

**Department Of The Treasury**  
Internal Revenue Service  
Washington, D.C. 20224

May 8, 2006

Number: **INFO 2006-0035**  
Release Date: 9/29/2006  
UIL: 451.20-00

CONEX-118394-06

The Honorable Bob Beauprez  
U.S. House of Representatives  
Washington, DC 20515

Attention:

Dear Mr. Beauprez:

This letter responds to your inquiry dated March 28, 2006, on behalf of your constituent . wrote about Revenue Procedure 2004-34 and how taxpayers using the cash receipts and disbursements method of accounting (cash method) must include advance payments in income for the taxable year they receive the payments rather than in the later taxable year when the services are performed. However, under Rev. Proc. 2004-34 taxpayers using an accrual method of accounting can defer inclusion of advance payments in income in certain circumstances. I hope the following general information is helpful.

The law generally requires taxpayers to compute taxable income under the method of accounting they use for their books. Under the cash method, taxpayers include payments in income in the tax year they actually or constructively receive them. Under the accrual method, as a general rule, taxpayers include amounts when received even if they properly treat the amount for financial accounting purposes as income in a later year. Rev. Proc. 2004-34 allows accrual-method taxpayers, under certain circumstances, a limited income deferral in order to reconcile the tax and financial accounting treatment in a large number of these cases. This reconciliation facilitates taxpayer reporting and our verification of such items. See Rev. Proc. 2004-34, 2004-22 I.R.B. 991 (enclosed).

Again, I hope this information is helpful. If you have additional questions, please contact me or

, at

Sincerely,

Thomas D. Moffitt  
Branch Chief, Branch 2  
(Income Tax and Accounting)

Enclosure