

# New IRS guidance may help taxpayers further analyze and implement the tangible property 'repair' regulations

January 24, 2014

## In brief

The IRS today released [Rev. Proc. 2014-16](#), which provides rules pursuant to which taxpayers may make accounting method changes related to the tangible property 'repair' regulations. This revenue procedure supersedes Rev. Proc. 2012-19, which was issued over a year ago in connection with the temporary repair regulations and modifies certain sections of Rev. Proc. 2011-14. Rev. Proc. 2014-16 is designed to help taxpayers further analyze their current methods of accounting and implement any necessary changes.

## In detail

### Highlights of the revenue procedure

Rev. Proc. 2014-16 provides that all taxpayers must comply with the final repair regulations beginning with their first tax year that begins on or after January 1, 2014. However, taxpayers have several implementation options with respect to tax years beginning on or after January 1, 2012, and on or before January 1, 2014. For any such tax year, a taxpayer may (1) continue with its existing methods of accounting, (2) adopt the 2011 temporary regulations, or (3) early adopt the final regulations.

As anticipated, the revenue procedure includes the following:

- Accounting method change rules for repairs
- Application of statistical sampling
- Transition rules for Forms 3115, *Application for Change in Accounting Method*, filed under Rev. Proc. 2012-19

More particularly, Rev. Proc. 2014-16 applies to taxpayers that wish to change a method of accounting to comply with the final regulations or temporary regulations related to:

- Materials and supplies (Reg. sec. 1.162-3 and Reg. sec. 1.162-3T)
- Repairs (Reg. sec. 1.162-4 and Reg. sec. 1.162-4T)
- Capital expenditures (Reg. sec. 1.263(a)-1 and Reg. sec. 1.263(a)-1T)
- Amounts paid to acquire or produce tangible property (Reg. sec. 1.263(a)-2 and Reg. sec. 1.263(a)-2T)
- Amounts paid to improve tangible property (Reg. sec. 1.263(a)-3 and Reg. sec. 1.263(a)-3T)
- Producers' use of a reasonable method for UNICAP for self-constructed assets (Reg. sec. 1.263A-1(f)(A))
- Capitalized costs for real property acquired through foreclosure (Section

263A(b)(2) and Reg. sec. 1.263A-3(a)(1))

The new revenue procedure adds the method changes set forth therein to the automatic method changes listed in the Appendix to Rev. Proc. 2011-14. If a taxpayer makes any of these method changes for a tax year beginning before January 1, 2015, the scope limitations set forth in section 4.02 of Rev. Proc. 2011-14 will not apply to the taxpayer with respect to the change.

**Observation:** By adding the method changes to the automatic changes already listed in the Appendix to Rev. Proc. 2011-14, the revenue procedure incorporate the provisions of Rev. Proc. 2011-14, thereby ensuring that audit protection will be available for these changes.

### **The takeaway**

Rev. Proc. 2014-16 provides much needed procedural guidance. Taxpayers should refer to this

guidance as they further analyze their current methods of accounting and implement any necessary changes.

### **Resources to help you**

PwC currently is drafting an in-depth analysis on the new guidance that will be released over the coming days. We also will be holding a webcast in approximately three weeks, featuring a panel of PwC subject matter professionals. The webcast invitation will be forthcoming.

## **Let's talk**

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

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