

WNTS Insight



IRS provides helpful new guidance for accounting method changes

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The IRS on January 10 released new guidance relating to accounting method change procedures. The new revenue procedure, Rev. Proc. 2011-14, supersedes Rev. Proc. 2008-52 and now is the exclusive guidance governing automatic method changes. Rev. Proc. 2011-14 also modifies the advance consent method change procedures in Rev. Proc. 97-27 to include conforming changes to the procedural requirements associated with all accounting method changes.

Rev. Proc. 2011-14 makes several significant changes to the procedures described in Rev. Proc. 2008-52, as modified by Rev. Proc. 2009-39, for filing automatic accounting method changes, including changes relating to taxpayers under exam, changes to filing procedures, the addition of three new method changes now eligible for automatic consent, and the deletion of a number of obsolete automatic accounting method changes.

The new guidance is effective for accounting method change applications filed on or after January 10, 2011, for a year of change ending on or after April 30, 2010. Certain transitional rules apply that may allow taxpayers to convert or modify previously filed applications.

Changes to filing procedures

Several significant changes have been made to the procedures required to file a Form 3115, *Application for Change in Accounting Method*.

First, Rev. Proc. 2011-14 modifies the 120-day window period for taxpayers under examination. Under the new guidance, the 120-day window period ends if the taxpayer's case is referred to the examining agent(s) for reconsideration. A new 120-day window will begin once the resumed examination ends.

Second, the IRS also clarified the rules for determining whether a taxpayer whose case is before the Joint Committee on Taxation (JCT) is considered "under examination" for purposes of the accounting method change rules. Rev. Proc. 2011-14 provides that such an examination begins on the date that the taxpayer is contacted in any manner for additional information as a result of a JCT inquiry, and that such examination generally ends on the date of the IRS's written notification

to the taxpayer that the JCT has completed its consideration (e.g., Letter 1574 (P)) or that the case with withdrawn from consideration. In addition, Rev. Proc. 2011-14 adds new rules clarifying the definition of an "issue under consideration" for a taxpayer before an appeals office or federal court whose refunds or settlement stipulations are referred to the JCT.

Note: Rev. Proc. 2011-14 also modifies Rev. Proc. 97-27, the non-automatic accounting method change procedures. The modifications to Rev. Proc. 97-27 made conforming changes to the non-automatic filing procedures to maintain consistent rules for filing automatic and non-automatic Forms 3115.

Rev. Proc. 2011-14 also introduces new terms and conditions applicable to accounting method changes made by a domestic corporation on behalf of a foreign division and to accounting method changes made by foreign partnerships. In general, these terms and conditions are consistent with the terms and conditions imposed on foreign corporations requesting accounting method changes.

In addition, Rev. Proc. 2011-14 provides that in certain cases, an abbreviated copy of the Form 3115 must be provided to the IRS in Ogden, Utah, in lieu of providing the duplicate copy to the IRS National Office.

Observation: In general, the automatic accounting method changes now required to be filed with the IRS in Ogden relate to changes in method of accounting for depreciation as well as a change in method of accounting for software development expenses described in Rev. Proc. 2000-50.

Finally, the IRS modified certain sections in the Appendix of Rev. Proc. 2011-14 to permit concurrent changes on a single Form 3115.

Observation: Permitting concurrent changes on a single Form 3115 has been the IRS's administrative practice for a period of time. Rev. Proc. 2011-14 now broadly informs the public of the availability of this practice.

Changes to the Appendix

Three new automatic accounting method changes were added to the Appendix of Rev. Proc. 2011-14. These new automatic method changes relate to changes to deduct amounts paid or incurred for the installation of energy-efficient commercial building property under section 179D, changes relating to the recognition of advance payments in the taxpayer's financial statements, and changes for California franchise taxes.

Observations: With respect to an accounting method change relating to the recognition of advance payments in the taxpayer's financial statements, the new guidance provides that such a change must be implemented on a cut-off basis. Also, in lieu of filing Form 3115, the taxpayer instead must include an informational statement with its federal income tax return for the year of change. In addition, the new guidance provides a safe harbor for a taxpayer that changed its method of accounting for this issue in a prior tax year without filing Form 3115.

Other substantive changes to the Appendix include a clarification relating to changing from a LIFO method to a non-LIFO inventory method and a special rule for calculating the section 481(a) adjustment for certain inventory changes when the taxpayer is changing to an inventory method that a taxpayer not using a LIFO method implements on a cut-off basis. The IRS also clarified when it will consider requests for a change in method of accounting for existing sale, lease, or financing transactions under Rev. Proc. 97-27. The new guidance also requires that additional statements to be attached to certain method changes, including functional currency changes and changes related to dispositions.

Several sections and subsections of the Appendix to Rev. Proc. 2008-52 have been determined to be obsolete and were removed, in whole or in part, from Rev. Proc. 2011-14.

Transition rules

As noted above, Rev. Proc. 2011-14 is effective for any automatic accounting method change application filed with the IRS National Office on or after January 10, 2011, for a year of change ending on or after April 30, 2010. For non-automatic accounting method changes, the new guidance is effective for changes filed on or after January 10, 2011, for a year of change ending on or after January 10, 2011.

The IRS has provided transition rules for accounting method changes filed prior to January 10, 2011, allowing taxpayers to convert or modify previously filed applications. If before January 10, 2011, a taxpayer previously filed a non-automatic accounting method change for a year of change ending on or after April 30, 2010, for an item that now qualifies for automatic consent under Rev. Proc. 2011-14, and that application is still pending with the IRS National Office on January 10, 2011, the taxpayer may choose to file the application under Rev. Proc. 2011-14.

Taxpayers in this situation must notify the IRS National Office of their decision before the later of February 11, 2011, or the date a letter of consent or denial is issued by the IRS National Office. A new application generally must be filed within 30 days after the IRS returns the taxpayer's application.

With respect to automatic accounting method changes, a taxpayer that previously filed a request under Rev. Proc. 2008-52 before January 10, 2011, generally must implement the change in accordance with the terms and conditions provided in Rev. Proc. 2008-52. However, the taxpayer may choose to amend a previously filed application that was filed before January 10, 2011, for the taxpayer's first tax year ending on or after April 30, 2010, and refile such application in accordance with the terms and conditions described in Rev. Proc. 2011-14. These amended applications must be filed with the IRS National Office or with the IRS in Ogden, if applicable, on or before the earlier of May 2, 2011, or the date the tax return for the year of change is filed, and within six months from the due date of the tax return for the year of change, the taxpayer must file an original or amended return implementing the method of accounting in accordance with the provisions of Rev. Proc. 2011-14.

For more information on this WNTS Insight, please contact Jennifer Kennedy at (202) 414-1543 or jennifer.kennedy@us.pwc.com, or Sara Logan at (202) 414-1417 or sara.l.logan@us.pwc.com.

pwc.com/wnts

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