

IRS modifies method change procedures for specified research or experimental expenditures



September 17, 2024

In brief

What happened?

The IRS has provided updated procedures in [Rev. Proc. 2024-34](#) for obtaining automatic consent to change accounting methods for specified research or experimental (SRE) expenditures paid or incurred in tax years beginning after December 31, 2021.

Why is it relevant?

Rev. Proc. 2024-34 modifies when taxpayers may use the automatic method change procedures to change their method of accounting for SRE expenditures to comply with Section 174 or to rely on the interim guidance provided in [Notice 2023-63](#), as modified by [Notice 2024-12](#) (Notice). Specifically, the guidance modifies both the eligibility rules that could have otherwise precluded certain taxpayers from using the automatic procedures to change their accounting methods for SRE expenditures, as well as the limited audit protection rules, that were formerly provided by [Rev. Proc. 2024-23](#). This revenue procedure is effective for automatic accounting method changes for SRE expenditures that are filed on or after August 29, 2024.

Action to consider:

Pursuant to the eligibility rules formerly provided by Rev. Proc. 2024-23, certain taxpayers may have been prevented from filing an automatic change for SRE expenditures to comply with Section 174 or to rely on the Notice. Under new Rev. Proc. 2024-34, certain taxpayers now may be able to file an automatic method change as part of its 2023 federal income tax return. However, audit protection continues to be available only for a taxpayer that filed a change in method of accounting for SRE expenditures to comply with Section 174 for the first tax year beginning after December 31, 2021.

In detail

Modified Eligibility Rules

Rev. Proc. 2024-23, which provided the automatic procedures to change a taxpayer's method of accounting for SRE expenditures, waived certain eligibility rules that generally prevent a taxpayer from filing an automatic method change: (i) during the final year of the taxpayer's trade or business or (ii) if the taxpayer had previously made or requested a change for the same item during the last five years, for the first or second tax year beginning after December 31, 2021. As a result, taxpayers that had multiple short tax years in 2022 or 2023 may not have been permitted to file an automatic method change for SRE expenditures for a third or later tax year beginning after December 31, 2021. For example, if a taxpayer had two short tax years in 2022 and ceased its trade or business in 2023, then the taxpayer could not file an automatic method change for the final year of its trade or business in 2023 to comply with Section 174 or to rely on the Notice. Similarly, if a taxpayer had two short tax years in 2022 and filed an automatic method change during one of those short years, then the taxpayer could not file another automatic method change for the 2023 tax year to comply with Section 174 or to rely on the Notice.

Rev. Proc. 2024-34 modifies the eligibility rules by allowing taxpayers to file an automatic method change to comply with Section 174 or to rely on the Notice for "any tax year beginning in 2022 or 2023," even if the change is filed within the final year of the taxpayer's trade or business or the taxpayer made or requested a change for its SRE expenditures within the last five years (i.e., during 2022).

Observation: As the treatment of SRE expenditures subject to Section 174 continues to be clarified by the IRS, taxpayers may find it necessary to file accounting method change(s) in successive tax years. The modifications made by Rev. Proc. 2024-34 are welcome news for many taxpayers looking for procedural relief to comply with Section 174 or to rely on the Notice.

Modified Limited Audit Production Rules

Rev. Proc. 2024-23 provided that a taxpayer does not receive audit protection for a change made for the second tax year beginning after December 31, 2021, with respect to SRE expenditures paid or incurred in the first tax year beginning after December 31, 2021, if the taxpayer did not change its method of accounting in an effort to comply with Section 174 for the first tax year beginning after December 31, 2021.

Rev. Proc. 2024-34 modifies these rules to provide that a taxpayer does not receive audit protection for a change made for any tax year beginning in 2022 or 2023 (other than the first tax year beginning after December 31, 2021), with respect to SRE expenditures paid or incurred in the first tax year beginning after December 31, 2021, if the taxpayer did not change its method of accounting in an effort to comply with Section 174 for the first tax year beginning after December 31, 2021.

Observation: The limited audit protection rules in Rev. Proc. 2024-34 appear to be consistent with those provided by Rev. Proc. 2024-23, but are modified in light of the modified eligibility rules. Said differently, the crux of whether

a taxpayer secures audit protection continues to depend on whether the taxpayer filed a change in method of accounting to comply with Section 174 for the first tax year beginning after December 31, 2021.

Let's talk

For a deeper discussion of how this issue might affect your business, please contact one of the PwC professionals listed below, or your local [Accounting Method Services](#) contact:

Federal Tax Services

Christine Turgeon

(973) 202-6615

christine.turgeon@pwc.com

George Manousos

(202) 302-0942

george.manousos@pwc.com

Scott Rabinowitz

(301) 801-7056

scott.rabinowitz@pwc.com

Monic Kechik

(847) 815-9626

monic.kechik@pwc.com

© 2024 PwC. All rights reserved. PwC refers to the US member firm or one of its subsidiaries or affiliates, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see www.pwc.com/structure for further details.

This content is for general information purposes only and should not be used as a substitute for consultation with professional advisors.

Solicitation