



Accounting Methods Spotlight

Recent developments and guidance on tax accounting issues

September 2026 Q3



This quarter's *Accounting Methods Spotlight* features:

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Did you know...?

Since the enactment of the 2025 One Big Beautiful Bill Act (OBBBA), a steady stream of guidance from the IRS and Treasury has reshaped how many companies report costs for research activities and interest expense on their federal income tax returns.

In [Rev. Proc. 2026-32](#), released earlier this month, the IRS issued highly anticipated automatic method change guidance for research or experimental (R&E) expenditures under Sections 174 and 174A to address changes made by the OBBBA. In addition to streamlining method change procedures, the revenue procedure extends the correction window for previously capitalized domestic Section 174 costs under the Tax Cuts and Jobs Act, removes the sunset on automatic changes for foreign R&E expenditures, and waives certain eligibility rules for tax years beginning before January 1, 2028. Under Rev. Proc. 2026-32, pending non-automatic Form 3115 filings may be converted to automatic method changes by notifying the IRS National Office by the later of October 21, 2026, or the issuance of a letter ruling on the pending request. For more information, read PwC's Tax Insight, [Updated automatic consent procedures simplify method changes for R&E expenditures and residential construction contracts](#).

Other developments affecting expenditures for research and interest in this edition include revised FAQs on the Section 163(j) business interest expense deduction limitation and proposed regulations addressing the allocation of R&E costs and interest expense, discussed in PwC's Tax Insight, [Proposed rules address OBBBA foreign source expense allocation](#).

Treasury and IRS guidance

Inventory sales carved out from Section 250 computation

Proposed regulations were issued that address the OBBBA's new exclusion from deduction-eligible income (DEI) under Section 250(b)(3)(A)(i)(VII) for income and gain from dispositions of intangible property and depreciable, amortizable, or depletable property. Because foreign-derived deduction-eligible income (FDDEI) is a subset of DEI, income excluded from DEI cannot qualify as FDDEI. The regulations clarify that property held solely as inventory by the seller is not "other excluded property," preserving FDDEI treatment for ordinary-course inventory sales. For more information, see PwC's Tax Insight, [Proposed rules clarify Section 250 property dispositions](#).

IRS revises fact sheet on Section 163(j) deduction limit

Fact Sheet 2026-14 revises the frequently asked questions (FAQs) on the Section 163(j) business interest expense deduction limitation, previously set forth in Fact Sheet 2025-09 that was published in December 2025. Notable updates include:

Removal of expired CARES Act provisions. Questions addressing the temporary 50% adjusted taxable income (ATI) limitation for tax years beginning in 2019 and 2020 have been deleted.

OBBBA-related revisions. The revised FAQs address the add-back of depreciation, amortization, and depletion to ATI; the expanded motor vehicle definition for floor plan financing interest; the ordering clarification for interest capitalization; and the exclusion of controlled foreign corporation (CFC) income inclusions from ATI.

Transition relief for excepted trade or business elections. The updated guidance incorporates Rev. Proc. 2026-17, which provides transition rules for taxpayers seeking to withdraw previously irrevocable excepted trade or business elections.

Inflation adjustments published for some energy production credits

In Internal Revenue Bulletin 2026-29, the IRS published Notice 2026-41, which provides the calendar year 2026 inflation adjustment factors and, where applicable, the inflation-adjusted credit amounts for three clean energy production credits:

- Section 45U zero-emission nuclear power production credit,
- Section 45V clean hydrogen production credit, and
- Section 45Z clean fuel production credit.

Each credit's inflation adjustment factor is derived from the gross domestic product implicit price deflator, with a different statutory base year substituted for each credit. Taxpayers will use these factors and adjusted amounts to calculate the corresponding credit amounts for calendar year 2026.

Eligibility for Section 45Q credits is expanded

Notice 2026-50 broadens the safe harbor for the Section 45Q carbon oxide sequestration credit claims under Notice 2026-1 by extending coverage to Enhanced Oil Recovery/Enhanced Gas Recovery projects, confirming its application to credit recapture determinations, and making it available on an open-ended basis beyond 2025. For more information, see PwC's Tax Insight, *IRS expands safe harbor for Section 45Q carbon sequestration credit*.

Other developments

Treasury and IRS released 2026-2027 Priority Guidance Plan and identified obsolete guidance

Treasury and the IRS released the 2026-2027 Priority Guidance Plan (PGP), which identifies 121 guidance projects that are priorities for allocating resources during the plan year beginning October 1, 2026, and ending September 30, 2027. The plan reflects the focus of Treasury and the IRS on key areas, including continued implementation of the OBBBA, deregulation and burden reduction, and other priorities:

OBBBA implementation:

- Guidance under the Section 45Q credit for carbon oxide sequestration, Section 45U zero-emission nuclear power production credit, Section 45X production credit for advanced manufacturing, and Sections 45Y and 48E regarding the domestic content bonus credit amount
- Final regulations under Section 45Z on the clean fuel production credit
- Regulations under Section 59A regarding statutory modifications to the base erosion minimum tax amount
- Regulations under Section 163(j) regarding limitation on deduction for business interest
- Guidance under Section 165(h)(5) regarding State declared disasters
- Regulations under Section 168(k) regarding extension of the special depreciation allowance for qualified property
- Regulations under Section 168(n) regarding the special depreciation allowance for qualified production property
- Regulations and other guidance under Sections 174, 174A, and related provisions regarding R&E expenditures and related issues
- Regulations under Section 199A regarding deduction for qualified business income
- Guidance under Section 274(o) regarding meals provided at the convenience of the employer
- Regulations under Section 460 on the exception to percentage-of-completion method for certain residential construction contracts
- Guidance under Section 7701(a)(51) and (52) regarding prohibited foreign entity and material assistance restrictions

Deregulation and burden reduction:

- Guidance under Section 41 on the credit for increasing research activities
- Regulations under Sections 55, 56A, and 59 regarding the Corporate Alternative Minimum Tax
- Regulations under Section 59A regarding identification requirements for qualified derivative payments on securities lending transactions
- Guidance under Section 166 on the conclusive presumption of worthlessness for bad debts
- Guidance under Section 263 and related Code sections regarding the treatment of capitalized costs for Section 355 distributions and reorganizations
- Modifications and simplifications to regulations under Section 263A
- Final regulations under Section 267 regarding related party transactions and partnerships
- Revenue procedure under Section 446 updating Rev. Proc. 2015-13
- Regulations under Section 451(b) and (c)
- Revenue procedure under Section 471 to update Rev. Proc. 2008-43

Other priorities:

- Regulations under Section 475 relating to mark-to-market method of accounting
- Final regulations regarding Section 761 modifying existing regulations for certain unincorporated organizations that are organized exclusively to produce electricity from certain property

Unaddressed items from previous PGPs that are included in the 2026-2027 PGP include the revenue procedure under Section 446 updating Rev. Proc. 2015-13, which provides procedures and rules for automatic and non-automatic changes in method of accounting, and guidance under Section 475 relating to mark-to-market method of accounting — both of which had been included on the 2024-2025 PGP and omitted from the 2025-2026 PGP.

Consistent with previous years, Treasury and the IRS intend to update the PGP during the year to reflect additional items, including further deregulatory items as they continue to evaluate comments from taxpayers and practitioners. In this regard, [Notice 2026-58](#) identified and obsoleted 71 revenue rulings, revenue procedures, notices, and announcements previously published in the Internal Revenue Bulletin. Most of these items were already superseded by final regulations, statutory repeal, or the passage of time, and the notice simply formalizes that status.

Assessing the impact of DISE on accounting methods

In November 2024, the Financial Accounting Standards Board issued Accounting Standards Update 2024-03, Disaggregation of Income Statement Expenses (DISE), which requires all public business entities to disaggregate income statement expenses by natural category in footnote disclosures. For calendar year-end companies, DISE is effective for annual reporting periods beginning in 2027 and interim periods beginning in 2028. Early adoption is permitted. Under the new standard, companies must provide a tabular disclosure showing the amounts of specified natural expense categories (listed below) included in each relevant expense caption on the income statement. A relevant expense caption is an expense caption presented on the face of the income statement within continuing operations that contains any of these expense categories:

- Purchases of inventory
- Employee compensation
- Depreciation
- Intangible asset amortization
- Depreciation, depletion, and amortization recognized as part of oil- and gas-producing activities (or other depletion amounts).

Companies also must disclose the total amount of selling expenses, provide an entity-specific definition of selling expenses in annual periods, and include a qualitative description of remaining amounts not separately disaggregated.

Depending on a company's specific facts and circumstances, new system and process changes may be required as well as coordination across geographies, business segments, and multiple reporting systems to capture natural expense data at a level of granularity not previously maintained. As companies undertake these data and system improvements, it also may be a good time to check that the financial statement income and deduction amounts are properly reported in column (a) on Schedule M-3, which in turn could impact the calculation of book to tax differences on Schedule M-3. In addition, the more detailed disclosures required by DISE and enhanced data granularity may create an opportune time for taxpayers to revisit their tax accounting methods in related areas—such as inventory cost capitalization under Section 263A, depreciation, amortization, and selling expense deduction timing. For more information about DISE, see [FASB issues new disaggregated expense disclosure requirements \(DISE\)](#) and [Disaggregated Expense Disclosure Requirements – The Clock is Ticking. Is Your Company Ready?](#)

Let's talk

For a deeper discussion of how these developments might affect your business, please contact one of the PwC professionals listed below:

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