



August 2, 2023

The Honorable Lily Batchelder
Assistant Secretary for Tax Policy
Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Mr. William Paul
Principal Deputy Chief Counsel
Internal Revenue Service
1111 Constitution Avenue, NW
Washington, DC 20224

RE: Comments on Rev. Proc. 2023-24 – Automatic Changes in Methods of Accounting

Dear Ms. Batchelder and Mr. Paul:

The American Institute of CPAs (AICPA) appreciates the efforts of the Department of the Treasury (“Treasury”) and the Internal Revenue Service (IRS) to publish [Rev. Proc. 2023-24](#), which provides taxpayers with a list of automatic method changes.

These comments are in response to Rev. Proc. 2023-24, and we provide additional examples and recommendations. Specifically, we recommend that Treasury and IRS provide guidance on the following issues related to the existing automatic changes as well as new automatic changes to add to the list.

SPECIFIC COMMENTS

Our attached comments include the following recommendations:

- 1. Simplify changes in the timing of income recognition under section 451(b) and section 451(c).**
 - Treasury and IRS should simplify the automatic accounting method change guidance by (1) removing designated change number (DCN) 255 from Section 16.08 of Rev. Proc. 2023-24 and (2) modifying the definition of a section 481(a) adjustment in Section 3.15 of Rev. Proc. 2015-13 to clarify that a section 481(a) adjustment resulting from a cost-offset related inventory method change must include the impact on a taxpayer’s cost of goods in progress offset under Treas. Reg. §1.451-3(c) and/or Treas. Reg. §1.451-8(e).

- 2. Extend the automatic accounting method change to comply with the all events test for income inclusion.**
 - The AICPA recommends that the automatic accounting method change under Section 16.08(2)(a)(i)(A) and (B) of Rev. Proc. 2023-24 for an accrual method

taxpayer with an applicable financial statement (AFS) to change to an accounting method that complies with the all events test under section 451(b) and Treas. Reg. §1.451-1(a) be extended beyond its current limited period, and that method changes eligible for automatic consent include an automatic accounting method change for an accrual method taxpayer without an AFS to change to an accounting method that complies with the all events test under section 451(b) and Treas. Reg. §1.451-1(a).

3. Expand the automatic method change for employee compensation and commissions paid to independent contractors if no fixed liability at year end or if amounts constitute deferred compensation.

- The AICPA recommends that the automatic accounting method changes under Sections 20.01 and 14.01 of Rev. Proc. 2023-24 be expanded to include any type of compensation paid to employees and commissions paid to independent contractors. Additionally, if there are some types of compensation that the IRS believes should require advance consent, the AICPA recommends that the IRS list those specific exceptions and provide definitions for the terms used.

4. Provide an additional automatic accounting method change under section 460.

- Treasury and IRS should provide a new automatic method change for taxpayers with non-exempt contracts to change to a permissible percentage of completion method (PCM) as required by section 460(a). The scope of the automatic change could be limited to those taxpayers changing from an impermissible method; thus, the automatic change would not apply to taxpayers changing from one permissible PCM under section 460 to another permissible PCM under section 460 (e.g., a change from the cost allocation method under Treas. Reg. §1.460-5(b) to the simplified cost-to-cost method described in Treas. Reg. §1.460-5(c)).

5. Include an additional automatic accounting method change for a specified good.

- The AICPA recommends that the method changes eligible for automatic consent include a change for a specified good to change to an accounting method that complies with the all events test under section 451(b) and Treas. Reg. §1.451-1(a).

6. Provide additional automatic accounting method changes for the taxable year of incurring certain liabilities under section 461.

- The AICPA requests that the Treasury and IRS provide automatic consent for an accounting method change for accrual method taxpayers to use a permissible method of accounting for warranties to comply with section 461(h)(2)(B) and Treas. Reg. §1.461-4(d)(4). The AICPA additionally requests that the Treasury

and IRS provide automatic consent for accrual method taxpayers to use a permissible method of accounting for contingent services fees to comply with section 461(h)(2)(A)(i) and Treas. Reg. §1.461-4(d)(2)(i).

7. Remove the sunset of the automatic method change under Section 6.21 of Rev. Proc. 2023-24.

- The AICPA requests that the Treasury and IRS remove the sunset date in Section 6.21(3) of Rev. Proc. 2023-24 and permit a controlled foreign corporation (CFC) to make a depreciation method change to use the alternative depreciation system (ADS) under the automatic consent procedures whether the change is permissible to permissible or impermissible to permissible, including a section 481(a) adjustment.

8. Waive the five-year eligibility rule under Section 5.01(1)(f) of Rev. Proc. 2015-13 for an automatic method change under Section 29.01 of Rev. Proc. 2023-24.

- The AICPA requests that the automatic consent procedures for making functional currency method changes include a waiver of the prior five-year change eligibility rule under Section 5.01(1)(f) of Rev. Proc. 2015-13.

9. Provide an additional automatic accounting method change for creditable foreign taxes under section 905.

- The AICPA recommends that changes from an improper to a proper accrual method for foreign income taxes be added to list of changes eligible for the automatic consent procedures. The existence of regulations that specifically address both the application of the accrual method to foreign income taxes as well as the specific adjustments that are required when a taxpayer changes from an improper to a proper method for accruing such taxes makes it unnecessary and impractical for the Service to have to provide consent to such changes on a case-by-case basis.

10. Clarify that a taxpayer changing from a non-inventory price index computation (IPIC) last-in-first-out (LIFO) method to the IPIC method under Section 23.06(1)(a) of Rev. Proc. 2023-24 is also required to change from a components-of-cost method of defining inventory items to a total-product-cost method of defining inventory items.

- Treasury and the IRS should modify Section 23.06(1)(a) of Rev. Proc. 2023-24 to also include a change from a components-of-cost method to a total-product-cost method for defining items.

11. Require a new base year for a change to IPIC-method pools under Section 23.07(1)(c) of Rev. Proc. 2023-24.

- Treasury and the IRS should modify Section 23.07(3)(b) to require a new base year for a change to IPIC-method pools described in Treas. Regs. §1.472-8(b)(4) or §1.472-8(c)(2) pursuant to Section 23.07(1)(c) of Rev. Proc. 2023-24.

12. Waive the five-year eligibility rule for certain changes under Section 23.07(1)(c) of Rev. Proc. 2023-24.

- Treasury and the IRS should waive the five-year eligibility rule for a change to begin or discontinue applying one or both of the 5 percent pooling rules under Section 23.07(1)(c) for the first five years following a method change to use IPIC-method pools in conjunction with one or both of the 5 percent pooling rules.

13. Waive the five-year eligibility rule for all changes under Section 23.07(1)(f) of Rev. Proc. 2023-24.

- Treasury and the IRS should modify Section 23.07(2) of Rev. Proc. 2023-24 to waive the five-year eligibility rule for all changes under Section 23.07(1)(f), regardless of whether a taxpayer is using the 10 percent method described in Treas. Reg. §1.472-8(e)(3)(iii)(C)(2).

14. Allow automatic method changes within Section 12.17 of Rev. Proc. 2023-24 when financial statement calculations change.

- Treasury and the IRS should modify Section 12.17 of Rev. Proc. 2023-24 as follows:
 - i. Establish a permanent waiver of the five-year eligibility rule for any changes to recharacterize costs resulting from a change to the costs capitalized to inventory in a taxpayer's financial statements.

- ii. Provide taxpayers with the option to implement changes to recharacterize costs on a cut-off basis or with a section 481(a) adjustment if the taxpayer has adequate detail to accurately compute an adjustment.
- iii. Regarding changes made for financial statement costing of inventory that would not be covered by Section 12.17 of Rev. Proc. 2023-24, consider adding an automatic method change to allow taxpayers to conform to the methods used for financial reporting purposes.

15. Waive the five-year eligibility rule for required changes between the alternative method and default method under Sections 12.01 and 12.02 of Rev. Proc. 2023-24.

- Treasury and the IRS should provide relief for a taxpayer that reasonably anticipates its period without having an AFS to not exceed two tax years. In this circumstance, a taxpayer that previously maintained an AFS would be permitted to remain on the alternative method for up to two subsequent tax years without an AFS, and the alternative method would be applied using the taxpayer's books and records in lieu of an AFS.
- The five-year eligibility rule should be waived to permit changes between the alternative method and the default method under Sections 12.01 and 12.02 of Rev. Proc. 2023-24 for a three-tax year period beginning with the first year that a taxpayer no longer has an AFS.

16. Clarify that a change to begin deferring additional section 263A costs related to intercompany sales of inventory is an automatic change implemented with a section 481(a) adjustment.

- Treasury and the IRS should formalize the automatic change treatment with a section 481(a) adjustment by modifying Sections 12.01 and 12.02 of Rev. Proc. 2023-24 to explicitly provide that a change to begin properly accounting for an intercompany item resulting from the sale or exchange of inventory property in an intercompany transaction (e.g., a change to begin properly deferring additional section 263A costs related to intercompany sales of inventory for goods that remain in the buying member's ending inventory) is an automatic method change and that this change is implemented with a section 481(a) adjustment.
- Similar rules should be provided for taxpayers with separate trades or businesses when one trade or business sells to another trade or business.

17. Allow a taxpayer making concurrent changes under Section 12.02 and Section 12.08 of Rev. Proc. 2023-24 to file a single Form 3115.

- Treasury and the IRS should permit taxpayers making concurrent changes under Section 12.02 and Section 12.08 to file a single Form 3115.

18. Allow a taxpayer making concurrent changes under Section 12.01 or Section 12.02 and Section 12.10 of Rev. Proc. 2023-24 to file a single Form 3115.

- Treasury and the IRS should permit taxpayers making concurrent changes under Section 12.01 or Section 12.02 and Section 12.10 to file a single Form 3115.

19. Waive the five-year eligibility rule for a taxpayer changing a uniform capitalization (UNICAP) method (or methods) under Section 12.01 or Section 12.02 of Rev. Proc. 2023-24 because the taxpayer is no longer a producer or is no longer a reseller.

- Treasury and the IRS should waive the five-year eligibility rule for a taxpayer changing a UNICAP method (or methods) under Section 12.01 or Section 12.02 of Rev. Proc. 2023-24 because the taxpayer is no longer a producer or is no longer a reseller.
- A taxpayer making this change in the first year it is required to change should be permitted to implement the change using a cut-off method.

20. Waive the five-year eligibility rule for a taxpayer to change from the simplified production method (SPM) to another permissible method when the taxpayer's average annual gross receipts for the three previous taxable years exceed \$50 million.

- Treasury and the IRS should waive the five-year eligibility rule for taxpayers to change from the SPM to another permissible method when the taxpayer's average annual gross receipts for the three previous taxable years exceed \$50 million and, therefore, the taxpayer is no longer eligible to use the SPM with negative additional section 263A costs.

21. Provide an automatic method change and waive the five-year eligibility rule for a taxpayer that revoked a historic absorption ratio (HAR) election under Section 12.18 of Rev. Proc. 2022-14 (or its predecessor) and that wants to make a HAR election under its simplified method.

- Treasury and the IRS should provide an automatic method change and waive the five-year eligibility rule for a taxpayer that revoked a HAR election under Section 12.18 of Rev. Proc. 2022-14 (or its predecessor) and that wants to make a HAR election under its simplified method within six years of the revocation.

* * * * *

The AICPA is the world's largest member association representation the accounting profession, with more than 421,000 members in the United States and worldwide, and a history of serving the public interest since 1887. Our members advise clients on federal, state and international tax matters and prepare income and other tax returns for millions of Americans. Our members provide services to individuals, not-for-profit organizations, small and medium-sized businesses, as well as America's largest businesses.

We appreciate your consideration of our recommendations and welcome the opportunity to further discuss our comments. If you have any questions, please contact Caleb Cordonnier, Co-Chair, AICPA Rev. Proc. 2023-24 Task Force at (202) 521-1555 or caleb.cordonnier@us.gt.com; Andrew Eisinger, Co-Chair, AICPA Rev. Proc. 2023-24 Task Force at (404) 495-7064 or andrew.eisinger@crowe.com; Reema Patel, Senior Manager - AICPA Tax Policy & Advocacy, at (202) 434-9217, or reema.patel@aicpa-cima.com; or me at (830) 372-9692 or bvickers@alamo-group.com.

Sincerely,



Blake Vickers, CPA, CGMA
Chair, AICPA Tax Executive Committee

The Honorable Lily Batchelder and Mr. William M. Paul

August 2, 2023

Page 8 of 8

cc: The Honorable Daniel I. Werfel, Commissioner, Internal Revenue Service
Mr. Timothy Powell, Tax Policy Advisor, Office of Tax Legislative Counsel, Department of the Treasury
Mr. Shamik Trivedi, Attorney-Advisor, Office of Tax Legislative Counsel, Department of the Treasury
Mr. Colin Campbell, Attorney-Advisor, Office of Tax Policy, Department of the Treasury
Mr. Scott Vance, Associate Chief Counsel, Income Tax & Accounting, Internal Revenue Service
Ms. Julie Hanlon-Bolton, Deputy Associate Chief Counsel, Income Tax & Accounting, Internal Revenue Service
Ms. Karla Meola, Special Counsel, Associate Chief Counsel, Income Tax & Accounting, Internal Revenue Service

AMERICAN INSTITUTE OF CPAs

Comments on Rev. Proc. 2023-24 – Automatic Changes in Methods of Accounting

August 2, 2023

SPECIFIC COMMENTS

1. Simplify changes in the timing of income recognition under section 451(b) and section 451(c).

Overview

Section 16.08 of Rev. Proc. 2023-24 provides various automatic changes in the timing of income recognition the final regulations of Treas. Reg. §1.451-3 and Treas. Reg. §1.451-8, including the following:

Description of Change	Section # in Rev. Proc. 2023-24	Designated Change Number (DCN)
Changes related to Treas. Reg. §1.451-3 other than cost offset	16.08(2)(a)(i)(A), (B), (F), (G)	250
Changes related to cost offset under Treas. Reg. §1.451-3, except concurrent cost-offset related inventory method changes	16.08(2)(a)(i)(C), (D)	251
Changes related to the deferral method for advance payments – Treas. Reg. §1.451-8 other than cost offset	16.08(2)(a)(ii)(B), (C), (G), and (H), 16.08(2)(b)(ii) or (vi)	252
Changes related to cost offset under Treas. Reg. §1.451-8, except concurrent cost-offset related to inventory method changes	16.08(2)(a)(ii)(D), (E), 16.08(2)(b)(iii) or (iv)	253
Changes related to full-inclusion method under Treas. Reg. §1.451-8(b)	16.08(2)(a)(ii)(A) and (C), 16.08(2)(b)(i)	254
Changes related to cost offsets resulting from concurrent cost-offset related inventory changes	16.08(2)(a)(i)(E), 16.08(2)(a)(ii)(F), and 16.08(2)(b)(v) ¹	255

¹ Note that the chart provided in Section 16.08(9) of Rev. Proc. 2023-24 indicates that the included change is under Section 16.08(2)(b)(v)(E), however no such change exists. The overview chart indicates the proper citation to be Section 16.08(2)(b)(v).

The automatic method change guidance under Section 16.08 of Rev. Proc. 2023-24 is causing confusion for taxpayers that are making one or more concurrent changes under this Section, including a change related to cost offsets. The following outlines some of the questions taxpayers are struggling to address in complying with the existing automatic method change guidance:

- How many Forms 3115 should I file?
- How many separate DCNs should be reported on the Form 3115?
- How many separate section² 481(a) adjustments should be reported?
- What is the adjustment period associated with each section 481(a) adjustment?

The below provisions within Rev. Proc. 2015-13 and Section 16.08 of Rev. Proc. 2023-24 provide the existing guidance to generally help answer these questions:

- Section 5.06 of Rev. Proc. 2015-13, as modified by Rev. Proc. 2021-34
 - a. A “cost-offset related inventory method change” is any change in method of accounting for inventory or any change in method of accounting for a liability that affects or could affect the taxpayer’s cost of goods in progress offset under Treas. Reg. §1.451-3(c) and/or Treas. Reg. §1.451-8(e). For example, a cost-offset related inventory method change includes a change in method of identifying or valuing inventories.
- Section 6.03(1)(b)(ii) of Rev. Proc. 2015-13, as modified by Rev. Proc. 2021-34
 - a. A taxpayer that makes one or more changes under Section 16.08(2)(a)(i)(E), (a)(ii)(F), or (b)(v) of Rev. Proc. 2023-24 to comply with Treas. Reg. §1.451-3(c)(5)(ii) and/or Treas. Reg. §1.451-8(e)(8)(ii), as applicable, and one or more cost-offset related inventory method changes that are described in the List of Automatic Changes for the same year of change should file a single Form 3115 for such changes and put the designated automatic accounting change numbers for such changes on the appropriate line of that Form 3115.
- Section 16.08(4)(b)(ii)(A) of Rev. Proc. 2023-24
 - a. A taxpayer that makes a change described in Section 16.08(2)(a)(i)(C) or (D) of Rev. Proc. 2023-24 and one or more changes described in Section 16.08(2)(a)(i)(A), (B), and/or (G) of Rev. Proc. 2023-24 for gross income from inventory sales for the same year of change must provide a single net section 481(a) adjustment for all such changes. The section 481(a) adjustment period described in

² All references to “section” are to the Internal Revenue Code of 1986, as amended, and all references to “Treas. Reg. §”, “Prop. Reg. §”, and “regulations” are to U.S. Treasury regulations promulgated thereunder, unless otherwise specified.

Section 7.03 of Rev. Proc. 2015-13 is determined based on the net section 481(a) adjustment.

- i. Similar section 481(a) adjustment netting rules are provided under Section 16.08(4)(b)(ii)(B) and (C) of Rev. Proc. 2023-24 for changes made under Treas. Reg. §1.451-8 related to inventory sales for taxpayers with and without an applicable financial statement (AFS), respectively.
- Section 16.08(4)(b)(iii)(A) of Rev. Proc. 2023-24
 - a. A taxpayer that makes more than one method change under Section 16.08(2)(a)(i)(E) for the same year of change must provide a single net section 481(a) adjustment for all such changes. The section 481(a) adjustment period for this net section 481(a) adjustment is determined by applying the rules in Section 16.08(4)(b)(iii)(D) of Rev. Proc. 2023-24.
 - i. Similar section 481(a) adjustment netting rules are provided under Sections 16.08(4)(b)(iii)(B) and (C) of Rev. Proc. 2023-24 for changes described in Sections 16.08(2)(a)(ii)(F) and 16.08(2)(b)(v), respectively.
- Section 16.08(4)(b)(iii)(D) of Rev. Proc. 2023-24
 - a. The section 481(a) adjustment period for a cost offset change described in Section 16.08(2)(a)(i)(E), 16.08(2)(a)(ii)(F), or 16.08(2)(b)(v) of Rev. Proc. 2023-24, whether the section 481(a) adjustment is positive or negative, is the same as the section 481(a) adjustment period for the corresponding cost-offset related inventory method change.... If the taxpayer must net the section 481(a) adjustments for cost offset changes under Section 16.08(4)(b)(ii)(A), (B), or (C) of Rev. Proc. 2023-24, as applicable, the section 481(a) adjustment period for any such net section 481(a) adjustment is the same as the section 481(a) adjustment period for the corresponding cost-offset related inventory method changes, determined by netting the section 481(a) adjustments from such corresponding cost-offset related inventory method changes. The requirement that the taxpayer net the section 481(a) adjustments for such corresponding cost-offset related inventory method changes is solely for purposes of determining the section 481(a) adjustment period for the net section 481(a) adjustment determined under Section 16.08(4)(b)(ii)(A), (B), or (C) of Rev. Proc. 2023-24, as applicable.
 - i. This rule does not apply if the net section 481(a) adjustment for the corresponding cost offset change(s) is zero, taking into account the netting rules in Sections 16.08(4)(b)(iii)(A), (B), or (C).
- Section 16.08(7)(a) of Rev. Proc. 2023-24
 - a. A taxpayer that wants to make one or more concurrent changes in method of accounting under this Section 16.08 and a change in overall method of accounting to an accrual method under Section 15.01 of Rev. Proc. 2023-24 may file a single Form 3115 that includes all of the changes. Except as otherwise required by Section 16.08(4)(b)(ii) of Rev. Proc. 2023-24, the taxpayer may not net the section 481(a)

adjustment from one change with the section 481(a) adjustment from another change, and must separately state the section 481(a) adjustment for each change.

- Section 16.08(7)(b) of Rev. Proc. 2023-24
 - a. A taxpayer that makes one or more changes under Section 16.08(2)(a)(i)(E), (a)(ii)(F), or (b)(v) of Rev. Proc. 2023-24, as applicable, and one or more cost-offset related inventory method changes is required to implement the cost-offset related inventory method change(s) before it implements the corresponding change(s) under Section 16.08(2)(a)(i)(E), (a)(ii)(F), or (b)(v) of Rev. Proc. 2023-24, as applicable. Furthermore, a taxpayer that makes a change under Section 16.08(2)(a)(i)(C) and (E) and/or Section 16.08(2)(a)(ii)(D) and (F), or Section 16.08(2)(b)(iii) and (v) of Rev. Proc. 2023-24, as applicable, for the same year of change is required to implement the change under Section 16.08(2)(a)(i)(C), 16.08(2)(a)(ii)(D), or 16.08(2)(b)(iii) of Rev. Proc. 2023-24, as applicable, before it implements any cost-offset related inventory method change(s) and the change(s) under Section 16.08(2)(a)(i)(E), (a)(ii)(F), or (b)(v) of Rev. Proc. 2023-24, as applicable.

Recommendation

The AICPA recommends that the Treasury and IRS simplify the automatic accounting method change guidance by (1) removing DCN 255 from Rev. Proc. 2023-24 and (2) modifying the definition of a section 481(a) adjustment in Section 3.15 of Rev. Proc. 2015-13 to clarify that a section 481(a) adjustment resulting from a cost-offset related inventory method change must include the impact on a taxpayer's cost of goods in progress offset under Treas. Reg. §1.451-3(c) and/or Treas. Reg. §1.451-8(e).

Analysis

The complexity of the existing automatic method change guidance under Section 16.08 of Rev. Proc. 2023-24 can be best illustrated with an example. Assume a taxpayer for its 2022 tax year intends to file the following automatic accounting method changes:

- DCN 54 (Section 22.04 of Rev. Proc. 2023-24) – change from an impermissible method of valuing inventories to a permissible method of valuing inventories. For purposes of this example, assume this change is resulting in a positive section 481(a) adjustment (i.e., the ending inventory value will be higher under the proposed method).
- DCN 250 (Section 16.08(2)(a)(i)(A) of Rev. Proc. 2023-24) – change to comply with the AFS income inclusion rule in Treas. Reg. §1.451-3(b) under which the taxpayer determines the amount of an item of gross income that is treated as “taken into account as AFS revenue” by making the AFS revenue adjustments provided in Treas. Reg. §1.451-3(b)(2)(i).

- DCN 251 (Section 16.08(2)(a)(i)(C) of Rev. Proc. 2023-24) – change to apply the AFS cost offset method in Treas. Reg. §1.451-3(c) to determine the amount of an item of gross income from the sale of inventory that is required to be included in gross income under the AFS income inclusion rule in Treas. Reg. §1.451-3(b).
- DCN 255 (Section 16.08(2)(a)(i)(E) of Rev. Proc. 2023-24) – change to comply with Treas. Reg. §1.451-3(c)(5)(ii) as a result of a concurrent cost-offset related inventory method change. Notably, under the existing automatic method change guidance, this change applies whether the taxpayer presently uses a cost offset method or is proposing to make, for the same year of change, a change to begin using the AFS cost offset method pursuant to Section 16.08(2)(a)(i)(C) of Rev. Proc. 2023-24.

Section 16.08(7)(b) of Rev. Proc. 2023-24 indicates DCN 54 must be made before DCN 255, but it also indicates DCN 251 must be made before DCN 54 and DCN 255. Furthermore, since Section 16.08(4)(b)(ii)(A) of Rev. Proc. 2023-24 states that the taxpayer must provide a single net section 481(a) adjustment for the changes made under DCNs 250 and 251, presumably the changes must be made in the following order: (1) DCNs 250 and 251 with a combined net section 481(a) adjustment, (2) DCN 54, and (3) DCN 255.

Under Section 16.08(4)(b)(iii)(D) of Rev. Proc. 2023-24, the section 481(a) adjustment period for DCN 255 is the same as the section 481(a) adjustment for DCN 54, the corresponding cost-offset related inventory method. Thus, the taxpayer must apply a four-year section 481(a) adjustment period to DCN 255 consistent with DCN 54, regardless of whether the section 481(a) adjustment for DCN 255 is positive or negative.

Under Section 16.08(7)(a) of Rev. Proc. 2023-24, the taxpayer may file a single Form 3115 for DCNs 250, 251, and 255. However, under Section 6.03(1)(b)(ii) of Rev. Proc. 2015-13, as modified by Rev. Proc. 2021-34, the taxpayer should file a single Form 3115 for DCNs 54 and 255. If the taxpayer should file a single Form 3115 for DCNs 54 and 255 and may file a single Form 3115 for DCNs 250, 251, and 255, then may the applicant file a single Form 3115 for DCNs 54, 250, 251, 255? Or must the taxpayer file a Form 3115 for DCNs 250 and 251 and a separate Form 3115 for DCNs 54 and 255?

Under AICPA’s recommendation, the taxpayer would merely file (1) a single Form 3115 for DCNs 250 and 251 with a single net section 481(a) adjustment for both changes, and (2) a single Form 3115 for DCN 54 that includes as part of the section 481(a) adjustment the impact on the taxpayer’s cost of goods in progress offset. The AICPA’s recommendation would greatly simplify the automatic method change guidance, which will further encourage compliance with proper tax accounting methods and conserve taxpayer and IRS national office resources.

2. Extend the automatic accounting method change to comply with the all events test for income inclusion.

Overview

Section 451(a) states that “the amount of any item of gross income shall be included in the gross income for the taxable year in which received by the taxpayer, unless, under the method of accounting used in computing taxable income, such amount is to be properly accounted for as of a different period.” Under section 451(b)(1)(A), a taxpayer that uses an accrual method of accounting and has an AFS as defined in section 451(b)(3) is treated as meeting the all events test no later than when the item of income is taken into account in its AFS. Section 451(b)(1)(C) states that the all events test is met if “all the events have occurred which fix the right to receive such income and the amount of such income can be determined with reasonable accuracy.”

Treasury Reg. §1.451-1(a), which applies to taxpayers with an AFS and without an AFS, reiterates that “under an accrual method of accounting, income is includible in gross income when all the events have occurred which fix the right to receive such income and the amount thereof can be determined with reasonable accuracy (all events test).”

CCA 201852019 (December 28, 2018) explained that a taxpayer with an AFS that recognizes an item of income on an impermissible method of accounting, which for purposes of the CCA was defined as one that does not comply with the all events test, may obtain automatic consent to change its method of accounting under the then current automatic accounting method change to comply with section 451(b) under Section 16.12 of Rev. Proc. 2018-31. The IRS has not issued written guidance specifically continuing the ability of an accrual method taxpayer with an AFS to make an automatic accounting method change to properly apply the all events test under Rev. Proc. 2023-24, but has stated in public comments that Section 16.08(2)(a)(i)(A) and (B) of Rev. Proc. 2023-24 do permit a taxpayer to make necessary changes to properly apply the all events test. The automatic accounting method changes under Section 16.08(2)(a)(i)(A) and (B) of Rev. Proc. 2023-24 are limited to a taxpayer’s first, second or third taxable year beginning after December 31, 2020. Because these automatic changes are specifically limited to taxpayers with an AFS, and there are no other automatic accounting method changes that apply to a taxpayer without an AFS, a taxpayer without an AFS is not able to make an automatic accounting change to correct an improper application of the all events test.

Recommendation

The AICPA recommends that the automatic accounting method change under Section 16.08(2)(a)(i)(A) and (B) of Rev. Proc. 2023-24 for an accrual method taxpayer with an AFS to change to an accounting method that complies with the all events test under section 451(b) and Treas. Reg. §1.451-1(a) be extended beyond its current limited period, and that method changes eligible for automatic consent include an automatic accounting method change for an accrual method taxpayer without an AFS to change to an accounting method that complies with the all events test under section 451(b) and Treas. Reg. §1.451-1(a).

Analysis

The proper application of the all events test is a fundamental requirement for an accrual method taxpayer to properly recognize gross income. Unless action is taken, accrual method taxpayers with an AFS will be required to file a non-automatic accounting method change when the limited applicability of the automatic change under Section 16.08(2)(a)(i)(A) and (B) of Rev. Proc. 2023-24 expires. Having to file a non-automatic method change for taxpayers with an AFS, and for taxpayers without an AFS, will create an additional administrative burden and expense to a taxpayer to change to a proper method where the law is well established, and where the IRS typically grants consent to the request to properly comply with the all events test. Permitting automatic consent for taxpayers changing from an improper method to change to properly apply the all events test will allow taxpayers to expeditiously comply with section 451 and Treas. Reg. §1.451-1(a) and will increase compliance with the rules and reduce administrative burden for both the taxpayer and government. The scope of such an automatic method change could be limited to those income items for which no other Code section is applicable. If the IRS has concerns as to whether a taxpayer is changing to a proper method of accounting, the automatic change could require the submission of additional information, such as a full and complete description of the item for which the change is being made. This information could include how the all-events test applies to the item of income under the facts and circumstances of the taxpayer's trade or business, similar to the information required when making a change from the cash method to an accrual method for specific items under Section 15.08 of Rev. Proc. 2023-24. The IRS could also require taxpayers to provide the legal basis supporting the proposed method for the item being changed, as currently required under Section 16.08(4)(a)(iv) of Rev. Proc. 2023-24. Further, an automatic accounting method change will conserve taxpayer and IRS national office resources and significantly reduce the burden and costs associated with filing the method change, especially for small taxpayers.

3. Expand the automatic method change for employee compensation and commissions paid to independent contractors if no fixed liability at year end or if amounts constitute deferred compensation.

Overview

Rev. Proc. 2023-24 contains two significant automatic accounting method changes related to an employer's timing for deductibility of various types of compensation payable to employees: Section 14.01 regarding deferred compensation under section 404 and Section 20.01 regarding timing of incurring liabilities under section 461. These changes are limited to bonuses and vacation pay under section 404 and bonuses, vacation pay, sick pay, severance pay, and commissions under section 461. These terms are not defined, which creates a lack of clarity but also draws arbitrary lines between different types of compensation liabilities that require a non-automatic method change.

Recommendation

The AICPA recommends that the automatic accounting method changes under Sections 20.01 and 14.01 of Rev. Proc. 2023-24 be expanded to include any type of compensation paid to employees and commissions paid to independent contractors. Additionally, if there are some types of compensation that the IRS believes should require advance consent, the AICPA recommends that the IRS list those specific exceptions and provide definitions for the terms used.

Analysis

Section 20.01 of Rev. Proc. 2023-24 permits automatic accounting method changes to comply with the all events test under section 461 for liabilities for bonuses, vacation pay, sick pay, severance pay, and commissions. These terms are not defined for the purposes of this limitation but are not inclusive of all types of compensation paid to employees. This creates a lack of clarity regarding the types of compensation accruals that are eligible for an accounting method change with automatic consent. For example, many employers provide holiday pay to employees only if they return for the next work day after the holiday (e.g., require an employee to return to work on January 2 in order to be eligible to receive holiday pay for December 31 holidays). It is not clear whether holiday pay is included in vacation pay. Presumably, it was not intended that changes in methods of accounting for holiday pay require a non-automatic accounting method change given how similar it is to vacation pay. There are a multitude of compensation regimes that could raise similar questions but don't seem to pose any particularly unique facts that would distinguish them from the types that are included in Section 20.01. These may include, for example, parental leave, paid leave of absence, charitable service/volunteer time, jury duty pay, bereavement time, military leave, standard hourly compensation, or standard salaried compensation.

Section 14.01 of Rev. Proc. 2023-24 permits automatic accounting method changes related to liabilities for bonuses and vacation pay obligations to apply the 2 ½ month rule under section 404(a)(5) and Treas. Reg. §1.404(b)-1T, Q&A 2 to the extent that amounts are paid after the 2 ½ month period. Taxpayers frequently discover facts patterns where the 2 ½ month rule does not apply and find that an automatic accounting method change may not be available for otherwise simple fact patterns. By contrasting the language to Section 20.01, it is implied that sick pay, severance, and commissions cannot be eligible for an automatic accounting method change. It is not clear why those types of compensation would be treated differently for applying the 2 ½ month rule accounting method change compared to the all events test accounting method change.

The AICPA previously commented³ requesting additional automatic accounting method changes for compensation and commissions paid to employees and independent contractors. While the IRS subsequently adjusted Section 20.01(4) of Rev. Proc. 2023-24 to include employee commissions, it did not expand this guidance to commissions paid to independent contractors even though many salespersons are individuals operating as independent contractors. These types of arrangements are common across large and small businesses, and it creates a significant burden for taxpayer

³ See AICPA Letter, "[Tax Methods and Periods Priority Issues](#)," August 25, 2020.

compliance to distinguish between these service providers and consider whether a non-automatic accounting method change is required for one group versus the other.

4. Provide an additional automatic accounting method change under section 460.

Overview

Section 460(a) states in the case of any long-term contract, the taxable income from such contract shall be determined under the percentage of completion method (PCM).

A long-term contract generally is any contract for the manufacture, building, installation, or construction of property if the contract is not completed within the contracting year. However, a contract for the manufacture of property is a long-term contract only if it also satisfies either the unique item or 12-month requirement described in Treas. Reg. §1.460-2. A contract for the manufacture of personal property is a manufacturing contract. In contrast, a contract for the building, installation, or construction of real property is a construction contract.

Treasury Reg. §1.460-4(b)(1) provides that under the PCM, a taxpayer generally must include in income the portion of the total contract price that corresponds to the percentage of the entire contract that the taxpayer has completed during the taxable year. The percentage of completion must be determined by comparing allocable contract costs incurred with estimated total allocable contract costs. Thus, the taxpayer includes a portion of the total contract price in gross income as the taxpayer incurs allocable contract costs.

A taxpayer must use a cost allocation permitted under either Treas. Reg. §1.460-5(b) or Treas. Reg. §1.460-5(c) to determine the amount of cumulative allocable contract costs and estimated total allocable contract costs that are used to determine a contract's completion factor.

Under Treas. Reg. §1.460-5(b), a taxpayer must allocate costs to each long-term contract subject to the PCM in the same manner that direct and indirect costs are capitalized to property produced by a taxpayer under Treas. Reg. §1.263A-1(e) through Treas. Reg. §1.263A-1(h). Thus, a taxpayer must allocate to each long-term contract subject to the PCM all direct costs and certain indirect costs properly allocable to the long-term contract (i.e., all cost that directly benefit or are incurred by reason of the performance of the long-term contract). Additional special rules apply under Treas. Reg. §1.460-5(b).

Alternatively, a taxpayer may elect to use the simplified cost-to-cost method described in Treas. Reg. §1.460-5(c) to allocate costs to a long-term contract subject to the PCM. Under the simplified cost-to-cost method, a taxpayer determines a contract's completion factor based upon only direct material costs, direct labor costs, and depreciation, amortization, and cost recovery allowances on equipment and facilities directly used to manufacture or construct the subject matter of the contract.

Additional special rules apply with respect to the PCM such as the look-back method under section 460(b) or the election to use the 10-percent method under section 460(b)(5).

The general requirement to use the PCM and the cost allocation rules described in Treas. Reg. §1.460-5(b) or Treas. Reg. §1.460-5(c) do not apply to any:

- (i) Home construction contract; and
- (ii) Other construction contract entered into after December 31, 2017, in a taxable year ending after December 31, 2017, by a taxpayer, other than a tax shelter prohibited from using the cash receipts and disbursements method of accounting (cash method) under section 448(a)(3), who estimates at the time such contract is entered into that such contract will be completed within the 2-year period beginning on the contract commencement date, and who meets the gross receipts test described in section 448(c) and Treas. Reg. §1.448-2(c)(2) for the taxable year in which such contract is entered into.

Treasury Reg. §1.460-4(c) provides that a taxpayer with “exempt construction contracts” may account for all such contracts using either the PCM, the exempt-contract percentage-of-completion method (EPCM), the completed-contract method (CCM), or any other permissible method.

Treasury Reg. §1.460-1(h)(2) provides that any change in a taxpayer’s method of accounting necessary to comply with section 460 is a change in method of accounting to which the provisions of section 446 and the regulations thereunder apply. A taxpayer-initiated change in method of accounting under section 460 is permitted only on a cut-off basis (i.e., for contracts entered into on or after the year of change) and thus a section 481(a) adjustment will neither be permitted nor required.

Section 19.01 of Rev. Proc. 2023-24 provides an automatic method change for a taxpayer that wants to change its method of accounting for exempt long-term construction contracts described in section 460(e)(1)(B) from the PCM to an exempt contract method of accounting described in Treas. Reg. §1.460-4(c). However, there presently is no automatic method change for taxpayers with non-exempt long-term contracts to change to the PCM as required by section 460(a), thus this change must be filed under the non-automatic change procedures of Rev. Proc. 2015-13.

Recommendation

The AICPA recommends that the Treasury and IRS provides a new automatic method change for taxpayers with non-exempt contracts to change to a permissible percentage of completion method (PCM) as required by section 460(a).

The scope of the automatic change could be limited to those taxpayers changing from an impermissible method; thus, the automatic change would not apply to taxpayers changing from one permissible PCM under section 460 to another permissible PCM under section 460 (e.g., a

change from the cost allocation method under Treas. Reg. §1.460-5(b) to the simplified cost-to-cost method described in Treas. Reg. §1.460-5(c)).

Analysis

Many taxpayers that use an impermissible method of accounting for non-exempt long-term contracts are unwilling to file a method change under the non-automatic change procedures of Rev. Proc. 2015-13 due to the high cost of filing the Form 3115.

In many instances, these taxpayers are using a “book” PCM, consistent with ASC 606 under GAAP, which does not necessarily conform to the PCM requirements under section 460. For example, a taxpayer may only allocate direct labor costs to jobs under ASC 606 or perhaps the taxpayer appropriately allocates all costs to jobs but treats such costs as incurred in accordance with their financial reporting method under GAAP rather than when the costs are incurred under Treas. Reg. §1.461-1(a)(2). In certain cases, depending on the facts and circumstances, there is a perception that such impermissible methods might result in taxable income that approximates taxable income under a permissible method under section 460, which adds to taxpayers’ unwillingness to consider a method change under the non-automatic change procedures of Rev. Proc. 2015-13. The current requirement to implement these method changes on a cutoff basis also lessens the immediate tax impact of these change in many cases.

In other instances, taxpayers who no longer meet the gross receipts test described in section 448(c) may have missed their opportunity to properly adopt the PCM for their non-exempt long-term contracts. The computation of gross receipts under section 448(c) may be challenging for some taxpayers, especially given the complex gross receipt aggregation rules, thus these taxpayers should be afforded the ability to change to a proper PCM under section 460(a) using the automatic method change procedures.

An automatic change from an impermissible method to the PCM as required by section 460(a) will further encourage compliance with proper tax accounting methods and conserve taxpayer and IRS national office resources. The existing Form 3115 (revised December 2022) has guardrails in place to ensure taxpayers change to a proper method of accounting under the automatic change. For instance, Schedule D of Form 3115 requires taxpayers to provide a significant amount of information related to the taxpayer’s long-term contracts such as a description of the manufacturing activities with respect to long-term manufacturing contracts, whether the contracts are cost-plus long-term contracts or federal long-term contracts, the specific costs that the taxpayer incurs including whether such costs are allocable to long-term contracts under the present and proposed methods, and a detailed description of the proposed cost allocation method, including the method of allocating direct and indirect costs and the method of allocating mixed service costs. The Treasury and IRS could also require taxpayers to provide the legal basis supporting the proposed method for the item being changed per question 16 on Form 3115 (revised December 2022), to the extent the information is not provided on Schedule D.

5. Include an additional automatic accounting method change for a specified good.

Overview

Treasury Reg. §1.451-8(a)(15) defines a specified good as a good for which: (1) During the taxable year a payment is received, the taxpayer does not have on hand, or available to it in such year through its normal source of supply, goods of a substantially similar kind and in a sufficient quantity to satisfy the contract to transfer the good to the customers; and (2) All the revenue from the sale of the good is recognized in the taxpayer's AFS in the year of delivery.

Under Treas. Reg. §1.451-8(a)(1)(ii)(H), payments received in a taxable year earlier than the taxable year immediately preceding the taxable year of the contractual delivery date for a specified good (specified good exception) are excluded from the definition of an advance payment unless the taxpayer uses the "the specified good section 451(c) method" under Treas. Reg. §1.451-8(f).

Under Treas. Reg. §1.451-8(f), a taxpayer may choose to use the "the specified good section 451(c) method" and treat all payments that qualify for the specified goods exception as advance payments that are eligible to be accounted for under this regulation section. The taxpayer may use the full inclusion method, the deferral method, or the cost offset method under Treas. Reg. §1.451-8(e). The use of the specified good section 451(c) method is a method of accounting, which may either be adopted or require an accounting method change, depending on the taxpayer's facts.

A taxpayer that has a prepayment for a specified good that does not meet the advance payment definition, or that does not choose to use the specified good section 451(c) method, must determine the tax treatment of the prepayment under section 451(b) and Treas. Reg. §1.451-1(a).

Section 16.08(2)(a)(ii)(C) of Rev. Proc. 2023-24 provides an automatic accounting method change to the specified goods section 451(c) method, in order to treat specified goods that qualify for the specified good exception as advance payments and use either the full inclusion method or the deferral method. However, under Section 16.08(3)(o) of Rev. Proc. 2023-24, a change for payments within the scope of the specified good exception is not eligible for the automatic change procedures if the proposed method of accounting is to include such payments in gross income under Treas. Reg. §1.451-3 in one or more taxable years following the taxable year of receipt. No other automatic accounting method change appears to include a change for a specified good within its scope.

Recommendation

The AICPA recommends that the method changes eligible for automatic consent include a change for a specified good to change to an accounting method that complies with the all events test under section 451(b) and Treas. Reg. §1.451-1(a).

Analysis

Taxpayers may be using either an improper accounting method for a specified good or using an advance payment method and wish to change from that method. For a limited time, a taxpayer with a specified good may be able to make an automatic change to an accounting method that complies with the all events test under Section 16.08(2)(a)(i)(A) and (B) of Rev. Proc. 2023-24 for a taxpayer's first, second or third taxable year beginning after December 31, 2020, as discussed more fully above. After the limited applicability of an automatic change under Section 16.08(2)(a)(i)(A) and (B) expires, taxpayers will be required to file a non-automatic method change. Having to file a non-automatic method change will create an additional administrative burden and expense to a taxpayer to change to a method where the law is well established, and where the IRS typically grants consent to the request to comply with the all events test. Permitting automatic consent for taxpayers changing from either an improper method or an advance payment method to a method of properly applying the all events test will allow taxpayers to expeditiously comply with section 451(b) and Treas. Reg. §1.451-1(a) and will increase compliance with the rules and reduce administrative burden for both the taxpayer and government. The scope of such an automatic method change could be limited to those income items for which no other Code section is applicable. If the IRS has concerns as to whether a taxpayer is changing to a proper method of accounting, the automatic change could require the submission of additional information, such as a full and complete description of the item for which the change is being made. This information could include how the all-events test applies to the specified good under the facts and circumstances of the taxpayer's trade or business, similar to the information required when making a change from the cash method to an accrual method for specific items under Section 15.08 of Rev. Proc. 2023-24. The IRS could also require taxpayers to provide the legal basis supporting the proposed method for the item being changed, as currently required under Section 16.08(4)(a)(iv) of Rev. Proc. 2023-24. Further, an automatic accounting method change will conserve taxpayer and IRS national office resources and significantly reduce the burden and costs associated with filing the method change, especially for small taxpayers.

6. Provide additional automatic accounting method changes for taxable year of incurring certain liabilities under section 461.

Overview

Section 461(a) generally provides that the amount of any deduction (e.g., a liability) or credit allowed by section 1 shall be taken for the taxable year which is the proper taxable year under the method of accounting used in computing taxable income. Under an accrual method of accounting, Treas. Reg. §1.461-1(a)(2)(i) generally provides that a liability is incurred, and generally is taken into account for Federal income tax purposes, in the taxable year in which all the events have occurred that establish the fact of the liability and the amount of the liability can be determined with reasonable accuracy (commonly referred to as the "all events test"), and economic performance has occurred with respect to the liability.⁴ Section 461(h)(1) and Treas. Reg. §1.461-

⁴ See Treas. Reg. §1.446-1(c)(1)(ii)(A).

4(a)(1) generally provide that in determining whether an accrual basis taxpayer can treat a liability as incurred, the all events test shall not be treated as met any earlier than when economic performance with respect to such item occurs.

Taxpayers, including CFCs, typically accrue and deduct liabilities for reserves to better match the accrual of the revenue and expenses. As noted above, such liabilities must be fixed and determinable before they can be taken into account for Federal income tax purposes. In particular, taxpayers incur liabilities for warranty reserves and reserves for contingent services (e.g., legal fees).

- *Warranty Reserve*

A taxpayer may provide warranties in connection with the sale of the goods. These warranties typically cover a particular period of time, and the taxpayer may or may not be separately compensated for the warranty. For financial accounting purposes, a taxpayer generally accrues a reserve for the estimated cost of satisfying its warranty-related obligation(s) at the time the item subject to the warranty is sold. In many cases, taxpayers follow their financial accounting methods, rather than properly accruing the warranty liability in the tax year when the all events test is satisfied and economic performance occurs (i.e., as the taxpayer (or third party service provider) provides the requisite service(s) and/or property, in accordance with section 461(h)(2)(B) and Treas. Reg. §1.461-4(d)(4)).

- *Contingent Services Reserve*

Taxpayers engage third-party service providers to provide professional services (e.g., legal services) as needed. For financial accounting purposes, a taxpayer regularly accrues an estimated reserve for such contingent services and frequently follows this method for Federal income tax purposes rather than accruing and deducting a liability for professional services when the taxpayer receives the services from third parties (i.e., the taxable year in which the all events test is satisfied and economic performance occurs under section 461(h)(2)(A)(i) and Treas. Reg. §1.461-4(d)(2)(i)).

Prior to the creation of the global intangible low-taxed income (GILTI) regime, a CFC only considered whether it was using permissible methods of accounting for Federal income tax purposes when the CFC's E&P became significant, and CFCs often followed their book methods of accounting for Federal income tax purposes. The GILTI regime now requires a CFC to evaluate its accounting methods even if its E&P is not significant because it requires CFCs to use permissible methods of accounting to determine their net tested income, and effectively, their GILTI. Many CFCs are now required to change from impermissible accounting methods (e.g., following a book method of accounting and deducting a warranty or contingent services reserve for Federal income tax purposes) to permissible methods of accounting to comply with section 951A and Treas. Reg. §1.951A-2(c)(2)(i). These method changes rarely fit within one of the options available on the List of Automatic Changes under Rev. Proc. 2023-24

Accounting method changes for reserve-type accruals, in general, and the warranty and contingent service fees, specifically, are not eligible for automatic consent. As a result, taxpayers must request consent under the non-automatic method change procedures of Rev. Proc. 2015-13 and incur user fees of several thousand dollars (the current user fee for a single Form 3115 request is \$11,500 per Appendix A of Rev. Proc. 2023-1).

Recommendation

The AICPA requests that the Treasury and IRS provide automatic consent for accrual method taxpayers to change to a permissible method of accounting for warranties to comply with section 461(h)(2)(B) and Treas. Reg. §1.461-4(d)(4). The AICPA additionally requests that the Treasury and IRS provide automatic consent for accrual method taxpayers to change to a permissible method of accounting for contingent services fees to comply with section 461(h)(2)(A)(i) and Treas. Reg. §1.461-4(d)(2)(i).

Analysis

The purpose of the accounting method change procedural guidance is to promote voluntary compliance. The user fees provide a disincentive to voluntary compliance for routine method changes from clearly impermissible to clearly permissible method changes such as changing from a method of deducting warranty or contingent service fee liabilities in a tax year when such liabilities are clearly not fixed and determinable, to a method of deducting such liabilities in a tax year in which the liabilities clearly meet the all-events test and economic performance. These changes typically result in positive section 481(a) adjustments and are routinely granted. These are exactly the types of method changes for which automatic consent should be provided.

To alleviate IRS concerns with respect to whether a taxpayer is changing to a proper method of accounting, the automatic method changes could require the submission of additional information, such as a complete and full description of the item for which the change is being made and a detailed explanation as to how the all events test is satisfied and economic performance is met with respect to the liability, specific to a taxpayer's facts and circumstances surrounding its trade or business — similar to the additional information required under Section 15.08(3) of Rev. Proc. 2023-24. The IRS could also require a taxpayer to provide a legal basis for the method change.

Automatic method changes for warranty and contingent services reserves would encourage compliance with permissible methods of accounting for Federal income tax purposes by domestic corporations and CFCs alike, as well as conserve their resources, and importantly, IRS resources.

7. Remove the sunset of the automatic method change under Section 6.21 of Rev. Proc. 2023-24.

Overview

Section 951A(a) requires a U.S. shareholder of any CFC to include in the U.S. shareholder's gross income its GILTI for each taxable year. A U.S. shareholder's GILTI is the excess, if any, of its net CFC tested income for such taxable year over the U.S. shareholder's net deemed tangible income for such taxable year,⁵ which considers the U.S. shareholder's pro rata share of its qualified business asset investment (QBAI).⁶ With respect to a CFC for any taxable year, QBAI is the average of the CFC's aggregate adjusted bases as of the close of each quarter of such taxable year in specified tangible property used in a trade or business of the corporation, and of a type with respect to which a deduction is allowable under section 167.⁷ A specified tangible property's adjusted basis is determined by using the alternative depreciation system (ADS) under section 168(g).⁸

Section 168(g)(1)(A) requires tangible property used predominately outside the U.S. to be depreciated using ADS; however, a CFC may use a depreciation method employed in keeping its books of account in computing its income and earnings and profits (E&P) or a depreciation method consistent with US generally accepted accounting principles (i.e., a non-ADS method), as long as the CFC's required adjustments are not material.⁹

Rev. Proc 2021-26, in part, provided automatic consent for a CFC to change its method of accounting for an item of tangible property used predominately outside of the United States and owned by the CFC at the beginning of the year of change to the ADS method under section 168(g) in determining the CFC's gross and taxable income and E&P. Recognizing that a CFC may be following its book method for depreciation and that the book method may be a permissible method, the automatic change applies to changes from a permissible method to another permissible method and provides that such change is effectuated with a section 481(a) adjustment. This method change has automatic consent only for method changes filed on or after May 11, 2021, for a CFC's taxable year ending before January 1, 2024. Therefore, Section 6.21(3) of Rev. Proc. 2023-24 limits the availability of this method change and causes it to sunset for any CFC's taxable year that ends on or after January 1, 2024.

Following the sunset of this automatic method change, it is unclear whether the CFC depreciation method change will fit within Section 6.01 of Rev. Proc. 2023-24, which provides automatic consent for taxpayers to change from impermissible to permissible depreciation methods, or, if a taxpayer believes its present method is permissible, whether the method change would no longer be eligible for automatic consent.

⁵ Section 951A(b)(1).

⁶ Section 951A(b)(2)(A).

⁷ Section 951A(d)(1).

⁸ Section 951A(d)(3).

⁹ See Treas. Reg. §1.952-2(c)(2) and Treas. Reg. §1.964-1(a)(2).

Recommendation

The AICPA requests that the Treasury and IRS remove the sunset date in Section 6.21(3) of Rev. Proc. 2023-24 and permit a CFC to make a depreciation method change to use the ADS under the automatic consent procedures whether the change is permissible to permissible or impermissible to permissible, including a section 481(a) adjustment.

Analysis

The AICPA believes that providing automatic consent for a depreciation method change for CFCs encourages voluntary compliance with section 951A, section 168, and section 167. Extending automatic consent for CFC depreciation method changes also permits a more efficient and effective use of taxpayer and IRS resources by eliminating the need for advance consent. This method change is a change to methods, conventions, and recovery periods specifically prescribed by the statute and IRS procedural guidance, which makes approval by the IRS perfunctory--something the IRS has typically considered in evaluating whether a method change ought to have automatic consent.

8. Waive the five-year eligibility rule under Section 5.01(1)(f) of Rev. Proc. 2015-13 for an automatic method change under Section 29.01 of Rev. Proc. 2023-24.

Overview

Section 29.01 of Rev. Proc. 2023-24 provides an automatic method change for a taxpayer that wants to change its functional currency or the functional currency of a qualified business unit (QBU) of the taxpayer.

Under section 985(b)(1) and section 985(b)(2) and Treas. Reg. §1.985-1(b) and Treas. Reg. §1.985-1(c), a taxpayer must use a functional currency based on its economic environment in which a significant part of its activities are conducted and which the taxpayer uses in keeping its books and records. If the taxpayer experiences significant changes in the facts and circumstances of its economic environment (e.g., the taxpayer's transactions conducted in a certain functional currency significantly increase, with an expectation that all prospective transactions would be conducted in such functional currency), the taxpayer is required to change its functional currency in accordance with Treas. Reg. §1.985-4(b). Section 954(b)(4) provides that any change in a taxpayer's functional currency shall be treated as a change in method of accounting made under Section 29.01 of Rev. Proc. 2023-24. A taxpayer required to file an automatic method change under Section 29.01 of Rev. Proc. 2023-24 must account for the requisite adjustments, as provided under Treas. Reg. §1.985-5, on the last day of the taxable year ending before the taxable year of change.

Section 5.01(f) of Rev. Proc. 2015-13 generally provides that a taxpayer is not eligible to make a method change for the same item, if the taxpayer has made or requested a change for the same item during any of the five taxable years ending with the year of change ("five-year eligibility

rule”). More specifically, with limited exceptions, Section 5.05(1) of Rev. Proc. 2015-13 provides that if during any of the five taxable years ending with the year of change a taxpayer changed, or applied for consent to change, its method of accounting for a specific item, regardless of whether it implemented that change, the taxpayer may not request the Commissioner's consent to change its method of accounting for that same item under the automatic change procedures.

A taxpayer may experience significant changes in the facts and circumstances of its economic environment more than once within a five-year period, in which case the taxpayer would be precluded from filing an automatic method change under Section 29.01 of Rev. Proc. 2023-24 due to the five-year eligibility rule under Section 5.01(1)(f) of Rev. Proc. 2015-13. For example, if a taxpayer experiences a change in economic environment in year 1 and changes its functional currency using the automatic consent procedures and, in year 3 experiences significant changes in the facts and circumstances in its economic environment, the taxpayer would be required to use the non-automatic consent procedures of Rev. Proc. 2015-13 to change its functional currency, as required by the statute and regulations. Because the taxpayer is required to account for the corresponding adjustments under Treas. Reg. §1.985-5 in the taxable year immediately preceding the taxable year of change (i.e., year 2), the taxpayer may not be able to include the requisite adjustments in its timely-filed return for year 2 before requesting or receiving consent to make the change, resulting in the taxpayer having to amend its year 2 income tax return if consent is granted.

Recommendation

The AICPA requests that the automatic consent procedures for making functional currency method changes include a waiver of the five-year eligibility rule under Section 5.01(1)(f) of Rev. Proc. 2015-13.

Analysis

As noted above, a change in functional currency generally requires a change in economic environment. This is effectively a change in facts. A taxpayer should not be precluded from automatic consent to make a required method change that is the result of a change in facts, simply because the facts changed more than once during a five-year period. A waiver of the five-year eligibility rule under Section 5.01(1)(f) of Rev. Proc. 2015-13 will permit taxpayers to comply with Treas. Reg. §1.985-5 in situations in which a taxpayer experienced more than one significant change in the facts and circumstances of its economic environment that required the taxpayer to change its functional currency more than once within a five-year period, without amending the return(s) in which the taxpayer is required to account for the corresponding adjustment(s) of the subsequent method change(s).

9. Provide an additional automatic accounting method change for creditable foreign taxes under section 905.

Overview

The need for a proper accounting method for state and local income, property, and other taxes is universal across taxpayers, and the proper application of the accrual method of accounting under section 461 to state and local income taxes is subject to long-standing guidance. Section 20.02 of Rev. Proc. 2023-24 permits taxpayers using the overall accrual method of accounting to change their method of accounting for real property taxes, personal property taxes, state income taxes, and state franchise taxes under the automatic consent procedures. However, the automatic consent procedures do not apply to foreign income taxes.

Recommendation

The AICPA recommends that changes from an improper to a proper accrual method for creditable foreign income taxes be added to list of changes eligible for the automatic consent procedures. The existence of regulations that specifically address both the application of the accrual method to foreign income taxes as well as the specific adjustments that are required when a taxpayer changes from an improper to a proper method for accruing such taxes make it unnecessary and impractical for the Service to have to provide consent to such changes on a case-by-case basis.

Analysis

With respect to foreign income taxes, taxpayers have long been permitted to claim either a credit or a deduction for such taxes. Taxpayers may elect to claim a credit or deduction on a year-by-year basis with respect to all creditable foreign income taxes. Under section 461, if foreign income taxes are creditable, the proper tax year for claiming the credit or deduction, whichever election is made, is determined under the all events test of section 461, but without regard to the economic performance requirement of section 461(h). Thus, the proper tax year for the credit or deduction is the tax year in which the taxpayer's liability for the taxes is fixed and determinable. As a result, there are no elective methods of accounting for creditable foreign income taxes, as the proper timing is determined strictly by the year fixed and determinable test, and without regard to the economic performance requirement which provides an elective recurring item exception.

Final regulations under section 905 were issued on January 4, 2022, to provide guidance on the treatment of creditable foreign income taxes. The final regulations provide detailed guidance for determining the proper tax year for the accrual of foreign income taxes as well as the detailed adjustments that are required when a taxpayer changes its method of accounting from an improper to a proper method of accruing creditable foreign income taxes. Under the final regulations, taxpayers are required to implement a change in accounting method using a modified cutoff method whereby the taxpayer makes an upward or downward (but not below zero) adjustment to its total creditable foreign income taxes in the year of change for the amount of taxes that were improperly not accrued or improperly accrued prior to the year of change. If a downward

adjustment is required, any amount that would require the adjustment to be negative, is carried over to subsequent tax years to become a downward adjustment in such year or years.

An automatic method change for creditable foreign income taxes would encourage compliance with the required method of accounting for Federal income tax purposes, as well as conserve taxpayer and IRS resources.

10. Clarify that a taxpayer changing from a non-IPIC LIFO method to the IPIC method under Section 23.06(1)(a) of Rev. Proc. 2023-24 is also required to change from a components-of-cost method of defining inventory items to a total-product-cost method of defining inventory items.

Overview

Section 23.06 of Rev. Proc. 2023-24 provides an automatic change to the IPIC method. Section 23.06(1)(a) applies to a taxpayer that wants to change from a non-IPIC LIFO inventory method to the IPIC method in accordance with all relevant provisions of Treas. Reg. §1.472-8(e)(3). Section 23.01(1)(b) applies to a taxpayer that wants to change from the IPIC method as described in T.D. 7814, 1982-1 C.B. 84, (March 15, 1982) (“old IPIC method”) to the IPIC method as described in Treas. Reg. § 1.472-8(e)(3) (see T.D. 8976, 2002-1 C.B. 421, (January 8, 2002)) (“new IPIC method”), which includes the following required changes (if applicable):

- i. from using 80% of the inventory price index (IPI) to using 100% of the IPI to determine the base-year cost and dollar-value of a LIFO pool(s);
- ii. from using a weighted arithmetic mean to using a weighted harmonic mean to compute an IPI for a dollar-value pool(s); and
- iii. from using a components-of-cost method to define inventory items to using a total-product-cost method to define inventory items.

Taxpayers changing from a non-IPIC LIFO method to the IPIC method under Section 23.06(1)(a) of Rev. Proc. 2023-24 are far more likely to require a change from the components-of-cost method of defining inventory items to the total-product-cost method of defining inventory items than are taxpayers changing from the old IPIC method to the new IPIC method under Section 23.01(1)(b) of Rev. Proc. 2023-24.

Recommendation

Treasury and the IRS should modify Section 23.06(1)(a) of Rev. Proc. 2023-24 to clarify that a taxpayer changing from a non-IPIC LIFO method to the IPIC method in accordance with all relevant provisions of Treas. Reg. §1.472-8(e)(3) is also required to change from using a components-of-cost method of defining inventory items to using a total-product-cost method of defining inventory items, if applicable.

Analysis

As currently drafted, taxpayers changing from the old IPIC method to the new IPIC method under Section 23.01(1)(b) of Rev. Proc. 2023-24 are required to change from using a components-of-cost method of defining inventory items to a total-product-cost method of defining inventory items. Taxpayers changing from a non-IPIC LIFO inventory method to the IPIC method under Section 23.06(1)(a) of Rev. Proc. 2023-24 are far more likely to require a change from the components-of-cost method of defining inventory items to the total-product-cost method of defining inventory items. However, it is unclear whether the automatic change from a non-IPIC LIFO method to the IPIC method includes a change from using a components-of-cost method of defining inventory items to a total-product-cost method of defining inventory items. Therefore, Section 23.06(1)(a) of Rev. Proc. 2023-24 should be modified to clarify that the automatic change from a non-IPIC LIFO method to the IPIC method includes a change from using a components-of-cost method of defining inventory items to a total-product-cost method of defining inventory items, if applicable.

11. Require a new base year for a change to IPIC-method pools under Section 23.07(1)(c) of Rev. Proc. 2023-24.

Overview

Section 23.07(1)(c) of Rev. Proc. 2023-24 applies to a taxpayer using the new IPIC method that wants to change to IPIC-method pools described in Treas. Reg. §1.472-8(b)(4) or Treas. Reg. §1.472-8(c)(2), including a change to begin or discontinue applying one or both of the 5 percent pooling rules. Under Section 23.07(3)(b) of Rev. Proc. 2023-24, a taxpayer that changes pursuant to Sections 23.07(1)(a), (b), and (e) must establish a new base year in the year of change. Accordingly, a taxpayer changing under Section 23.07(1)(c) is not required to establish a new base year in the year of change.

Recommendation

Treasury and the IRS should modify Section 23.07(3)(b) of Rev. Proc. 2023-24 to require taxpayers to establish a new base year for a change to IPIC-method pools described in Treas. Reg. §1.472-8(b)(4) or Treas. Reg. §1.472-8(c)(2) pursuant to Section 23.07(1)(c) of Rev. Proc. 2023-24. This requirement to establish a new base year would not apply to a change to begin or discontinue applying one or both of the 5 percent pooling rules under Section 23.07(1)(c) of Rev. Proc. 2023-24.

Analysis

There are many situations in which a taxpayer changing to IPIC-method pools described in Treas. Reg. §1.472-8(b)(4) or Treas. Reg. §1.472-8(c)(2) desires to establish a new base year under the new method. For example, a taxpayer changing to IPIC-method pools may be combining and/or separating pools that have different base years, making it extremely difficult to combine and/or separate LIFO layers. Therefore, Section 23.07(3)(b) of Rev. Proc. 2023-24 should be modified to

add a change to IPIC-method pools under Section 23.07(1)(c) to the list of changes for which the taxpayer must establish a new base year in the year of change.

Section 23.07(1)(c) of Rev. Proc. 2023-24 also includes an automatic change for a taxpayer to begin or discontinue applying one or both of the 5 percent pooling rules. A taxpayer changing to begin or discontinue the 5 percent pooling rules would typically already be using IPIC-method pools with the same base year, so the taxpayer would not need to establish a new base year in the year of change. Thus, we recommend that Section 23.07(3)(b) specify that the requirement to establish a new base year applies solely to a taxpayer changing to IPIC-method pools described in Treas. Reg. §1.472-8(b)(4) or Treas. Reg. §1.472-8(c)(2) under Section 23.07(1)(c) and does not apply to a change to begin or discontinue applying one or both of the 5 percent pooling rules.

12. Waive the five-year eligibility rule for certain changes under Section 23.07(1)(c) of Rev. Proc. 2023-24.

Overview

Section 5.01(1)(f) of Rev. Proc. 2015-13 provides that a taxpayer is eligible to file an automatic method change if the taxpayer has not made or requested a change for the same item during any of the five taxable years ending with the year of change (“five-year eligibility rule”) as described in Section 5.05(1), except as provided in Section 5.05(2). Section 5.05(1) of Rev. Proc. 2015-13 provides that, except as provided in Sections 5.05(2) and 15.02, if during any of the five taxable years ending with the year of change a taxpayer changed, or applied for consent to change, its method of accounting for a specific item, regardless of whether it implemented that change, the taxpayer may not request the Commissioner’s consent to change its method of accounting for that same item under the automatic change procedures.

Section 23.07(1)(c) of Rev. Proc. 2023-24 applies to a taxpayer using the new IPIC method that wants to change to IPIC-method pools described in Treas. Reg. §1.472-8(b)(4) or Treas. Reg. §1.472-8(c)(2), including a change to begin or discontinue applying one or both of the 5 percent pooling rules. Section 23.07(2) provides that the five-year eligibility rule does not apply to the changes described in Sections 23.07(1)(d), (f) in the case of a taxpayer using the 10 percent method described in Treas. Reg. §1.472-8(e)(3)(iii)(C)(2), and (g) of this revenue procedure. This waiver of the five-year eligibility rule does not apply to changes under Section 23.07(1)(c).

The 5 percent pooling rules in Treas. Reg. §1.472-8(b)(4) and Treas. Reg. §1.472-8(c)(2) provide that a taxpayer electing dollar-value pools for its IPIC-method pools may combine IPIC pools that comprise less than 5 percent of the total current-year cost of all dollar-value pools to form a single miscellaneous IPIC pool. A taxpayer electing to establish IPIC pools using this 5 percent rule may combine a miscellaneous IPIC pool that comprises less than 5 percent of the total current-year cost of all dollar-value pools with the largest IPIC pool. Each of the 5 percent pooling rules is a method of accounting and a taxpayer may not change to, or cease using, either 5 percent rule without obtaining the Commissioner’s prior consent. A taxpayer must determine whether a specific IPIC pool or miscellaneous IPIC pool satisfies the 5 percent rule in the year of adoption or year of

change, as applicable, and must redetermine the IPIC pools under the 5 percent pooling rule(s) every third year. Any change to combine or separate pools as a result of applying the 5 percent pooling rule(s) is a change in method of accounting.

Section 23.07(1)(d) of Rev. Proc. 2023-24 provides an automatic method change to combine or separate pools as a result of applying a 5 percent pooling rule described in Treas. Reg. §1.472-8(b)(4) or Treas. Reg. §1.472-8(c)(2).

Recommendation

Treasury and the IRS should modify Section 23.07(2) of Rev. Proc. 2023-24 to waive the five-year eligibility rule for certain changes described in Section 23.07(1)(c) of Rev. Proc. 2023-24, specifically for a change to discontinue applying one or both of the 5 percent pooling rules during the first five tax years following a method change to use IPIC-method pools in conjunction with one or both of the 5 percent pooling rules.

Analysis

It is common for taxpayers to change to IPIC-method pools under Section 23.07(1)(c) of Rev. Proc. 2023-24 and, at that time, begin using one or both of the 5 percent pooling rules. Taxpayers are then required to redetermine the IPIC-method pools under the 5 percent pooling rule(s) every third year. If the IPIC-method pools do not satisfy one or both 5 percent pooling rules, the taxpayer is required to file an accounting method change to change the IPIC-method pools to comply with the 5 percent pooling rule(s). As noted above, Section 23.07(1)(d) of Rev. Proc. 2023-24 provides an automatic method change to combine or separate pools as a result of applying a 5 percent pooling rule, and Section 23.07(2) of Rev. Proc. 2023-24 provides a waiver of the five-year eligibility rule for a method change described in Section 23.07(1)(d). After changing to IPIC-method pools and applying one or both of the 5 percent pooling rules, many taxpayers discover that they may be required to file frequent method changes as a result of applying one or both of the 5 percent pooling rules due to the requirement to redetermine the IPIC-method pools every third year. To avoid the administrative and/or financial burden associated with filing an accounting method change every third year, some taxpayers would prefer to discontinue applying one or both of the 5 percent pooling rules. However, the five-year eligibility rule prevents a taxpayer from filing an automatic method change under Section 23.07(1)(c) of Rev. Proc. 2023-24 if the taxpayer changed to IPIC-method pools and began using one or both of the 5 percent pooling rules during the previous five tax years ending with the year of change. Therefore, the five-year eligibility rule should be waived so that, in lieu of filing a method change to combine or separate pools as a result of applying a 5 percent pooling rule, taxpayers have the option to file an automatic method change to discontinue applying one or both of the 5 percent pooling rules.

13. Waive the five-year eligibility rule for all changes under Section 23.07(1)(f) of Rev. Proc. 2023-24.

Overview

Section 5.01(1)(f) of Rev. Proc. 2015-13 provides that a taxpayer is eligible to file an automatic method change if the taxpayer has not made or requested a change for the same item during any of the five taxable years ending with the year of change (“five-year eligibility rule”) as described in Section 5.05(1), except as provided in Section 5.05(2). Section 5.05(1) of Rev. Proc. 2015-13 provides that, except as provided in Sections 5.05(2) and 15.02, if during any of the five taxable years ending with the year of change a taxpayer changed, or applied for consent to change, its method of accounting for a specific item, regardless of whether it implemented that change, the taxpayer may not request the Commissioner’s consent to change its method of accounting for that same item under the automatic change procedures.

Section 23.07(1)(f) of Rev. Proc. 2023-24 applies to a taxpayer using the new IPIC method that wants to change the assignment of one or more inventory items to Bureau of Labor Statistics (BLS) categories under either Table 3 (CPI-U): U.S. City average, detailed expenditure categories) of the monthly CPI Detailed Report or Table 9 (PPI and percent changes for commodity and service groupings and individual items, not seasonally adjusted) of the monthly PPI Detailed Report (formerly, Table 6). As part of this change, a taxpayer may separate a reassigned item from an inappropriate pool and combine the reassigned item with items in an appropriate pool.

Section 23.07(2) of Rev. Proc. 2023-24 provides that the five-year eligibility rule does not apply to the changes described in Sections 23.07(1)(d), (f) in the case of a taxpayer using the 10 percent method described in Treas. Reg. §1.472-8(e)(3)(iii)(C)(2), and Section 23.07(1)(g) of this revenue procedure. Thus, the waiver of the five-year eligibility rule applies to changes under Section 23.07(1)(f) only if a taxpayer is using the 10 percent method described in Treas. Reg. §1.472-8(e)(3)(iii)(C)(2).

Recommendation

Treasury and the IRS should modify Section 23.07(2) of Rev. Proc. 2023-24 to waive the five-year eligibility rule for all changes under Section 23.07(1)(f), regardless of whether a taxpayer is using the 10 percent method described in Treas. Reg. §1.472-8(e)(3)(iii)(C)(2).

Analysis

Taxpayers often evaluate the assignment of inventory items to BLS categories and discover that they may need to change certain BLS categories to more appropriate BLS categories. A taxpayer may change BLS categories for inventory items under the automatic change provided in Section 23.07(1)(f) of Rev. Proc. 2023-24 but then, due to the volume of inventory items and BLS categories, discover inappropriate BLS categories that need to be changed for additional inventory items in one or more of the following years. A taxpayer that does not use the 10 percent method

described in Treas. Reg. §1.472-8(e)(3)(iii)(C)(2) would be unable to make an automatic method change for the subsequent discovery within five tax years. This leaves the taxpayer with the burden of filing a non-automatic method change or the risk of continuing to use inappropriate BLS categories until it is eligible to file another automatic change (after the five-year eligibility rule expires). We cannot fathom any reason why the five-year eligibility rule is waived for taxpayers that use the 10 percent method but is not waived for taxpayers that do not use the 10 percent method. Therefore, the five-year eligibility rule should be waived for all changes under Section 23.07(1)(f), regardless of whether a taxpayer is using the 10 percent method.

14. Allow automatic method changes within Section 12.17 of Rev. Proc. 2023-24 when financial statement calculations change.

The comments below were included in a previous comment letter submitted by the AICPA on June 22, 2022.¹⁰

Overview

Treasury Reg. §1.263A-1(d)(2) defines section 471 costs as the costs capitalized to inventory in the taxpayer's financial statements. Treasury Reg. §1.263A-1(d)(3)(i) defines additional section 263A costs as the costs (other than interest) that are not included in a taxpayer's section 471 costs but that are required to be capitalized under section 263A. Generally, methods of accounting under section 263A require identification of both a taxpayer's section 471 costs and its additional section 263A costs incurred.

It is common for a taxpayer to occasionally change the costs capitalized to inventory for financial statement purposes, which can result in a change to both its section 471 costs and its additional section 263A costs. For example, this can occur if the taxpayer did not include a certain amount in inventory because it was not material but later grew to become material, discovered that a particular cost was inadvertently not capitalized to inventory but should have been, or simply changed its philosophy on a certain category of costs either upon a reevaluation of its accounting policies or a staffing change. In some cases, the section 263A analysis itself uncovers some of these matters which may result in changes to book accounting in the year subsequent to a section 263A accounting method change being made. In some of these examples, a taxpayer may begin to capitalize a cost for financial statement purposes that was previously treated as an additional section 263A cost and now must be treated as a section 471 cost. In other cases, a taxpayer may begin to discontinue capitalizing a cost for financial statement purposes that was previously treated as a section 471 cost and now must be treated as an additional section 263A cost.

Section 12.17 of Rev. Proc. 2023-24 provides an automatic consent method change for taxpayers to recharacterize section 471 costs as additional section 263A costs (or vice versa) under a simplified method for capitalizing additional section 263A costs. This change contains a waiver of the five-year eligibility rule in Section 5.01(1)(f) of Rev. Proc. 2015-13, but only for the first,

¹⁰ See AICPA Letter, "[Section 263A Regulations](#)," June 22, 2022. The Analysis has been revised for modifications in Rev. Proc. 2023-24.

second, or third tax year ending on or after November 20, 2018. When this waiver period expires, if a taxpayer changes the costs capitalized to inventory for financial statement purposes more than once within a five-year period, the taxpayer would not be eligible to file an automatic method change to comply with the definitions of section 471 costs and additional section 263A costs in the 2018 final regulations.

Often when a taxpayer changes the costs capitalized to inventory for financial statement purposes, the change is implemented on a prospective basis, with no adjustment to the beginning inventory for the year of change. When this occurs, it is nearly impossible to compute a section 481(a) adjustment for the corresponding tax accounting method change. Although the taxpayer may be able to recharacterize the costs incurred during the year for purposes of computing the simplified method absorption ratio(s), the taxpayer is unable to revalue the section 471 costs in beginning inventory to reflect the recharacterization of costs.

Recommendations

Treasury and the IRS should modify Section 12.17 of Rev. Proc. 2023-24 as follows:

- Establish a permanent waiver of the five-year eligibility rule for any changes to recharacterize costs resulting from a change to the costs capitalized to inventory in a taxpayer's financial statements.
- Provide taxpayers with the option to implement changes to recharacterize costs on a cut-off basis or with a section 481(a) adjustment if the taxpayer has adequate detail to accurately compute an adjustment.
- Regarding changes made for financial statement costing of inventory that would not be covered by Section 12.17 of Rev. Proc. 2023-24, consider adding an automatic method change to allow taxpayers to conform to the methods used for financial reporting purposes.

Analysis

If a taxpayer changes its inventory costing for financial statement purposes more than once within a five-year period, the five-year eligibility rule in Section 5.01(1)(f) of Rev. Proc. 2015-13 would prohibit the taxpayer from filing more than one automatic method change under Section 12.17 of Rev. Proc. 2023-24.

The five-year eligibility rule in Section 5.01(1)(f) of Rev. Proc. 2015-13 is waived for certain automatic method changes. For instance, Section 16.08 of Rev. Proc. 2023-24, which addresses changes in revenue recognition to align with the changes a taxpayer makes within its applicable financial statements permanently waives the five-year eligibility rule for certain cost offset method changes. Further, the method changes under Section 16.08 of Rev. Proc. 2023-24 illustrate instances where taxpayers may change accounting methods automatically to be consistent with financial reporting. This provides support for allowing taxpayers to make similar changes to

inventory where the change is being made for financial reporting purposes. Other automatic changes that permanently waive the five-year eligibility rule include changes under the following Sections of Rev. Proc. 2023-24:

2.01	Treating amounts received as loans
4.02	Bank making the conformity election for bad debts
6.01	Impermissible to permissible method for depreciation or amortization
7.01	Change to a different method or different amortization period for research and experimental expenditures under section 174
11.03	Method of accounting for removal costs
12.01(1)(a)(i)	Change from a permissible non-UNICAP method to a permissible UNICAP method for the first tax year that a reseller or reseller-producer does not qualify as a small business taxpayer
12.02(1)(a)(ii)	Change to UNICAP methods specifically described in the regulations in the first tax year that a producer or reseller-producer does not qualify as a small business taxpayer
12.12(2)(a)	Required change in the applicable U.S. trade or business for a foreign person using the U.S. ratio method
12.13	Method of accounting for depletion under section 263A
12.15	Change to not apply section 263A to replanting costs for lost or damaged citrus plants
16.07	Change in AFS for purposes of applying certain revenue recognition methods
20.13(1)	Timing of incurring inventory costs
22.08	Change for rotatable spare parts required by Section 5.06 of Rev. Proc. 2007-48
23.07(1)(d)	Change to combine or separate pools under a 5 percent pooling rule
23.07(1)(f)	Change in BLS categories for a taxpayer using the 10 percent method
23.07(1)(g)	Change in representative month due to change in tax year or change in method of determining current-year cost
26.04	Change in basis of computing reserves under section 807(f)
30.01	Change to the principal-reduction method for de minimis original issue discount
32.02	Change for stated interest on short-term loans of cash method banks

A similar waiver should be provided for changes under Section 12.17 of Rev. Proc. 2023-24.

In addition, as taxpayers make changes to their inventory costing for financial statement purposes, significant difficulty may arise in computing the difference between their present and proposed methods of accounting. Accurate computation of a section 481(a) adjustment may be impractical or impossible, particularly if a change for financial statement reporting purposes is implemented with no adjustment to beginning inventory or is made beyond the beginning of the year. The

availability of a method change using a cut-off method would reduce compliance burden in many cases.

Rev. Proc. 2023-24 provides that, for certain automatic method changes, taxpayers may implement the change on a cut-off basis or with a section 481(a) adjustment. For example, Section 22.14 of Rev. Proc. 2023-24 provides that taxpayers changing to the rolling-average method to account for inventories generally must implement this change on a cut-off basis, but the taxpayer may choose to implement the change with a section 481(a) adjustment if its books and records contain sufficient information to compute a section 481(a) adjustment. For similar reasons, a taxpayer making a change under Section 12.17 of Rev. Proc. 2023-24 should be provided with the option to implement the change on a cut-off basis or with a section 481(a) adjustment if the taxpayer's books and records contain sufficient information to compute a section 481(a) adjustment.

Modifying Section 12.17 of Rev. Proc. 2023-24 as described above would greatly reduce compliance burdens and uncertainty for taxpayers.

15. Waive the five-year eligibility rule for required changes between the alternative method and default method under Sections 12.01 and 12.02 of Rev. Proc. 2023-24.

The comments below were included in a previous comment letter submitted by the AICPA on June 22, 2022.¹¹

Overview

Section 5.01(1)(f) of Rev. Proc. 2015-13 provides that a taxpayer is eligible to file an automatic method change if the taxpayer has not made or requested a change for the same item during any of the five taxable years ending with the year of change (“five-year eligibility rule”) as described in Section 5.05(1), except as provided in Section 5.05(2). Section 5.05(1) of Rev. Proc. 2015-13 provides that, except as provided in Sections 5.05(2) and 15.02, if during any of the five taxable years ending with the year of change a taxpayer changed, or applied for consent to change, its method of accounting for a specific item, regardless of whether it implemented that change, the taxpayer may not request the Commissioner’s consent to change its method of accounting for that same item under the automatic change procedures.

Treasury Reg. §1.263A-(d)(4) defines section 263A costs to include all costs that a taxpayer must capitalize under section 263A, which is the sum of a taxpayer’s section 471 costs, its additional section 263A costs, and any interest capitalizable under section 263A(f). Generally, methods of accounting under section 263A require quantifying both a taxpayer’s section 471 costs and its additional section 263A costs incurred. Treasury Reg. §1.263A-1(d)(2) provides two methods a taxpayer may utilize to determine section 471 costs for purposes of section 263A calculations, a general (default) method and an alternative method.

¹¹ See AICPA Letter, “[Section 263A Regulations](#),” June 22, 2022.

Use of the alternative method is available only if a taxpayer's financial statement is described under Treas. Reg. §1.263A-1(d)(6)(i)-(iii), which generally includes only financial statements filed with the SEC, a certified audited financial statement, or a financial statement required to be provided to the federal or state government or any federal or state agency (collectively referred to as an "AFS"). It is common for a taxpayer to have an AFS in one period but not in another, or vice versa. For example, a taxpayer with an AFS may be acquired and there may not be a need to have an audit performed for the period from the beginning of the year through the acquisition date.

If a taxpayer alternates between years with an AFS and years without an AFS, it may be required to change its method of accounting from the alternative method to the default method in one period and may desire to readopt the alternative method shortly thereafter when it is otherwise eligible. Alternating between these methods is incredibly burdensome and would not appear to be necessary since the underlying financial accounting is rarely changing in these windows of time. Additionally, without a waiver of the five-year eligibility rule under these circumstances, these changes often require advance consent.

Recommendation

Treasury and the IRS should provide relief for a taxpayer that reasonably anticipates its period without an AFS to not exceed two tax years. In this circumstance, a taxpayer that previously maintained an AFS would be permitted to remain on the alternative method for up to two subsequent tax years without an AFS, and the alternative method would be applied using the taxpayer's books and records in lieu of an AFS.

The five-year eligibility rule should be waived to permit changes between the alternative method and the default method under Sections 12.01 and 12.02 of Rev. Proc. 2023-24 for a three-tax year period beginning with the first year that a taxpayer no longer has an AFS.

Analysis

Alternating between the alternative method and the default method when a taxpayer alternates between tax years with an AFS and tax years without an AFS causes substantial burdens on taxpayers. This would require taxpayers to recharacterize costs between additional section 263A costs and section 471 costs, or vice versa. Taxpayers required to recharacterize costs from additional section 263A costs to section 471 costs under the default method would be required to determine the proper allocation of those section 471 costs. For the reasons stated above, this is very complex for most taxpayers. Therefore, it would be reasonable for a taxpayer to maintain its existing method of accounting if it anticipates having an AFS in the foreseeable future.

A period of no shorter than two tax years without an AFS would seem appropriate for relief because it is common for an acquired business to not have an AFS for the year it is acquired and, in some circumstances, for the year subsequent to the acquisition. For example, a calendar corporation acquired by a newly formed corporate holding company on December 17 may have a short tax year from January 1 through December 17 and a second short tax year from December

18 through December 31. It is common to not have an AFS for the period from January 1 through December 17 because neither the selling shareholders nor the lender in the transaction would require an audit. Further, given that the post-acquisition period is only 2 weeks, the taxpayer may not have an AFS for that period, so the company's next AFS would cover the period beginning December 18 of the acquisition year through December 31 of the subsequent year, (i.e., an AFS covering ~54 weeks).

In this circumstance, there would be no AFS for two consecutive tax years, but there would be an AFS for the first full calendar year after the acquisition. The taxpayer would likely desire to remain on the alternative method, but under the current regulations, the taxpayer would be required to change from the alternative method to the default method for the year of the acquisition and then could change back to the alternative method for the first full calendar year after the acquisition. However, one or both of these changes may not meet the automatic consent requirements of Rev. Proc. 2015-13 if a section 263A method change was made in the previous five tax years (this is certainly true for the second change since a change from the alternative method would have been made for the year of the acquisition).

Therefore, it seems appropriate to permit a taxpayer that previously had an AFS and reasonably anticipates having an AFS again within three years to remain on the alternative method. It would be reasonable to permit the taxpayer to use its books and records as the basis for this method in lieu of an AFS. If in the third year the taxpayer still did not have an AFS, it would be required to switch to the default method. Further, whether or not a taxpayer is permitted to remain on the alternative method under the proposal above, the five-year eligibility rule should be waived for changes to or from the default method to ensure that each of these changes would be permitted on an automatic basis.

16. Clarify that a change to begin deferring additional section 263A costs related to intercompany sales of inventory is an automatic change implemented with a section 481(a) adjustment.

Overview

Treasury Reg. §1.263A-7(c)(3) provides that, pursuant to any change in method of accounting for costs subject to section 263A, taxpayers are required to revalue the amount of any intercompany item resulting from the sale or exchange of inventory property in an intercompany transaction to an amount equal to the intercompany item that would have resulted had the cost of goods sold for that inventory property been determined under the taxpayer's new method. The requirement of the preceding sentence applies with respect to both inventory produced by a taxpayer and inventory acquired by the taxpayer for resale. In addition, the requirements of Treas. Reg. §1.263A-7(c)(3) apply only to any intercompany item of the taxpayer as of the beginning of the year of change in method of accounting.¹² A taxpayer must revalue the amount of any intercompany item only if the inventory property sold in the intercompany transaction is held as inventory by a buying member

¹² See Treas. Reg. §1.1502-13(b)(2)(ii).

as of the date the taxpayer changes its method of accounting under section 263A. Corresponding changes to the adjustment required under section 481(a) must be made with respect to any adjustment of the intercompany item required under Treas. Reg. §1.263A-7(c)(3). Moreover, the requirements of Treas. Reg. §1.263A-7(c)(3) apply regardless of whether the taxpayer has any items in beginning inventory as of the year of change in method of accounting. See Treas. Reg. §1.1502-13 for the definition of intercompany transaction.

Recommendation

Treasury and the IRS should formalize the automatic change treatment with a section 481(a) adjustment by modifying Sections 12.01 and 12.02 of Rev. Proc. 2023-24 to explicitly provide that a change to begin properly accounting for an intercompany item resulting from the sale or exchange of inventory property in an intercompany transaction (e.g., a change to begin properly deferring additional section 263A costs related to intercompany sales of inventory for goods that remain in the buying member's ending inventory) is an automatic method change and that this change is implemented with a section 481(a) adjustment.

Similar rules should be provided for taxpayers with separate trades or businesses when one trade or business sells to another trade or business.

Analysis

The AICPA is aware of several discussions between one practitioner and the IRS National Office in which the IRS National Office informed the practitioner that a change to begin deferring additional section 263A costs related to intercompany sales of inventory is an automatic change covered by Sections 12.01 and 12.02 of Rev. Proc. 2023-24. Furthermore, the IRS National Office informed the practitioner that this change is implemented with a section 481(a) adjustment pursuant to Treas. Reg. §1.263A-7(c)(3). The AICPA agrees that this change should be an automatic change under Sections 12.01 and 12.02 of Rev. Proc. 2023-24 and that Treas. Reg. §1.263A-7(c)(3) requires this change to be implemented with a section 481(a) adjustment. However, we are also aware of non-automatic accounting method changes that were filed for this same item where consent was granted by the IRS National Office, and the change was required to be implemented on a cut-off basis. Therefore, clarification is needed to ensure that these method changes are implemented consistently.

17. Allow a taxpayer making concurrent changes under Section 12.02 and Section 12.08 of Rev. Proc. 2023-24 to file a single Form 3115.

Overview

Section 6.02(1) of Rev. Proc. 2015-13 provides that a taxpayer may request only one method change per Form 3115 and must file a separate Form 3115 if requesting a method change for more than one unrelated item or sub-method unless the IRS specifically permits the unrelated changes to be included on a single Form 3115. Section 6.03(1)(b) provides that, ordinarily, a taxpayer must

submit a separate Form 3115 for each automatic method change. However, in some cases, the List of Automatic Changes (e.g., Rev. Proc. 2023-24) describes particular changes in method of accounting that a taxpayer is required or permitted to request on a single Form 3115 (concurrent changes). When the taxpayer is required or permitted to file a single Form 3115 for two or more concurrent changes, the taxpayer must provide all of the information required for each change separately.

Section 12.02 of Rev. Proc. 2023-24 applies to a producer or reseller-producer that wants to change to a UNICAP method (or methods) specifically described in the regulations, including any necessary changes in the identification of costs subject to section 263A that will be accounted for using the proposed method. Section 12.08 of Rev. Proc. 2023-24 applies to a producer or a reseller-producer that wants to change to a reasonable allocation method within the meaning of Treas. Reg. §1.263A-1(f)(4), other than the methods specifically described in Treas. Reg. §1.263A-1(f)(2) or §1.263A-1(f)(3), for self-constructed assets produced during the taxable year, including any necessary changes in the identification of costs subject to section 263A that will be accounted for using the proposed method. Section 12.08 also includes a change from not capitalizing a cost subject to section 263A to capitalizing that cost for a producer or reseller-producer under a reasonable allocation method within the meaning of Treas. Reg. §1.263A-1(f)(4) that the producer or reseller-producer is already using for self-constructed assets, other than the methods specifically described in Treas. Reg. §1.263A-1(f)(2) or §1.263A-1(f)(3).

Treasury Reg. §1.263A-1(f)(4) provides that a taxpayer may use methods described paragraph §1.263A-1(f)(2) or §1.263A-1(f)(3) or any other reasonable method to properly allocate direct and indirect costs among units of property produced or property acquired for resale during the taxable year.

Recommendation

Treasury and the IRS should permit taxpayers making concurrent changes under Section 12.02 and Section 12.08 of Rev. Proc. 2023-24 to file a single Form 3115.

Analysis

A taxpayer that files an accounting method change to a UNICAP method specifically described in the regulations for self-constructed assets, for example, a change to the step allocation method for allocating mixed service costs, is also required to select a cost allocation method to properly allocate direct and indirect costs under Treas. Reg. §1.263A-1(f). A taxpayer that selects a cost allocation method described in Treas. Reg. §1.263A-1(f)(2) or (3) may file one Form 3115 under Section 12.02 of Rev. Proc. 2023-24. However, if a taxpayer is changing to a UNICAP method specifically described in the regulations for self-constructed assets and is also changing to a reasonable allocation method under Treas. Reg. §1.263A-1(f)(4), then the taxpayer currently is required to file one Form 3115 under Section 12.02 of Rev. Proc. 2023-24 and file a separate Form 3115 under Section 12.08 of Rev. Proc. 2023-24. The change to a UNICAP method specifically described in the regulations for self-constructed assets and the change to a reasonable allocation

method under Treas. Reg. §1.263A-1(f)(4) for self-constructed assets are inherently related items, and a taxpayer making these concurrent changes should be permitted to file a single Form 3115.

18. Allow a taxpayer making concurrent changes under Section 12.01 or Section 12.02 and Section 12.10 of Rev. Proc. 2023-24 to file a single Form 3115.

Overview

Section 6.02(1) of Rev. Proc. 2015-13 provides that a taxpayer may request only one method change per Form 3115 and must file a separate Form 3115 if requesting a method change for more than one unrelated item or sub-method unless the IRS specifically permits the unrelated changes to be included on a single Form 3115. Section 6.03(1)(b) provides that, ordinarily, a taxpayer must submit a separate Form 3115 for each automatic method change. However, in some cases, the List of Automatic Changes (e.g., Rev. Proc. 2023-24) describes particular changes in method of accounting that a taxpayer is required or permitted to request on a single Form 3115 (concurrent changes). When the taxpayer is required or permitted to file a single Form 3115 for two or more concurrent changes, the taxpayer must provide all of the information required for each change separately.

Sections 12.01 of Rev. Proc. 2023-24 applies to a reseller, and 12.02 of Rev. Proc. 2023-24 applies to a producer or reseller-producer, that wants to change to a UNICAP method (or methods) specifically described in the regulations. Section 12.10 of Rev. Proc. 2023-24 applies to a taxpayer that wants to change its method of accounting for sales-based royalties (as described in Treas. Reg. §1.263A-1(e)(3)(ii)(U)(2)) that are properly allocable to inventory property.

Recommendation

Treasury and the IRS should permit taxpayers making concurrent changes under Section 12.01 or Section 12.02 and Section 12.10 of Rev. Proc. 2023-24 to file a single Form 3115.

Analysis

Many taxpayers that are changing a method of accounting under either Section 12.01 or Section 12.02 of Rev. Proc. 2023-24 also change their method of accounting for sales-based royalties allocable to inventory at the same time. For example, a taxpayer that is changing from the simplified production method to the modified simplified production method may also be changing from a method of not capitalizing sales-based royalties to a method of capitalizing these royalties and allocating them entirely to cost of goods sold for the same year of change. A taxpayer making both of these changes currently is required to file one Form 3115 under Section 12.02 of Rev. Proc. 2023-24 and file a separate Form 3115 under Section 12.10 of Rev. Proc. 2023-24. The change to a UNICAP method specifically described in the regulations and the change in method of accounting for sales-based royalties allocable to inventory are related items in many cases, and a taxpayer making these concurrent changes should be permitted to file a single Form 3115.

19. Treasury and the IRS should waive the five-year eligibility rule for a taxpayer changing a UNICAP method (or methods) under Section 12.01 or Section 12.02 of Rev. Proc. 2023-24 because the taxpayer is no longer a producer or is no longer a reseller.

Overview

Section 5.01(1)(f) of Rev. Proc. 2015-13 provides that a taxpayer is eligible to file an automatic method change if the taxpayer has not made or requested a change for the same item during any of the five taxable years ending with the year of change (“five-year eligibility rule”) as described in Section 5.05(1), except as provided in Section 5.05(2). Section 5.05(1) of Rev. Proc. 2015-13 provides that, except as provided in Sections 5.05(2) and 15.02, if during any of the five taxable years ending with the year of change a taxpayer changed, or applied for consent to change, its method of accounting for a specific item, regardless of whether it implemented that change, the taxpayer may not request the Commissioner’s consent to change its method of accounting for that same item under the automatic change procedures.

A taxpayer that is a producer in one year may become a reseller, or vice versa, in a later year. Under Section 12.01 of Rev. Proc. 2023-24, a taxpayer that is no longer a producer (i.e., a producer that becomes a reseller) may change to a UNICAP method (or methods) specifically described in the regulations, including any necessary changes in the identification of costs subject to section 263A that will be accounted for using the proposed method. Similarly, under Section 12.02 of Rev. Proc. 2023-24, a taxpayer that is no longer a reseller (i.e., a reseller that becomes a producer) may change to a UNICAP method (or methods) specifically described in the regulations, including any necessary changes in the identification of costs subject to section 263A that will be accounted for using the proposed method. However, a taxpayer in this situation may have filed a method change for the same item during the five taxable years ending with the year of change and, therefore, would not be eligible to file an automatic method change due to the five-year eligibility rule.

Recommendation

Treasury and the IRS should waive the five-year eligibility rule for a taxpayer changing a UNICAP method (or methods) under Section 12.01 or Section 12.02 of Rev. Proc. 2023-24 because the taxpayer is no longer a producer or is no longer a reseller.

A taxpayer making this change in the first year it is required to change should be permitted to implement the change using a cut-off method.

Analysis

A taxpayer that is a producer may be using UNICAP methods that are applicable to producers (e.g., the simplified service cost method (SSCM) with the production cost allocation ratio, the modified simplified production method). If the taxpayer becomes a reseller and is no longer a producer because the taxpayer discontinued its production activities, the taxpayer would need to change to a UNICAP method (or methods) applicable to a reseller (e.g., the simplified service cost

method with the labor-based allocation ratio, the simplified resale method). Generally, the taxpayer could make these changes under Section 12.01 of Rev. Proc. 2023-24. However, if the taxpayer filed a method change for the same item during the five taxable years ending with the year of change, it would not be eligible to file an automatic method change due to the five-year eligibility rule. For example, if the taxpayer filed a Form 3115 to change to the SSCM with the production cost allocation ratio and to the modified simplified production method (MSPM) for its 2019 tax year, the taxpayer would not be eligible to file an automatic method change under Section 12.01 of Rev. Proc. 2023-24 to change to the SSCM with the labor-based ratio and the simplified resale method (SRM) if it becomes a reseller in its 2023 tax year.

Similarly, a taxpayer that is a reseller may be using a UNICAP method that is applicable to resellers (e.g., the simplified resale method). If the taxpayer becomes a producer and is no longer a reseller because the taxpayer began to engage in production activities that are not de minimis, the taxpayer would need to change to UNICAP methods applicable to a producer (e.g., the pre-production labor allocation method for capitalizable mixed service costs, the MSPM). Generally, the taxpayer could make these changes under Section 12.02 of Rev. Proc. 2023-24. However, if the taxpayer filed a method change for the same item during the five taxable years ending with the year of change, it would not be eligible to file an automatic method change due to the five-year eligibility rule. For example, if the taxpayer filed a Form 3115 to change to the SRM for its 2019 tax year, the taxpayer would not be eligible to file an automatic method change under Section 12.02 of Rev. Proc. 2023-24 to change to the MSPM if it becomes a producer in its 2023 tax year.

Waiving the five-year eligibility rule under the circumstances described above would allow taxpayers to avoid the administrative and/or financial burden associated with filing a non-automatic accounting method change. Providing a waiver of the five-year eligibility rule is especially justified under these circumstances because the taxpayer's present UNICAP method(s) would be impermissible, so the taxpayer must change to permissible UNICAP method(s) and should be permitted to file an automatic Form 3115 to make this change.

Furthermore, a taxpayer making a UNICAP method change in the first year it is required to change (i.e., the first tax year the taxpayer is no longer a producer or is no longer a reseller) should be permitted to implement the change using a cut-off method. Otherwise, the taxpayer may have to compute a section 481(a) adjustment using UNICAP methods that are not applicable and/or not permissible for the year or years prior to the year of change based on the taxpayer's activities during the previous year(s).

For example, assume a taxpayer was a reseller using the SSCM with the labor-based allocation ratio and the SRM prior to its 2023 tax year, and the taxpayer starts to engage in production activities that are not de minimis during its 2023 tax year. The taxpayer files a Form 3115 for its 2023 tax year to change from the SSCM with the labor-based allocation ratio and the SRM to the SSCM with the production cost allocation ratio, the direct material costs allocation method for capitalizable mixed service costs, and the MSPM. If this change is not implemented using a cut-off method, the taxpayer must compute a section 481(a) adjustment by revaluing UNICAP costs capitalized to beginning inventory. To do this, the taxpayer must use the proposed UNICAP

methods to compute the UNICAP costs that would have been capitalized for its 2022 tax year. However, this is not possible because the taxpayer would be attempting to apply UNICAP methods applicable to a producer for a year in which the taxpayer was a reseller and did not engage in any production activities. Therefore, the only practical option is to implement the method change using a cut-off method.

20. Waive the five-year eligibility rule for a taxpayer to change from the simplified production method (SPM) to another permissible method when the taxpayer’s average annual gross receipts for the three previous taxable years exceed \$50 million.

Overview

Section 5.01(1)(f) of Rev. Proc. 2015-13 provides that a taxpayer is eligible to file an automatic method change if the taxpayer has not made or requested a change for the same item during any of the five taxable years ending with the year of change (“five-year eligibility rule”) as described in Section 5.05(1), except as provided in Section 5.05(2). Section 5.05(1) of Rev. Proc. 2015-13 provides that, except as provided in Sections 5.05(2) and 15.02, if during any of the five taxable years ending with the year of change a taxpayer changed, or applied for consent to change, its method of accounting for a specific item, regardless of whether it implemented that change, the taxpayer may not request the Commissioner’s consent to change its method of accounting for that same item under the automatic change procedures.

Treasury Reg. §1.263A-1(d)(3)(ii)(A) provides that, in general, except as otherwise provided by regulations or other published guidance, a taxpayer may not include negative adjustments in additional section 263A costs.

Treasury Reg. § 1.263A-1(d)(3)(ii)(B) provides an exception for certain taxpayers that may, but are not required to, include negative adjustments in additional section 263A costs to remove the taxpayer’s section 471 costs that are described in Treas. Reg. §1.263A-1(d)(2)(vi) (i.e., costs that are not required to be, or are not permitted to be, capitalized under section 263A). This exception applies to a taxpayer using the simplified production method (SPM) if the taxpayer’s (or its predecessor’s) average annual gross receipts for the three previous taxable years do not exceed \$50 million.

Recommendation

Treasury and the IRS should waive the five-year eligibility rule for a taxpayer to change from the SPM to another permissible method when the taxpayer’s average annual gross receipts for the three previous taxable years exceed \$50 million and, therefore, the taxpayer is no longer eligible to use the SPM with negative additional section 263A costs.

Analysis

A taxpayer using the SPM may include negative adjustments in additional section 263A costs to remove section 471 costs that are not required to be, or are not permitted to be, capitalized under section 263A if the taxpayer's (or its predecessor's) average annual gross receipts for the three previous taxable years do not exceed \$50 million. In general, if the taxpayer's average annual gross receipts for the three previous taxable years exceed \$50 million in a subsequent tax year, the taxpayer may file an automatic Form 3115 under Section 12.02 of Rev. Proc. 2023-24 to change from the SPM to another method for capitalizing additional section 263A costs that is specifically described in the regulations (e.g., the MSPM). However, if the taxpayer filed a method change for the same item during the five taxable years ending with the year of change (e.g., to change to the SPM), it would not be eligible to file an automatic method change due to the five-year eligibility rule.

Waiving the five-year eligibility rule under the circumstances described above would allow taxpayers to avoid the administrative and/or financial burden associated with filing a non-automatic accounting method change. Providing a waiver of the five-year eligibility rule is especially justified under these circumstances because the taxpayer's present SPM method would no longer be permissible when the taxpayer's average annual gross receipts for the three previous taxable years exceed \$50 million. Therefore, the taxpayer should be allowed to file an automatic Form 3115 to change to another permissible method for capitalizing additional section 263A costs.

21. Provide an automatic method change and waive the five-year eligibility rule for a taxpayer that revoked a historic absorption ratio (HAR) election under Section 12.18 of Rev. Proc. 2022-14 (or its predecessor) and that wants to make a HAR election under its simplified method.

Overview

Section 5.01(1)(f) of Rev. Proc. 2015-13 provides that a taxpayer is eligible to file an automatic method change if the taxpayer has not made or requested a change for the same item during any of the five taxable years ending with the year of change ("five-year eligibility rule") as described in Section 5.05(1), except as provided in Section 5.05(2). Section 5.05(1) of Rev. Proc. 2015-13 provides that, except as provided in Sections 5.05(2) and 15.02, if during any of the five taxable years ending with the year of change a taxpayer changed, or applied for consent to change, its method of accounting for a specific item, regardless of whether it implemented that change, the taxpayer may not request the Commissioner's consent to change its method of accounting for that same item under the automatic change procedures.

Many taxpayers who were required to file a change in accounting method as a result of the UNICAP regulations published on November 20, 2018 (the 2018 final regulations) previously used the simplified production method (SPM) with a HAR election or the simplified resale method (SRM) with a HAR election. Taxpayers generally make a HAR election because the HAR allows them to comply with the UNICAP rules while avoiding the administrative burden associated with

preparing a full section 263A calculation each year. However, most taxpayers that used a HAR prior to adopting the 2018 final regulations were unable to continue using a HAR when changing methods to comply with the 2018 final regulations due to the requirement to revise the previous and current HARs. For example, a taxpayer using a HAR that changed its method of accounting under Section 12.17 of Rev. Proc. 2022-14 (or its predecessor) was required to apply its proposed method of accounting during the test period, during all recomputation years, and during all updated test periods to determine the section 471 costs and additional section 263A costs that were incurred. The taxpayer was required to use the revised HARs to revalue beginning inventory and compute the section 481(a) adjustment.

In lieu of undergoing the extensive burdensome process of revising previous and current HARs, most taxpayers that wanted to continue to use the SPM or SRM filed an automatic method change under Section 12.18 of Rev. Proc. 2022-14 (or its predecessor) to revoke the HAR election.

The HAR rules provided in Treas. Reg. §1.263A-2(b)(4), Treas. Reg. §1.263A-2(c)(4), and Treas. Reg. §1.263A-3(d)(4) generally provide that a taxpayer may elect a HAR only if the taxpayer consistently used a simplified method for three or more consecutive taxable years immediately prior to the year of election, the taxpayer has capitalized additional section 263A costs using actual absorption ratios for its three most recent consecutive taxable years, and the taxpayer has not obtained the Commissioner's consent to revoke the HAR election within its prior six taxable years. Therefore, a taxpayer that filed an automatic method change under Section 12.18 of Rev. Proc. 2022-14 (or its predecessor) to revoke the HAR election must wait six tax years before it can make another HAR election.

The election to use the HAR is a method of accounting.¹³ However, instead of filing Form 3115, a taxpayer makes a HAR election by attaching a statement to its federal income tax return for the taxable year in which the election is made.¹⁴

Recommendation

Treasury and the IRS should provide an automatic method change and waive the five-year eligibility rule for a taxpayer that revoked a HAR election under Section 12.18 of Rev. Proc. 2022-14 (or its predecessor) and that wants to make a HAR election under its simplified method within six years of the revocation.

Analysis

Although a taxpayer normally makes a HAR election by attaching a statement to the federal income tax return for the taxable year in which the election is made, Treasury and the IRS could provide a temporary automatic method change that would allow a taxpayer to file a Form 3115 to make a HAR election within six years of revoking a previous HAR election. This automatic method change would apply solely to a taxpayer using the SPM or SRM that previously revoked

¹³ See Treas. Reg. §1.263A-2(b)(4)(iii)(A), Treas. Reg. §1.263A-3(d)(4)(iii)(A).

¹⁴ See Treas. Reg. §1.263A-2(b)(4)(iv)(A), Treas. Reg. §1.263A-3(d)(4)(iv)(A).

a HAR election under Section 12.18 of Rev. Proc. 2022-14 (or its predecessor). This method change would be made on a cut-off basis, with no audit protection.

If a taxpayer making the change described above filed the previous method change to revoke a HAR election under Section 12.18 of Rev. Proc. 2022-14 (or its predecessor) during one of the five taxable years ending with the year of change, it would not be eligible to file an automatic method change due to the five-year eligibility rule. Therefore, the five-year eligibility rule should be waived for a taxpayer that revoked a HAR election under Section 12.18 of Rev. Proc. 2022-14 (or its predecessor) and that wants to make a HAR election under its simplified method within six years of the revocation pursuant to the automatic method change described above.