mean the taxpayer's section 471 costs incurred for property the taxpayer purchased for resale during the current taxable year, including allocable MSC.</p>	

# Step 6: Capitalize Section 263A Costs to Ending Inventory (cont'd)

## Examining a Reseller's IRC 263A Computation

### [Step 6](#)

Considerations	Resources
<p><u>Simplified Resale Method (cont'd)</u></p> <p>2. Purchasing Ratio:</p> $\frac{\text{Current Year's Purchasing Costs}^{***}}{\text{Current Year Purchases}^{**}}$ <p>**Current year's purchases generally mean the taxpayer's section 471 costs incurred for property the taxpayer purchased for resale during the current taxable year, including allocable MSC.</p> <p>***Current year's purchasing costs are defined as the total purchasing costs incurred during the taxable year that relate to property the taxpayer acquired for resale or other eligible property, including allocable MSC.</p> <p>3. Combined Absorption Ratio = Storage and Handling Ratio + Purchasing Ratio.</p> <p>4. Capitalizable Section 263A Costs = Combined Absorption Ratio x Section 471 Costs Remaining on Hand at Year End</p>	

# Step 6: Capitalize Section 263A Costs to Ending Inventory (cont'd)

## Examining a Reseller's IRC 263A Computation

### [Step 6](#)

Considerations	Resources
<p><u>Simplified Resale Method (cont'd)</u></p> <p>The taxpayer multiplies their section 471 current year costs remaining in ending inventory or otherwise on hand at the end of each tax year by the combined absorption ratio. The result is the amount of additional section 263A costs that are added to the taxpayer's ending section 471 costs to determine the section 263A costs that are required to be capitalized.</p> <p><u>Goods Valued Below Cost</u></p> <p>The section 471 current year costs remaining on hand at year-end, as defined in IRC 471(b)(3)(ii)(B), do not include goods that the taxpayer valued below cost. The taxpayer may write-down or write-off obsolete inventory. See Job Aid - <i>Summary of Inventory Write-Down Tax Law Research</i>, which summarizes the basic authority for inventory write-down issues.</p>	<ul style="list-style-type: none"><li>▪ IRC 471</li><li>▪ Audit Tool - Job Aid - <i>Summary of Inventory Write-Down Tax Law Research</i></li></ul>



# Step 7: Evaluate the Taxpayer's Method

## Examining a Reseller's IRC 263A Computation

### Step 7

Evaluate the taxpayer's method.

Considerations	Resources
<p>Review and evaluate the method used by the taxpayer to allocate additional section 263A costs to the items remaining in ending inventory.</p> <ul style="list-style-type: none"> <li>▪ Is the IRC 263A adjustment included on the Form 1125-A, <i>Cost of Goods Sold</i>?               <ul style="list-style-type: none"> <li>– Are additional section 263A costs included in ending and beginning inventory amounts?</li> <li>– Are additional section 263A costs included in Line 4?</li> <li>– If the additional section 263A costs are not in either of those places, ask the taxpayer to explain where it recorded the adjustment on the tax return.</li> </ul> </li> <li>▪ Reconcile the IRC 263A and IRC 471 adjustments from the taxpayer's work papers to the Schedule M-3 adjustment.               <ul style="list-style-type: none"> <li>– Inspect the Schedule M-3 and look specifically to the supporting Form 8916-A, <i>Supplemental Attachment to Schedule M-3</i>.</li> <li>– Do you see the IRC 263A adjustment capitalizing the additional costs to ending inventory? Ask the taxpayer where this adjustment is if you do not see it.</li> <li>– Verify that the Cost of Goods Sold as stated on Schedule M-3, Part II and Form 8916-A tie to Form 1125-A. If there are variances, have the taxpayer reconcile them.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ IRC 263A</li> <li>▪ Form 1125-A – <i>Cost of Goods Sold</i></li> <li>▪ Form 8916-A – <i>Supplemental Attachment to Schedule M-3</i></li> <li>▪ Schedule M-3 – Net Income Reconciliation</li> </ul>

# Step 7: Evaluate the Taxpayer's Method (cont'd)

## Examining a Reseller's IRC 263A Computation

### [Step 7](#)

Considerations	Resources
<ul style="list-style-type: none"><li>▪ Taxpayers typically capitalize direct costs and indirect costs under IRC 471. If the taxpayer does not capitalize section 471 costs to inventory (as provided in Treas. Reg. 1.471-1 thru 1.471-4 and IRC 263A), then the agent should consider correcting this method. See pre-enactment and post-enactment rules in Step 3.</li><li>▪ If the taxpayer is using a simplified method, evaluate to make sure the taxpayer properly applied the method.</li><li>▪ If the taxpayer is using a method not discussed in the Treasury Regulations, ask additional questions regarding the method used. For example:<ul style="list-style-type: none"><li>– How was the method developed?</li><li>– How long has the method been used?</li><li>– Is it a method used by others in the same industry?</li></ul></li></ul>	<ul style="list-style-type: none"><li>▪ IRC 263A</li><li>▪ IRC 471</li><li>▪ Treas. Reg. 1.471-1</li><li>▪ Treas. Reg 1.471-11</li></ul>

# Step 7: Evaluate the Taxpayer's Method (cont'd)

## Examining a Reseller's IRC 263A Computation

### [Step 7](#)

Considerations	Resources
<ul style="list-style-type: none"><li>▪ Does the method the taxpayer used capitalize enough costs to provide for a clear reflection of income?<ul style="list-style-type: none"><li>– Evaluate how the taxpayer chose the method and if the method is reasonable based on the specific taxpayer resale activities.</li><li>– Treas. Reg. 1.263A-1(f) provides guidance for a reasonable method.</li><li>– Consider TAM 200437035 where the taxpayer's burden rate did not provide for a clear reflection of income.</li><li>– An examiner who determines that a taxpayer's method of accounting is impermissible, or that a taxpayer changed its method of accounting without obtaining the consent of the Commissioner, may propose an adjustment for that method only by changing the taxpayer's method of accounting. Contact the Methods of Accounting &amp; Timing Practice Network if you encounter this situation. See Step 8.</li></ul></li></ul>	<ul style="list-style-type: none"><li>▪ Treas. Reg. 1.263A-1(f)</li><li>▪ TAM 200437035</li></ul>

# Step 8: Impose a Change in Accounting Method

## Examining a Reseller's IRC 263A Computation

### Step 8

Impose a Change in Accounting Method.

Considerations	Resources
<p><u>General Overview</u></p> <p>In general, an accounting method is a set of rules used to determine when and how a taxpayer takes income and expenses into account for federal income tax purposes. A method of accounting must involve timing. If an accounting practice for an item does not permanently affect the taxpayer's lifetime taxable income but does or could change the year in which taxable income is reported (or in which deductions are claimed), the accounting practice for the item involves timing and is therefore considered a method of accounting. See IRC 446.</p> <p>A Service-imposed change in accounting method (CAM) requires specific written notification to the taxpayer. If the Service does not provide written notice to the taxpayer that it is treating an accounting method issue as a CAM, then the taxpayer's accounting method has not been changed. It is important to properly identify change in accounting method issues and properly compute the IRC 481(a) adjustment. A change to the tax treatment of section 263A costs, methods, and allocations may be a CAM.</p> <p>If multiple CAMs occur in the same year, then method change procedures generally deem the IRC 263A method change to occur before any other method changes for that tax year. However, there are some changes that do not follow this general rule. See Treas. Reg. 1.263A-7(b).</p>	<ul style="list-style-type: none"><li>▪ IRC 263A</li><li>▪ IRC 446</li><li>▪ IRC 481(a)</li><li>▪ Treas. Reg. 1.263A-7(b)</li></ul>

# Step 8: Impose a Change in Accounting Method (cont'd)

## Examining a Reseller's IRC 263A Computation

### [Step 8](#)

Considerations	Resources
<p><u>General Overview (cont'd)</u></p> <p>First, if there is a change to a taxpayer's overall method of accounting, such as from the cash receipts and disbursements method to the accrual method, in the same tax year a change to the method of accounting for section 263A costs, the accrual method change must occur before the IRC 263A change.</p> <p>Second, if there is a change in depreciation method in the same year as a method change of accounting for section 263A costs and any portion of the depreciation is subject to IRC 263A, the change in depreciation method must occur before the IRC 263A change.</p> <p>In addition, there are a few other exceptions to this general rule. Certain Last in First Out (LIFO) changes made in the same year as changes to a method of accounting for section 263A costs are not required to follow this rule. For example, if there is a change to terminate the use of LIFO method or a change from using the specific goods LIFO method to using the dollar value LIFO inventory method in the same year a change to the method of accounting for section 263A costs, the changes to the LIFO method may occur before the IRC 263A changes.</p>	<ul style="list-style-type: none"><li>▪ IRC 263A</li></ul>

# Step 8: Impose a Change in Accounting Method (cont'd)

## Examining a Reseller's IRC 263A Computation

### [Step 8](#)

Considerations	Resources
<p><u>Changes in Section 263A Costs</u></p> <p>You must determine if a taxpayer has adopted a method of accounting. This is important because once a taxpayer adopts a method of accounting, even an impermissible method, it may not change to a different method of accounting without first obtaining the Commissioner's consent.</p> <p>A taxpayer adopts a method of accounting by using a consistent pattern of treatment. A taxpayer adopts a permissible method of accounting by using the method to compute taxable income on its first tax return or the first tax return that reflects the material item. A taxpayer adopts an impermissible method of accounting for a material item by treating the item in the same way on two or more consecutively filed tax returns. See Rev. Rul. 90-38 and Rev. Rul. 72-491. A material item is any item of income, deduction, gain or loss that involves timing (section 263A costs). An impermissible method is one that does not clearly reflect taxable income.</p> <p>If you determine a taxpayer adopted an impermissible accounting method for its section 263A costs or did not properly obtain the Commissioner's consent before changing its accounting method for section 263A costs, you should propose a Service-imposed change in accounting method. Rev. Proc. 2002-18 provides the procedures for a Service-imposed CAM.</p>	<ul style="list-style-type: none"> <li>▪ IRC 263A</li> <li>▪ Rev. Proc. 2002-18</li> <li>▪ Rev. Rul. 72-491</li> <li>▪ Rev. Rul. 90-38</li> </ul>

# Step 8: Impose a Change in Accounting Method (cont'd)

## Examining a Reseller's IRC 263A Computation

### [Step 8](#)

Considerations	Resources
<p><u>Changes in Section 263A Costs (cont'd)</u></p> <p>You can find additional information on Service-imposed method change issues in the Knowledge Management Servicewide Virtual Library (VL) by going to the Examination floor, then the Corporate/Business Issues &amp; Credits Knowledge Base (KB) and selecting the Change in Methods book on the Methods of Accounting and Timing shelf.</p> <p>In general, a taxpayer requesting a change in accounting method must file an application for change in accounting method (Form 3115) prospectively, using either the automatic or the non-automatic (advance) method change consent procedures in Rev. Proc. 2015-13. You can find additional information on voluntary method change procedures in the Change in Methods book.</p> <p>If you determine a taxpayer adopted an IRC 263A method of accounting that does not clearly reflect income, that is an impermissible method, you should initiate an involuntary change in accounting method by calculating an IRC 481(a) adjustment and a current year adjustment. Do this by recalculating the taxpayer's beginning and ending capitalized section 263A costs under the new method of accounting. Generally, propose the CAM adjustment in the first year under examination. There is no spread of the IRC 481(a) adjustment for a Service – imposed method change, you must include the entire amount of the IRC 481(a) adjustment in the year of change.</p>	<ul style="list-style-type: none"> <li>▪ IRC 263A</li> <li>▪ IRC 481(a)</li> <li>▪ Rev. Proc. 2015-13</li> <li>▪ Form 3115 - <i>Application for Change in Accounting Method</i></li> <li>▪ Corporate/Business Issues &amp; Credits KB, Change in Methods Book, Ch. 4 – <i>Voluntary Change in Method</i></li> <li>▪ Corporate/Business Issues &amp; Credits KB, Change in Methods Book, Ch. 5 - <i>IRC 446(b): Service-Imposed Method Change Issues</i></li> <li>▪ Corporate/Business Issues &amp; Credits KB, Change in Methods Book, Ch. 6 - <i>IRC 481(a) Adjustments</i></li> </ul>

# Definitions

## Examining a Reseller's IRC 263A Computation

### Description

- Current Year's Purchases – generally, taxpayer's section 471 costs incurred for property the taxpayer purchased for resale during the current taxable year. See Step 6 for further guidance.
- Current Year's Purchasing Costs - total purchasing costs incurred during the taxable year that relate to property the taxpayer acquired for resale or other eligible property. See Step 6 for further guidance.
- Current Year's Storage and Handling Costs - total storage cost plus the total handling cost incurred during the taxable year that relate to property acquired for resale and other eligible property. See Step 6 for further guidance.
- Gross Receipts - revenues derived from the sale of inventory before any reduction for cost of goods sold.
- Handling Cost - costs associated with the taxpayer's operating a handling department or office within a trade or business. See Step 4 for further guidance.
- Mixed Service Costs - service costs that are partially allocable to resale activities and partially allocable to non-resales activities. See Step 4 for further guidance.
- Post-Enactment - taxpayer not in existence prior to the enactment of Treas. Reg. 263A.
- Pre-Enactment - taxpayer in existence prior to the enactment of Treas. Reg. 263A. Treas. Reg. 263A was enacted on December 31, 1986 and is effective for the first tax year beginning after December 31, 1986. See Step 3 for further guidance.
- Purchasing Costs - all costs associated with the taxpayer's operating a purchasing department or office within a trade or business. See Step 4 for further guidance.
- Resellers - retailers, wholesalers, and other taxpayers that acquire property described in IRC 1221(a)(1) for resale, see the Process Overview section for further explanation.
- Storage Cost - costs associated with the taxpayer's operating a storage department or office within a trade or business. See Step 4 for further guidance.
- Transportation Costs - costs that a taxpayer is generally required to capitalize include costs incurred in the transporting property. See Step 4 for further guidance.



# Definitions (cont'd)

## Examining a Reseller's IRC 263A Computation

### Description

- Total Labor Costs - total labor costs in all departments of the taxpayer's trade or business less mixed service labor costs. See Step 5 for further guidance.
- Treas. Reg. 263A Labor Costs - labor costs allocable to property acquired for resale less mixed service labor cost. See Step 5 for further guidance.

# Other Considerations / Impact to Audit

Examining a Reseller's IRC 263A Computation	
Considerations	Resources
<ul style="list-style-type: none"> <li>Consider interest capitalization rules under IRC 263A(f) for any self-constructed assets.</li> </ul>	<ul style="list-style-type: none"> <li>IRC 263A(f)</li> <li>Practice Unit – <i>Interest capitalization for Self-Constructed Assets</i></li> </ul>
<ul style="list-style-type: none"> <li>Once IRC 263A(f) costs are capitalized to self-constructed assets, depreciation should be updated due to the change in the basis of the asset.</li> </ul>	
<ul style="list-style-type: none"> <li>Taxpayer's gross receipts may vary from year to year causing the taxpayer to meet the small taxpayer exception one year and not the next. Review the CAM procedures for this occurrence.</li> </ul>	<ul style="list-style-type: none"> <li>Training – TCJA Inventory and Accounting Method Changes – 2019 CPE</li> <li>Rev. Proc. 2018-40</li> </ul>
<ul style="list-style-type: none"> <li>Be aware of the new regulations for negative section 263A costs and new modified simplified production method.</li> </ul>	<ul style="list-style-type: none"> <li>TD 9843</li> <li>Rev. Proc. 2018-56</li> </ul>

# Index of Referenced Resources

## Examining a Reseller's IRC 263A Computation

IRC 263A

IRC 446

IRC 448

IRC 471

IRC 481

IRC 1221

Treas. Reg. 1.263A-1

Treas. Reg. 1.263A-2

Treas. Reg. 1.263A-3

Treas. Reg. 1.263A-7

Treas. Reg. 1.471-1

Treas. Reg. 1.471-2

Treas. Reg. 1.471-3

Treas. Reg. 1.471-4

Treas. Reg. 1.471-11

Rev. Rul.. 72-491

# Index of Referenced Resources (cont'd)

<b>Examining a Reseller's IRC 263A Computation</b>
Rev. Rul. 90.38
Rev. Proc. 2002-18
Rev. Proc. 2015-13
Rev. Proc 2018-40
Rev. Proc 2018-56
TAM 200437035
TAM 200446024
TD 9843
Corporate/Business Issues & Credits KB, Change in Methods Book, Ch. 4 - <i>Voluntary Change in Method</i>
Corporate/Business Issues & Credits KB, Change in Methods Book, Ch. 5 - <i>IRC 446(b): Service-Imposed Method Change Issues</i>
Corporate/Business Issues & Credits KB, Change in Methods Book, Ch. 6 - <i>IRC 481(a) Adjustments</i>
Form 1125-A - <i>Cost of Goods Sold</i>
Form 3115 - <i>Application for Change in Accounting Method</i>
Form 8916-A - <i>Supplemental Attachment to Schedule M-3</i>
Schedule M - Net Income Reconciliation
Issue Snapshot - <i>Allocation of Mixed Service Costs when Computing Additional 263A costs</i>
Issue Snapshot - <i>Identifying and Allocating Costs under the Uniform Capitalization rules of IRC 263A</i>

# Index of Referenced Resources (cont'd)

## **Examining a Reseller's IRC 263A Computation**

Issue Snapshot - *Determination of IRC 471 Costs for Resellers*

Audit Tool - Job Aid - *IRC 263A Mixed Service Cost Allocation Methods*

Audit Tool - Handling Costs at a Dual Function Storage Facility

Audit Tool - Job Aid - Summary of Inventory Write-Down Tax Law Research

*TCJA Inventory and Accounting Method Changes - 2019 CPE*

# Training and Additional Resources

Examining a Reseller's IRC 263A Computation	
Type of Resource	Description(s)
Saba Meeting Sessions	<ul style="list-style-type: none"> <li>▪ <i>Comprehensive IRC 263A CPE Part I - 022416</i></li> <li>▪ <i>Comprehensive IRC 263A CPE Part II - 030416</i></li> <li>▪ <i>IRC 263A - 2015 CPE Saba Meeting</i></li> </ul>
Issue Toolkits	<ul style="list-style-type: none"> <li>▪ <i>Issue Snapshot - Identifying and Allocating the Costs of Self-constructed Assets under IRC 263A</i></li> <li>▪ <i>Issue Snapshot - Determination of IRC 471 Costs for Resellers</i></li> <li>▪ <i>Issue Snapshot - IRC 263A Calculation for LIFO Taxpayers Electing the Simplified Production Method or the Simplified Resale Method</i></li> </ul>
Referenced Materials	<ul style="list-style-type: none"> <li>▪ <i>Audit Tool - Job Aid - IRC 263A FIFO Spreadsheet – Labor based</i></li> <li>▪ <i>Audit Tool - Job Aid - IRC 263A FIFO Spreadsheet – Production</i></li> <li>▪ <i>Audit Tool - Job Aid - Audit steps for Reviewing a Reseller's IRC 263A Computation</i></li> <li>▪ <i>Audit Tool - Job Aid - Mixed Service Cost</i></li> <li>▪ <i>Audit Tool - Job Aid - Pre-Audit Steps When Reviewing Inventory &amp; IRC 263A</i></li> <li>▪ <i>Audit Tool - Job Aid - IRC 263A Service Costs</i></li> <li>▪ <i>Audit Tool - Job Aid - IRC 263A FIFO Simplified Resale Method spreadsheet</i></li> </ul>

# Glossary of Terms and Acronyms

Term/Acronym	Definition
CAM	Change in Accounting Method
FIFO	First in First Out (method for accounting for inventory)
IRC	Internal Revenue Code
KB	Knowledge Base
LIFO	Last in First Out (Method for Accounting for Inventory)
MSC	Mixed Service Cost
Rev. Proc.	Revenue Procedure
Rev. Rul.	Revenue Rulings
SSCM	Simplified Service Cost Method
SPM	Simplified Production Method
SRM	Simplified Resale Method
TAM	Technical Advice Memorandum
TCJA	Tax Cuts and Jobs Act
TD	Treasury Decision
Treas. Reg.	Treasury Regulation
UNICAP	Uniform Capitalization
VL	Virtual Library

# Index of Related Practice Units

<b>Associated UIL(s)</b>	<b>Related Practice Unit</b>
263A.08-00	<i>Interest Capitalization for Self-Constructed Assets</i>
263A.03-00	<i>Alternative Method for Determining Section 471 Costs for UNICAP Purposes</i>
263A.04-05	<i>Modified Simplified Production Method</i>
263A.07-00	<i>IRC 481(a) Adjustment for IRC 263A Adjustments</i>