

# **New implementation guidance for accounting method changes under proposed and temporary disposition regulations**

March 24, 2014

## ***In brief***

The IRS on February 28 released [Rev. Proc. 2014-17](#), which provides rules pursuant to which taxpayers may make accounting method changes related to dispositions of tangible depreciable property under the proposed regulations issued on September 13, 2013 (REG-110732-13, the 2013 proposed disposition regulations or the proposed disposition regulations) and under the temporary regulations issued December 23, 2011 (T.D. 9564, the 2011 temporary disposition regulations or the temporary disposition regulations).

While retaining many provisions related to the accounting method changes in Rev. Proc. 2012-20 regarding certain changes in method of accounting for dispositions of tangible depreciable property under the temporary disposition regulations, Rev. Proc. 2014-17 supersedes Rev. Proc. 2012-20 and adds new automatic accounting method changes for dispositions under the proposed disposition regulations. Rev. Proc. 2014-17 also modifies certain sections of Rev. Proc. 2011-14, which provides procedures for automatic changes in methods of accounting.

Rev. Proc. 2014-17 is designed to help taxpayers implement any needed changes under the temporary and proposed disposition regulations. As discussed below, taxpayers should analyze the impact of the 2013 proposed disposition regulations on their current accounting methods and determine the changes that will need to be made once those regulations are finalized.

## ***In detail***

### ***Background***

Rev. Proc. 2014-17 provides guidance for implementing the 2013 proposed disposition regulations and the 2011 temporary disposition regulations. However, certain accounting method changes in the new revenue procedure are

filed pursuant to final regulations issued under Reg. secs. 1.167(a)-4 and 1.168(i)-7. Reg. sec. 1.167(a)-4 provides rules for depreciating or amortizing leasehold improvements. Reg. sec. 1.168(i)-7 provides rules for accounting for property depreciated under Section 168 (MACRS property).

Rev. Proc. 2014-17 states that the 2013 proposed disposition regulations, when finalized, will apply to tax years beginning on or after January 1, 2014, and will permit a taxpayer to choose to rely on the final rules for tax years beginning on or after January 1, 2012, and before January 1, 2014. Alternatively, the IRS states, the 2013

proposed regulations, when finalized, will permit a taxpayer to apply the temporary disposition regulations to tax years beginning on or after January 1, 2012, and before January 1, 2014.

**Observation:** Taxpayers that choose to change their methods of accounting pursuant to the 2013 proposed disposition regulations essentially are 'early adopting' the final disposition regulations; the IRS has indicated that the final disposition regulations will differ only slightly, if at all, from the 2013 proposed disposition regulations.

#### **Key aspects of Rev. Proc. 2014-17 in general**

Rev. Proc. 2014-17 adds new automatic method changes to the Appendix of Rev. Proc. 20011-14, including:

- Late partial disposition elections;
- Revocation of general asset account (GAA) elections;
- Partial dispositions of tangible depreciable assets to which IRS adjustment pertains;
- Depreciation of leasehold improvements; and
- Permissible to permissible method of accounting for depreciation of MACRS property.

Rev. Proc. 2014-17 retains many provisions related to the accounting method changes under Rev. Proc. 2012-20, with modifications. The modified accounting method changes include changes under the temporary or proposed disposition regulations for:

- Depreciation of leasehold improvements;
- Changing from one permissible method to another permissible

method of accounting for depreciation of MACRS property;

- Disposition of a building or structural component;
- Dispositions of tangible depreciable assets (other than a building or its structural components)
- Dispositions of tangible depreciable assets in a GAA; and
- Late GAA elections.

Rev. Proc. 2014-17 provides guidance on implementing the 2013 proposed disposition regulations and the temporary regulations. More specifically, the revenue procedure outlines the permissible accounting methods that taxpayers may adopt with regard to disposition of tangible depreciable property.

While some of the changes under Rev. Proc. 2014-17 are implemented using a cut-off method or a modified cut-off method, there are changes under the revenue procedure that require a Section 481(a) adjustment. Moreover, certain changes under this revenue procedure (e.g., section 6.29) require the entire Section 481(a) adjustment to be taken into account in the year of change.

Rev. Proc. 2014-17 provides guidance on the required information for Form 3115, *Application for Change in Accounting Method*, and specifies which changes may be filed on a single Form 3115. Key details of each accounting method, Section 481(a) adjustments, scope limitations, and additional general guidance under Rev. Proc. 2014-17 are outlined below.

#### **New automatic accounting method changes under Rev. Proc. 2014-17**

As noted above, Rev. Proc. 2014-17 provides new accounting method

changes to implement the 2013 proposed disposition regulations and the temporary dispositions regulations. Two of the new automatic accounting method changes are filed under other final regulations. The discussion below outlines the implementing guidance for the new automatic accounting method changes.

#### **Late partial disposition election**

The late partial disposition election under new section 6.33 of the Appendix to Rev. Proc. 2011-14, as added by Rev. Proc. 2014-17, is available to a taxpayer that wants to make this change for disposition of a portion of an asset (as determined under Prop. Reg. sec. 1.168(i)-8(c)(4)).

#### **Section 481(a) adjustment**

The Section 481(a) adjustment for this change depends on the original treatment of the 'disposed' portion of the asset. The examples in Rev. Proc. 2014-17 illustrate application of the late partial disposition election and how the Section 481(a) adjustment is determined.

**Example:** X, a calendar-year taxpayer, acquired a truck and placed it in service in 2009. The truck is described in asset class 00.242 of Rev. Proc. 87-56. X depreciates the truck under Section 168. X does not reasonably expect to replace the engine of the truck more than once during its class life of six years. The engine is a major component of the truck under Reg. sec. 1.263(a)-3T(i)(1)(vi).

In 2012, X replaced the engine of the truck. X applied Reg. secs. 1.168(i)-8T and 1.263(a)-3T for its tax year ended December 31, 2012. Because the truck is the asset for disposition purposes, X did not recognize a loss on the retirement of

the engine under Reg. sec. 1.168(i)-8T and continues to depreciate the original engine. X capitalized the new engine as an improvement, classified the new engine under asset class 00.242 of Rev. Proc. 87-56, and depreciates the new engine under Section 168.

X decides to apply Prop. Reg. sec. 1.168(i)-8 for its tax year ending December 31, 2013. X also decides to make the late partial disposition election under section 6.33 for the truck's original engine that X retired in 2012. Although the truck is the asset for disposition purposes under Prop. Reg. sec. 1.168(i)-8(c)(4)(ii)(C), the partial disposition rule under Prop. Reg. sec. 1.168(i)-8(d)(2)(i) results in the retirement of the engine being a disposition under Prop. Reg. sec. 1.168(i)-8(b)(2). Thus, in accordance with section 6.33, X may file Form 3115 with its 2013 federal income tax return to make the late disposition election for the engine, resulting in X changing from depreciating the original engine to recognizing a loss upon its retirement.

**Observation:** In the above example, the taxpayer did not recognize a loss on the original disposition of the engine because the truck was the treated as the unit of property for capitalization and depreciation purposes. In a subsequent year, when the taxpayer applies the 2013 proposed disposition regulations and makes the late partial disposition election under section 6.33, the Section 481(a) adjustment will include the amount of the loss attributable to the engine.

If the taxpayer already had recognized the loss on disposition of the portion of the asset (i.e., engine) prior to (1) applying the 2013 proposed disposition regulations and (2) making the late partial disposition election under section 6.33, the

taxpayer's Section 481(a) adjustment would have been zero—an increase to taxable income for the prior recognized loss and a decrease to taxable income for the loss under section 6.33.

As with majority of the changes under Rev. Proc. 2014-17, the late partial disposition election is available for tax years beginning on or after January 1, 2012 and before January 1, 2014. However, IRS officials have indicated that taxpayers will have an additional year to make such change.

#### *Revocation of GAA elections*

New section 6.34 of the Appendix to Rev. Proc. 2011-14, as added by Rev. Proc. 2014-17, applies to a taxpayer that wants to revoke GAA elections made either:

- Under section 6.32 of the Appendix to Rev. Proc. 2011-14 for one or more items of MACRS property included in the GAAs, or
- Under the temporary dispositions regulations for one or more items of MACRS property placed in service by the taxpayer in a tax year beginning on or after January 1, 2012, and before January 1, 2014.

Revocation of GAA elections made under section 6.34 must be made for any tax year beginning on or after January 1, 2012, and before January 1, 2015.

#### *Section 481(a) adjustment*

Under section 6.34 of the Appendix to Rev. Proc. 2011-14, as modified by Rev. Proc. 2014-17, a taxpayer must take the entire amount of the Section 481(a) adjustment into account in computing taxable income for the year of change.

**Observation:** Consistent with the other accounting method changes in Rev. Proc. 2014-17, taxpayers have a limited window to revoke GAA

elections. Due to the strict rules that will apply to GAAs under the 2013 proposed disposition regulations, when finalized, taxpayers should analyze whether their GAAs are still desirable or whether GAA revocations should be made within the given time period.

#### *Partial dispositions of tangible depreciable assets to which IRS adjustment pertains*

New section 6.35 of the Appendix to Rev. Proc. 2011-14, as added by Rev. Proc. 2014-17, applies to a taxpayer that wants to make the partial disposition election, as provided in the proposed regulations, to dispose of a portion of an asset to which an IRS adjustment (i.e., IRS required capitalization for a previously deducted repair expenditure paid or incurred for the replacement of a portion of an asset) pertains.

This change specifically excludes any asset of which the disposed portion was a part that is not owned by the taxpayer at the beginning of the year of change.

#### *Section 481(a) adjustment*

Rev. Proc. 2014-17 requires a Section 481(a) adjustment for accounting method changes filed under section 6.35 of the Appendix to Rev. Proc. 2011-14.

#### *Depreciation of leasehold improvements*

Changes made under new section 6.36 of the Appendix to Rev. Proc. 2011-14, as added by Rev. Proc. 2014-17, are filed pursuant to the final regulation for depreciating or amortizing leasehold improvements (Reg. sec. 1.167(a)-4)). This change applies to a taxpayer that wants to change its method of accounting to comply with Reg. sec. 1.167(a)-4 for leasehold improvements in which the taxpayer has a depreciable interest at the beginning of the year of change:

- From improperly depreciating leasehold improvements to which Section 168 applies over the term of the lease (including renewals, if applicable) to properly depreciating these improvements under Section 168,
- From improperly amortizing leasehold improvements to which Section 197 applies over the term of the lease (including renewals, if applicable) to properly amortizing these improvements under Section 197, or
- From improperly amortizing leasehold improvements to which Section 167(f)(1) applies over the term of the lease (including renewals, if applicable) to properly amortizing these improvements under Section 167(f)(1).

*Permissible to permissible method of accounting for depreciation of MACRS property*

Changes made under new section 6.36 of the Appendix to Rev. Proc. 2011-14, as added by Rev. Proc. 2014-17, are filed pursuant to the final regulations for depreciating MACRS property (Reg. sec. 1.168(i)-7). This change applies to a taxpayer currently using a permissible method of accounting for depreciating MACRS property that wishes to make a change to another permissible method of accounting for MACRS property.

This section applies only to the following changes in methods of accounting for depreciation of MACRS property; more specifically, for items of MACRS property not subject to a GAA election under Section 168(i)(4) and the regulations thereunder:

- A change from single-asset accounts (or item accounts) for specific items of MACRS property to multiple-asset accounts (or

- pools) for the same assets, or vice versa, in accordance with Reg. sec. 1.168(i)-7, or
- A change from grouping specific items of MACRS property in multiple-asset accounts to a different grouping of the same assets in multiple-asset accounts in accordance with Reg. sec. 1.168(i)-7(c).

The assets must be owned by the taxpayer at the beginning of the year of change. The changes do not apply to any property not being depreciated by the taxpayer under Section 168.

*Section 481(a) adjustment*

length of the lease term to a proper method of adopting the applicable cost recovery provisions under the Code, without regard to the length of the lease term.

*Section 481(a) adjustment*

Rev. Proc. 2014-17 requires a Section 481(a) adjustment for accounting method changes filed under section 6.27 of the Appendix to Rev. Proc. 2011-14.

*Permissible to permissible method of accounting for depreciation of MACRS property*

Under section 6.28 of the Appendix to Rev. Proc. 2011-14, as modified by Rev. Proc. 2014-17, a taxpayer currently using a permissible method of accounting for depreciating MACRS property may change its accounting method for asset accounts (single, multiple, or general), as well as its method of accounting for identifying the asset disposed from these accounts (specific identification, FIFO, modified FIFO, or mortality dispersion table).

Similar to the provisions set forth for this change under Rev. Proc. 2012-20, Rev. Proc. 2014-17 provides the specific requirements for taxpayers that wish to make this change:

- Section 168 must apply to the MACRS property,
- Current and proposed methods of accounting are permissible methods of accounting under the specific regulations provided under section 6.28(1)(a)(ii), and
- The asset must be owned by the taxpayer at the beginning of the year of change.

In addition to the specific requirements for taxpayers, section 6.28 provides the various changes that can be made for the applicable asset accounts. The main distinction

among the various changes under section 6.28 depends on whether a valid GAA election has been made for the MACRS property under Section 168(i)(4) and the regulations there under.

If a taxpayer has not made a valid GAA election, a change may be made from a single-asset account to a multiple-asset account (MAA, or pooling), and from one pooling method to another. If a taxpayer has made a valid GAA election, a change may be made from one GAA to another GAA (with a different grouping of the same assets). See discussion below regarding how taxpayers may make a valid late election to account for assets in GAAs.

#### *Section 481(a) adjustment*

Section 6.28 provides, for each accounting method change, whether the change is implemented with a Section 481(a) adjustment, modified cut-off Section 481(a) adjustment, or a cut-off Section 481(a) adjustment.

The method changes for asset accounts (single, multiple, and general) would be calculated using a modified cut-off method, under which the unadjusted depreciable basis and the depreciation reserve of the asset as of the beginning of the year of change are accounted for using the new method of accounting. When the change is to a single-asset account, an MAA (either a new one or a different grouping), or a GAA, the new account must include the beginning balance for both the unadjusted depreciable basis and the depreciation reserve of the assets included in that asset account.

The method changes used to identify assets that have been disposed of are made on a cut-off basis or require a Section 481(a) adjustment, depending on the taxpayer's current method of accounting for dispositions.

#### *Disposition of a building or structural component*

Rev. Proc. 2014-17 provides automatic method change procedures applicable to dispositions of a building (including its structural components) under section 6.29 of the Appendix to Rev. Proc. 2011-14, as modified by the new procedure. More specifically, the changes under section 6.29 apply to a building, condominium unit, cooperative unit, structural component, or an improvement or addition thereto. These procedures also affect the determination of gain or loss from the disposition of the building, the structural component, or the portion of the building (including its structural components) to which the partial disposition rule in Prop. Reg. sec. 1.168(i)-8(d)(1) applies.

Specifically excluded from this method change is property for which a valid GAA election has been made.

**Observation:** Although Rev. Proc. 2014-17 precludes taxpayers from making any change under section 6.29 for property for which a valid GAA election has been made, the new procedure allows taxpayers to revoke their GAA elections. Taxpayers that have property in GAAs but wish to make a change under this section for dispositions of such property also would file a change under section 6.34 of the Appendix to Rev. Proc. 2011-14, as modified by Rev. Proc. 2014-17, to revoke the GAA elections for dispositions of such property (discussed below). **Note:** Rev. Proc. 2014-17 permits taxpayers to file both changes on a single Form 3115.

#### *Section 481(a) adjustment*

A significant change from Rev. Proc. 2012-20 for certain changes under this section is that Rev. Proc. 2014-17 requires a taxpayer to take the entire amount of the Section 481(a) adjustment into account in computing

taxable income for the year of change if:

- The taxpayer is making the change specified in section 6.29(3)(e) of the Appendix to Rev. Proc. 2011-14, as modified by Rev. Proc. 2014-17 (change to the appropriate asset), and the taxpayer recognized a gain or loss under Reg. sec. 1.168(i)-8T on disposition of the asset (or if applicable, a portion thereof) in a tax year prior to the year of change, or
- The taxpayer is making the change specified in section 6.29(3)(i) of the Appendix to Rev. Proc. 2011-14, as modified by Rev. Proc. 2014-17 (change involving revocation of a GAA election and qualifying disposition of asset under Prop. Reg. sec. 1.168(i)-8).

The treatment of Section 481(a) adjustments for other changes made under section 6.29 of the Appendix to Rev. Proc. 2011-14, as modified by Rev. Proc. 2014-17, is governed by section 5.04 of Rev. Proc. 2011-14, the general procedures for Section 481(a) adjustments. Section 5.04 states that net negative Section 481(a) adjustments should be taken into account in the year of change and net positive Section 481(a) adjustments should be taken ratably over four tax years including the year of change.

**Observation:** Unlike this change under Rev. Proc. 2012-20, certain changes made under section 6.29 of the Appendix to Rev. Proc. 2011-14, as modified by Rev. Proc. 2014-17, require the entire amount of the Section 481(a) adjustment to be taken into account in computing taxable income for the year of change, whereas other changes under section 6.29 follow the general guidance for Section 481(a) adjustments. When making any change under section 6.29 of the Appendix to Rev. Proc. 2011-14,

as modified by Rev. Proc. 2014-17, taxpayers should be aware of the required timing for including the Section 481(a) adjustment, because certain changes — those under sections 6.29(3)(e) and 6.29(3)(i), if positive adjustments — may cause a significant increase in taxable income for the year of change.

#### *Disposition of tangible depreciable assets other than a building or its structural components*

Section 6.30 of the Appendix to Rev. Proc. 2011-14, as modified by Rev. Proc. 2014-17, sets forth the accounting method change procedures for disposition of tangible depreciable assets other than a building or its structural components. Taxpayers may make this method change for Section 1245 property or a depreciable land improvement to comply with the 2011 temporary or 2013 proposed disposition regulations. This change will affect the determination of gain or loss from the disposition of the Section 1245 property or the depreciable land improvement.

Procedures for how a taxpayer may change its methods of accounting for Section 1245 property, a depreciable land improvement, or an improvement or addition thereto also are included under this change.

As with the changes under section 6.29 of the Appendix to Rev. Proc. 2011-14, as modified by Rev. Proc. 2014-17, changes under section 6.30 are not applicable to property for which a valid GAA election has been made.

**Observation:** Consistent with section 6.29 of the Appendix to Rev. Proc. 2011-14, as modified by Rev. Proc. 2014-17, section 6.30 of Rev. Proc. 2014-17 precludes taxpayers from making this change for property for which a valid GAA election has been made. Because taxpayers have the ability to revoke their GAA

elections under the new revenue procedure, taxpayers will be able to make this change for such assets if a revocation of the GAA(s) is made. Similar to section 6.29 of the Appendix to Rev. Proc. 2011-14, as modified by Rev. Proc. 2014-17, section 6.30 of Rev. Proc. 2014-17 also permits taxpayers to file both changes (those under sections 6.30 and 6.34) on a single Form 3115.

#### *Section 481(a) adjustment*

As with certain changes under section 6.29, for certain changes made under section 6.30, Rev. Proc. 2014-17 requires a taxpayer to take the entire amount of the Section 481(a) adjustment into account in computing taxable income for the year of change if:

- The taxpayer is making the change specified in section 6.30(3)(e) of the Appendix to Rev. Proc. 2011-14, as modified by Rev. Proc. 2014-17 (change to the appropriate asset), and the taxpayer recognized a gain or loss under Reg. sec. 1.168(i)-8T on disposition of the Section 1245 property, depreciable land improvement, or improvement or addition thereto (or if applicable, a portion of such asset) in a tax year prior to the year of change, or
- The taxpayer is making the change specified in section 6.30(3)(i) of the Appendix to Rev. Proc. 2011-14, as modified by Rev. Proc. 2014-17 (change involving revocation of a GAA election and qualifying disposition to disposition of asset under Prop. Reg. sec. 1.168(i)-8).

The treatment of Section 481(a) adjustments for other changes made under section 6.30 is governed under section 5.04 of Rev. Proc. 2011-14, the general procedures for Section 481(a) adjustments. This section states that net negative Section 481(a)

adjustments should be taken into account in the year of change and net positive Section 481(a) adjustments should be taken ratably over four tax years including the year of change.

#### *Disposition of tangible depreciable assets in a GAA*

Taxpayers may make this method change under section 6.31 of the Appendix to Rev. Proc. 2011-14, as modified by Rev. Proc. 2014-17, for assets for which the taxpayer has made a valid GAA election, to comply with the 2013 proposed or 2011 temporary disposition regulations. This change may affect the determination of gain or loss from the disposition of an asset from a GAA.

Rev. Proc. 2014-17 also provides additional details regarding the specific changes covered by this method change for assets for which the taxpayer has made a valid GAA election.

Specifically excluded from this method change are (1) property that is not depreciated under Section 168 and (2) property for which a valid GAA election has not been made. See discussion above for such assets.

#### *Section 481(a) adjustment*

Rev. Proc. 2014-17 requires a taxpayer to take the entire amount of the Section 481(a) adjustment into account in computing taxable income for the year of change, if the taxpayer is making the change specified in section 6.31(3)(c) of Rev. Proc. 2014-17 (change to the appropriate asset) and the taxpayer recognized a gain or loss under Reg. sec. 1.168(i)-1T or Reg. sec. 1.168(i)-8T, as applicable, on disposition of a portion of the asset in a tax year prior to the year of change.

#### *Late GAA elections*

Similar to this change under Rev. Proc. 2012-20, section 6.32 of the Appendix to Rev. Proc. 2011-14, as

modified by Rev. Proc. 2014-17, allow taxpayers to make late elections to use GAA(s) for assets placed in service prior to January 1, 2012, or recognize gain or loss upon certain dispositions from GAAs.

The method changes to make a late election to recognize gain or loss upon disposition of assets from a GAA apply to:

- Disposition of all the assets, the last asset, or the last portion of the last asset in a GAA, or
- Disposition of an item of MACRS property in a qualifying disposition when the taxpayer has made a valid GAA election for that property.

Although this change retained some of the provisions of Rev. Proc. 2012-20, this change has significant modifications under Rev. Proc. 2014-17. A late GAA election under Rev. Proc. 2014-17 can be made only for a tax year beginning on or after January 1, 2012, and beginning before January 1, 2014. Assets for which the late GAA elections are made must be owned by

the taxpayer at the beginning of the year of change.

#### *Section 481(a) adjustment*

Changes in method of accounting made under this provision generally require a Section 481(a) adjustment. There is an exception for a change made to elect the use of a GAA for assets placed in service prior to January 1, 2012, for one or more items of MACRS property owned by the taxpayer at the beginning of the year of change (section 6.32(1)(a)(i)). In this case, the taxpayer should recognize the change using a modified cut-off method, under which the unadjusted depreciable basis and the depreciation reserve of the asset as of the beginning of the year of change are accounted for using the new method.

#### ***Additional guidance under Rev. Proc. 2014-17***

##### *Where to file*

As in the case of other automatic method changes related to depreciable property, Rev. Proc. 2011-14 has a timely duplicate filing requirement. A

copy of Form 3115 for any of the changes under Rev. Proc. 2014-17 should be filed with the IRS office in Ogden, UT, in lieu of the copy filed with the IRS National Office in Washington, DC, and a copy must be attached to the taxpayer's tax return for the year of change.

##### *Audit protection*

The proposed regulations do not modify the general rule affording audit protection for a taxpayer that voluntarily changes from an improper method of accounting to a method permitted by the regulations. A taxpayer that voluntarily changes from an improper to a proper method of accounting receives a commitment from the IRS that it will not make an examination adjustment relating to the taxpayer's use of the improper method for any prior tax year. Audit protection for changes made under Rev. Proc. 2014-17 begins on the date the Form 3115 is filed with the IRS in Ogden, UT.

##### *Scope Limitations*

<b>General Rule</b>	<b>Exception - Section 6.34 – Revocation of GAA elections</b>	<b>Exception - Section 6.36 – Depreciation of Leasehold Improvements and Section 6.37 – Permissible to Permissible method of accounting for depreciation of MACRS property</b>
Taxpayers that make such changes for any tax year beginning on or after January 1, 2012, and beginning before January 1, 2014 are not subject to the scope limitations in section 4.02 of Rev. Proc. 2011-14.	The scope limitations in section 4.02 of Rev. Proc. 2011-14 are waived for taxpayers that choose to revoke their GAA election(s) under section 6.34 of Rev. Proc. 2014-17 for any tax year beginning on or after January 1, 2012, and beginning before January 1, 2015.	The scope limitations in section 4.02 of Rev. Proc. 2011-14 are waived for a taxpayer that makes this change for its first tax year beginning after December 31, 2013, and beginning before January 1, 2015, or if a taxpayer chooses to make this change for any tax year beginning on or after January 1, 2012, and beginning before January 1, 2014. The scope limitation in section 4.02(5) of Rev. Proc. 2011-14, which provides that accounting method changes cannot be made under Rev. Proc. 2011-14 during the final year of trade or business, does not apply to taxpayers that make this change.

### *Statistical sampling guidance*

The appropriateness of statistical sampling is covered in specific sections of Rev. Proc. 2014-17 on the disposition of a building, structural component dispositions, and the disposition of tangible depreciable assets (other than a building or its structural components), but is not addressed in other sections.

**Observation:** It appears that the IRS position is that in cases in which sampling is not discussed, it will be up to the field to make a determination. As a result, in no instance is sampling expressly disallowed.

### *Interaction with Section 263A*

In general, the accounting method changes in Rev. Proc. 2014-17 may affect whether the taxpayer must capitalize amounts paid to restore a unit of property. Generally, taxpayers may not file a method change if the item being changed is required to be capitalized under Section 263A and the taxpayer does not properly capitalize that item under Section 263A. Similar to other method changes provided for under Rev. Proc. 2011-14, Rev. Proc. 2014-17 provides that taxpayers that wish to make certain changes (some changes are excluded) under the revenue procedure and are not properly accounting for the change item under Section 263A may file a concurrent change to properly capitalize the costs under a UNICAP method.

**Observation:** Unlike the guidance provided in [Rev. Proc. 2014-16](#), the implementing guidance for the final repair regulations (T.D. 9636, 2013-43 I.R.B. 331, 78 Fed. Reg. 57686), changes pursuant to Rev. Proc. 2014-17 that can be filed concurrently with a change under sections 11.01, 11.02, or 11.09 (UNICAP) of the Appendix of Rev. Proc. 2011-14 do not waive the scope limitations for taxpayers. Taxpayers that wish to change their

method of accounting for UNICAP pursuant to sections 11.01, 11.02, or 11.09 of the Appendix of Rev. Proc. 2011-14 and receive audit protection would need to determine if any of their methods of accounting for the final repair regulations could be changed under Rev. Proc. 2014-16. If so, the taxpayer will receive audit protection for such UNICAP changes as long as the UNICAP change is filed on the same form as a change under section 10.11 of Rev. Proc. 2014-16.

### *Public utility property*

A taxpayer that makes a change for public utility property (as defined in Section 168(i)(10), or former Section 167(l)(3)(A) in the case of leasehold improvements) under any of the automatic method changes described in Rev. Proc. 2014-17 must attach to its Form 3115 a statement that the taxpayer agrees to additional terms and conditions as outlined in Rev. Proc. 2014-17.

### *The takeaway*

Rev. Proc. 2014-17 provides procedural guidance for taxpayers disposing of tangible depreciable property. The revenue procedure contains the automatic method changes that can be made under the 2013 proposed disposition regulations, the 2011 temporary disposition regulations, and certain final regulations.

Rev. Proc. 2014-17 highlights the IRS's plan to publish final regulations related to dispositions later in 2014 (the final disposition regulations). Rev. Proc. 2014-17 provides that the IRS will require taxpayers to apply the final disposition regulations to tax years beginning on or after January 1, 2014, and that taxpayers will have the ability to early adopt the final disposition regulations or apply the proposed or temporary disposition regulations to tax years beginning on

or after January 1, 2012 and before January 1, 2014.

Although the 2013 proposed disposition regulations have not been finalized, taxpayers should use the guidance provided in Rev. Proc. 2014-17 along with the 2013 proposed disposition regulations to evaluate their current treatment of dispositions of tangible property. Based on the IRS's plan to finalize the 2013 proposed disposition regulations in 2014, all taxpayers will be required to implement the final dispositions regulations for tax years beginning on or after January 1, 2014. Therefore, it is imperative for taxpayers to analyze the impact of these regulations on their current accounting methods and determine the changes that will need to be made once the 2013 proposed disposition regulations are finalized.

## ***Let's talk***

For a deeper discussion of how this issue might affect your business, please contact:

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### ***Regarding statistical sampling***

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