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IRS Releases Updated Guidance on Automatic Accounting Method Changes

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The Internal Revenue Service (IRS) released new guidance in May pertaining to automatic method change requests. The guidance comes in the form of two Revenue Procedures – 2018-29 and 2018-31 – which are detailed below.

REVENUE PROCEDURE 2018-31

Background

On May 9, 2018, the IRS issued regular annual guidance, Revenue Procedure 2018-31 (RP-2018-31), providing updates to the IRS's "list of automatic changes" previously provided by Revenue Procedure 2017-30 (RP-2017-30). RP-2018-31 amends and removes obsolete language found in RP-2017-30 while placing limitations on filing certain method changes after Dec. 31, 2017.

Additionally, RP-2018-31 now serves as the primary listing and information source for accounting method change requests filed under the automatic change procedures of Revenue Procedure 2015-13 (RP-2015-13).

Details

RP-2018-31 contains several key modifications to the list of automatic changes provided in prior guidance, as well as revised language which changes the eligibility of taxpayers to obtain automatic consent for certain method changes.

Revisions contained in RP-2018-31 include:

- **Depreciation of leasehold improvements (Section 6.11 of RP-2018-31)** – Removes language relating to the waiver of the five-year eligibility rule contained in Section 5.01(1)(f) of RP-2015-13; However, Section 5.01(1)(d) or RP-2015-13 continues to apply
- **Remodel-refresh safe harbor (Section 11.10)** – Removes language relating to the waiver of the five-year eligibility rule contained in Sections 5.01(1)(d) and (f) of RP-2015-13
- **Non-shareholder contributions to capital (Section 15.14)** – Amended to clarify that it is not applicable to contributions made after Dec. 22, 2017
- **Changes for advance payments (Section 16.07)** – Revised to provide that the eligibility rules in Section 5.01(1)(f) of RP-2015-13 do not apply to a taxpayer changing to a

method of accounting provided under this Section for the taxpayer's first or second taxable year ending on or after May 9, 2018; Additionally, a method change under this Section may not be made for any taxable year beginning after December 31, 2017

- **Sales-based vendor chargebacks (Section 22.15; formerly Section 21.15 of RP-2017-30)** – Removes language relating to the waiver of the five-year eligibility rule contained in Section 5.01(1)(f) of RP-2015-13
- **Mark-to-market method of accounting (Section 24.01; formerly Section 23.01 of RP-2017-30)** – Removes language relating to the waiver of the five-year eligibility rule contained in Section 5.01(1)(f) of RP-2015-13; However, Section 5.01(1)(d) or RP-2015-13 continues to apply
- **Realization method of accounting for securities or commodities (Section 24.02; formerly Section 23.02 of RP-2017-30)** – Removes language relating to the waiver of the five-year eligibility rule contained in Section 5.01(1)(f) of RP-2015-13; However, Section 5.01(1)(d) or RP-2015-13 continues to apply

RP-2018-31 also removes the change for taxpayers wishing to revoke a partial disposition election under the remodel-refresh safe harbor (formerly Section 6.18 of RP-2017-30).

Lastly, RP-2018-31 introduces special restrictions for certain automatic method changes directly impacted by the small business tax reforms of the Tax Cuts and Jobs Act (the Act). The Department of the Treasury and the IRS expect to issue additional guidance in respect to implementing small

business changes outlined in Section 13102 of the Act – which we anticipate will address the following restrictions made by RP-2018-31:

- **Uniform capitalization (UNICAP) methods used by resellers and reseller-producers (Section 12.01)** – Amended to deny small resellers (defined in Section 12.01(3)(b)) the ability to make a change from permissible UNICAP to permissible non-UNICAP for any taxable year beginning after Dec. 31, 2017
- **Changes to overall cash receipts and disbursements method (Section 15.03)** – This change is inapplicable for any taxable year beginning after Dec. 31, 2017
- **Small taxpayer exception from requirement to account for inventories (Section 22.03; formerly Section 21.03 of RP-2017-30)** – This change is inapplicable for any taxable year beginning after Dec. 31, 2017

Effective Dates & Transition Rules

RP-2018-31 is applicable to most automatic accounting method change requests filed on or after May 9, 2018 for taxable years of change ending on or after Sept. 30, 2017. Certain transition rules may be available in the following situations:

- Conversion of eligible, pending non-automatic requests to the automatic change procedures outlined in RP-2015-13
- Automatic requests filed prior to May 9, 2018 which are no longer eligible for automatic change procedures due to revisions introduced by RP-2018-31

REVENUE PROCEDURE 2018-29

Background

Within 24 hours of the release of the annual automatic method change list revenue procedure, the IRS issued Revenue Procedure 2018-29 (RP-2018-29) in response to a prior request for comments under Notice 2017-17. This guidance provides a new automatic change for taxpayers wishing to change their method of recognizing income for federal tax purposes to an otherwise permissible method which is consistent with rules described in ASC 606.

Details

RP-2018-29 stipulates that taxpayers may obtain automatic consent from the IRS when changing to an otherwise permissible method of accounting that uses the new ASC 606 to:

- Identify performance obligations;
- Allocate transaction price to performance obligations; and/or
- Consider performance obligations satisfied.

Method change requests filed in accordance with RP-2018-29 may be made on a cut-off or cumulative basis (i.e., with or without a Section 481(a) adjustment).

Any method change request filed under this RP-2018-29 must be made for the taxable year in which the taxpayer adopts the new standards under ASC 606. It is also important to note that the automatic procedures under RP-2018-29 **do not apply** to changes in the following items:

- Manner in which the taxpayer identifies contracts

- Determination of transaction price
- Changes made in a year that is different than the year in which the taxpayer adopts ASC 606
- Changes which do not comply with existing revenue recognition rules under Section 451 of the Internal Revenue Code
- Any change which is described elsewhere within RP-2018-31 (formerly RP-2017-30)
- Most changes in method of accounting for long-term contracts under Section 460 of the Internal Revenue Code

RP-2018-29 also requests comments from readers on both the content of RP-2018-29 as well as on necessary future guidance which may be required as taxpayers begin to comply with ASC 606.

Effective Dates & Transition Rules

Changes made under RP-2018-29 must generally be made during a taxpayer's first, second, or third taxable year ending on or after May 10, 2018.

Summary

RP-2018-31 and RP-2018-29 cast insight into the IRS's continued efforts to refine the list of automatic changes available to U.S. taxpayers. While some taxpayers – particularly small businesses – may find their automatic change options to be significantly altered by these recent releases, the changing landscape of federal taxation and falling tax rates present the agile taxpayer with a unique – albeit time-sensitive – opportunity to generate meaningful and permanent tax savings through effective method change planning.

Please contact your DHG tax advisor for more information.

To read the full text of IRS RP-2018-31, please visit: <https://www.irs.gov/pub/irs-drop/rp-18-31.pdf>

To read the full text of IRS RP-2018-29, please visit: <https://www.irs.gov/pub/irs-drop/rp-18-29.pdf>

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