Administrative, Procedural, and Miscellaneous

26 CFR 601.204: Changes in accounting periods and method of accounting.
(Also: Part I, Sections 446, 451; 1.451-1.)

Rev. Proc. 2018-29

SECTION 1. PURPOSE

This revenue procedure provides new procedures for taxpayers changing their method of accounting for the recognition of income for federal income tax purposes to a method for recognizing revenues described in the new financial accounting standards issued by the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) (New Standards). In particular, this revenue procedure modifies Rev. Proc. 2017-30, 2017-18 I.R.B. 1131, to provide procedures under § 446 of the Internal Revenue Code (Code) and § 1.446-1(e) of the Income Tax Regulations to obtain automatic consent of the Commissioner of Internal Revenue (Commissioner) to change to an otherwise permissible method of accounting that uses the New Standards to identify performance obligations, allocate transaction price to performance obligations, and/or consider performance obligations satisfied, if such method change is made for the taxable year in which the taxpayer adopts the New Standards.

This revenue procedure does not provide guidance relating to the amendments to § 451 made by section 13221 of "An Act to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018," Pub. L. No. 115-97 (December 22, 2017) (the Act). The Department of the Treasury (Treasury Department) and the Internal Revenue Service (Service) are preparing additional guidance to address the amendments to § 451 made by section 13221 of the Act.

SECTION 2. BACKGROUND

.01 On May 28, 2014, FASB and IASB jointly announced new financial accounting standards for revenue recognition, titled "Revenue from Contracts with Customers (Topic 606)." See FASB Update No. 2014-09 and IASB International Financial Reporting Standard (IFRS) 15.

.02 Publicly-traded entities, certain not-for-profit entities, and certain employee benefit plans are required to adopt the New Standards for annual reporting periods beginning after December 15, 2017. All other entities are required to adopt the New Standards for annual reporting periods beginning after December 15, 2018. Early adoption is allowed for reporting periods beginning after December 15, 2016. See FASB Update No. 2015-14, "Revenue from Contracts with Customers (Topic 606), Deferral of the Effective Date."

.03 Since the joint announcement, FASB and IASB have revised the New Standards and provided guidance on how to implement the New Standards in certain situations. See FASB Update No. 2015-14; FASB Update No. 2016-8, "Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net);" FASB Update No. 2016-10, "Revenue from Contracts with Customers (Topic 606), Identifying Performance Obligations and Licensing;" FASB Update No. 2016-12, "Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients;" FASB Update No. 2017-13, "Revenue Recognition (Topic 605), Revenue from Contracts with Customers (Topic 606), Leases (Topic 840), and Leases (Topic 842): Amendments to SEC Paragraphs Pursuant to the Staff Announcement at the July 20, 2017 EITF Meeting and Rescission of Prior SEC Staff Announcements and Observer Comments (SEC Update);" FASB Update No. 2017-14, "Income Statement – Reporting Comprehensive Income (Topic 220), Revenue Recognition (Topic 605), and Revenue from Contracts with Customers) (Topic 606) (SEC Update)."

.04 Under the New Standards, an entity will recognize revenue for promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services based on the following five sequential steps: (i) identify the contracts with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations; and (v) recognize revenue as the entity satisfies a performance obligation.

.05 On March 28, 2017, the Treasury Department and the Service issued Notice 2017-17, 2017-15 I.R.B. 1073, containing, and inviting comments on, a proposed revenue procedure by which a taxpayer could request consent to change a method of accounting for recognizing income when the change is made for the same taxable year in which the taxpayer adopts the New Standards and the change is made as a result of, or directly related to, the adoption of the New Standards.

.06 Commenters to Notice 2017-17 noted that the New Standards would affect taxpayers in the technology and construction industries and service providers with warranty and repair service contracts. Many of these taxpayers will have to accelerate income on their financial statements due to the New Standards, potentially creating a larger book-tax disparity. Commenters requested that the Service issue guidance to allow for more book-tax conformity and to allow taxpayers to easily file accounting method change requests associated with adopting the New Standards. More specifically, commenters requested an expansion of current automatic accounting method change procedures, guidance on the recognition of advance payments, an expansion of the small business exception in the proposed revenue procedure in Notice 2017-17, and the option of implementing an accounting method change on either a cut-off basis or with a § 481(a) adjustment.

.07 In this revenue procedure, the Treasury Department and the Service adopt certain of the suggestions submitted by commenters in response to Notice 2017-17. For example, this revenue procedure allows for more book-tax conformity and allows taxpayers to easily file accounting method change requests associated with adopting the New Standards. Specifically, this revenue procedure creates new automatic accounting method change procedures, applies rules similar to the small business exception in the proposed revenue procedure in Notice 2017-17 to more taxpayers, and provides taxpayers the option of implementing the accounting method change on either a cut-off basis or with a § 481(a) adjustment. Other comments, such as comments requesting guidance on the recognition of advance payments, will be considered in connection with the issuance of guidance implementing the amendments made to § 451 by the Act. The Treasury Department and the Service intend to provide additional guidance on these issues if needed to improve the procedures contained in this revenue procedure once the Treasury Department, the Service, and taxpayers obtain more experience with the interaction of the New Standards with federal income tax accounting methods.

.08 Section 13221 of the Act amends § 451 by redesignating § 451(b) through (i) as (d) through (k), and adding new § 451(b) and (c). New § 451(b) and (c) are effective for tax years beginning after December 31, 2017. Section 451(b), as amended by the Act, generally provides that for an accrual method taxpayer, the all events test with respect to any item of gross income (or portion thereof) shall not be treated as met any later than when such item (or portion thereof) is taken into account as revenue in an applicable financial statement of the taxpayer, or such other financial statement as the Secretary may specify. However, new § 451(b) is inapplicable to certain taxpayers, such as taxpayers that do not have an applicable financial statement or other financial statement specified by the Secretary. New section 451(c) provides an elective method of accounting for an accrual method taxpayer that receives an advance payment during the taxable year.

.09 The Treasury Department and the Service expect to provide guidance in the future to assist taxpayers in complying with amended § 451.

.10 This revenue procedure is not intended to provide guidance for taxpayers changing their method of accounting to comply with amended § 451. Rather, this revenue procedure provides guidance for taxpayers changing a method of accounting to an otherwise permissible method of accounting that recognizes revenue in income in a manner described in the New Standards. For example, this revenue procedure provides procedures under which a taxpayer that has adopted the New Standards may make a corresponding change in its method of accounting for federal income tax purposes, provided the new method of accounting is otherwise permissible under the Code including under amended § 451.

.11 After considering the comments received on Notice 2017-17 and to reduce compliance costs, burden, and administrative complexity, the Treasury Department and the Service are issuing this revenue procedure to provide procedures under § 446 and § 1.446-1(e) for a taxpayer to obtain automatic consent of the Commissioner to change a method of accounting used to recognize income for federal income tax purposes to a method in which the taxpayer uses the New Standards to identify performance obligations, to allocate transaction price to performance obligations, and/or to consider performance obligations satisfied.

.12 This revenue procedure requests comments on future guidance that may be necessary as taxpayers begin to comply with the New Standards, and comments on the procedures in this revenue procedure. In addition, comments are requested on future guidance that may be necessary to help taxpayers comply with amended § 451.

SECTION 3. NEW AUTOMATIC METHOD CHANGE

.01 Rev. Proc. 2017-30 is modified to add new section 16.11 to the List of Automatic Changes to read as follows:

.11 <u>Changes in the timing of recognition of income due to the New Standards</u>.

(1) Description of change. On May 28, 2014, the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) jointly announced new financial accounting standards for revenue recognition entitled "Revenue from Contracts with Customers (Topic 606)" (New Standards). See FASB Update No. 2014-09, and IASB International Financial Reporting Standard (IFRS) 15. Under the New Standards, a taxpayer generally recognizes revenue for financial accounting purposes when the taxpayer satisfies a performance obligation by transferring a promised good or service to a customer, as described in the New Standards.

(2) Applicability. This change applies to a taxpayer that wants to change its method of accounting for the recognition of income for federal income tax purposes to a method under the New Standards for: (i) identifying performance obligations, (ii) allocating transaction price to performance obligations, and/or (iii) considering performance obligations satisfied. A taxpayer may request a change under this section 16.11 only if the taxpayer's new method of accounting is otherwise permissible for federal income tax purposes and the change in method of accounting is made for the taxable year in which the taxpayer adopts the New Standards for financial accounting purposes. A taxpayer's allocation of transaction price to performance obligations to comply with the New Standards under this section 16.11 is deemed to be an allocation based on objective criteria. See section 5.02(4)(c) of Rev. Proc. 2004-34, 2004-1 C.B. 991, as modified and clarified by Rev. Proc. 2011-18, 2011-5 I.R.B. 443, and Rev. Proc. 2013-29, 2013-33 I.R.B. 141, and as modified by Rev. Proc. 2011-14, 2011-4 I.R.B. 330.

(3) Inapplicability. This change does not apply to:

(a) a change in the manner in which the taxpayer identifies contracts or determines the transaction price, including the inclusion and exclusion of variable consideration in the transaction price, under the New Standards;

(b) a change in method of accounting for recognizing income that is made in a year that is different from the year that the taxpayer adopts the New Standards;

(c) a change in method of accounting that does not comply with § 451 or other guidance;

(d) any change in method of accounting that qualifies under another automatic change described in the List of Automatic Changes provided in this revenue procedure (or any successor), even if it is described in section 16.11(2) of this revenue procedure, and otherwise satisfies the requirements of paragraphs 5.01(1)(a)-(d) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419 (or any successor). The taxpayer must request such change(s) in method of accounting by applying the automatic change procedures in Section 6 of Rev. Proc. 2015-13 (or any successor) and the respective section of Rev. Proc. 2017-30 (or any successor); or

(e) any change in the method of accounting for income from a long-term contract, as defined in § 460(f), unless the long-term contract is excepted from required use of the percentage-of-completion method by § 460(e)(1).

(4) Time for making change. The change under this section 16.11 may only be made in the taxpayer's first, second, or third taxable year ending on or after May 10, 2018.

(5) Manner of making change.

(a) Cut-off basis or § 481(a) adjustment. A taxpayer making a change under this section 16.11 may implement the change with either a § 481(a) adjustment as provided in sections 7.02 and 7.03 of Rev. Proc. 2015-13, or on a cut-off basis. If the taxpayer implements the change on a cut-off basis, (i) the taxpayer must allocate any payment allocations prior to the year of change using the taxpayer's former method of accounting, (ii) all changes made under this section 16.11 must be implemented using a cut-off basis, and (iii) a § 481(a) adjustment is neither permitted nor required. Notwithstanding anything to the contrary in this section 16.11(5)(a), if a taxpayer is a member of a consolidated group (within the meaning of § 1.1502-1(h)), then the member must implement all changes with respect to its intercompany transactions (within the meaning of § 1.1502-13(b)(1)(i)) under this section 16.11 on a cut-off basis and can apply the first two sentences of this section 16.11(5)(a) to all other transactions. See § 1.1502-17(b)(2); section 7.02 of Rev. Proc. 2015-13.

(b) Reduced filing requirement. A taxpayer making a change under this section 16.11 is required to complete only the following information on Form 3115 (Rev. December 2015):

(i) The identification section of page 1 (above Part I);

(ii) The signature section at the bottom of page 1;

(iii) Part I;

(iv) Part II, all lines except lines 13,16c, and 19; and

(v) Part IV, all lines. For a taxpayer making a change under this section 16.11 using a § 481(a) adjustment, the statement required for Line 26 of Form 3115 should list a description of each change, the § 481(a) adjustment for each change (or a statement that the change is being made on a cut-off basis) and, if applicable, a description of where the item's § 481(a) adjustment is reflected on the federal income tax return (line number (or schedule)).

In addition, the requirement to file the duplicate copy, under section 6.03(1)(a) of Rev. Proc. 2015-13, is waived.

(6) Certain eligibility rule inapplicable. The eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13 does not apply to this change for a taxpayer's first, second, or third taxable year ending on or after May 10, 2018.

(7) No ruling on method used. The consent granted under section 9 of Rev. Proc. 2015-13 for a change made under this section 16.11 is not a determination by the Commissioner that the new method of accounting is a permissible method of accounting and does not create any presumption that the allocation method is a permissible method of accounting under any provision of the Code. Further, the consent granted under section 9 of Rev. Proc. 2015-13 for a change made under this section 16.11 is not a determination that the amount of income included in taxable income using an allocation method described in the New Standards is correct. The Director will ascertain whether the new method of accounting is a permissible method of accounting and whether the allocation method is permissible under the Code (for example, a method that is permitted under § 451).

(8) Concurrent automatic change. A taxpayer that wants to make one or more changes in method of accounting under this section 16.11 may file a single Form 3115 that includes all of the changes, must separately state the § 481(a) adjustment for each

change made under this section, and may not net the § 481(a) adjustments with § 481(a) adjustments from other changes.

(9) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under this section 16.11 is "231."

(10) Contact information. For further information regarding a change under this section, contact Peter E. Ford at (202) 317-7011(not a toll free call) or Charles Gorham at (202) 317-5091 (not a toll free call).

SECTION 4. REQUEST FOR COMMENTS

This revenue procedure provides certain procedures for obtaining the Commissioner's consent for qualifying method changes based on adoption of the New Standards. As taxpayers adjust to adopting the New Standards, additional differences between financial accounting and tax accounting rules may be discovered and a need for additional guidance may arise. The Treasury Department and the Service request comments on any aspects of this revenue procedure and any issues regarding conformity between the New Standards and the Code and the Regulations. In addition, comments are specifically requested on the following issues:

1. What additional change in accounting method requests do taxpayers anticipate requesting due to the New Standards?

2. What additional procedural guidance might be helpful as a result of the New Standards?

3. What industry-specific guidance might be helpful as a result of the New Standards?

In addition, the Treasury Department and the Service request comments on future guidance that would help taxpayers to comply with amended § 451. Comments are specifically requested on the following issues:

1. What change in method of accounting requests do taxpayers anticipate filing due to the interplay of the New Standards with amended § 451(b) or (c)?

2. As taxpayers transition to amended § 451, what procedural guidance might be helpful?

3. As taxpayers transition to amended § 451, what industry-specific guidance might be helpful?

WHERE TO SEND COMMENTS

Comments may be submitted using one of the following methods:

- By Mail:

  Internal Revenue Service
  Attn: CC:PA:LPD:PR (Revenue Procedure 2018-29)
  Room 5203
  P.O. Box 7604
  Ben Franklin Station
  Washington, D.C. 20444

- By Hand or Courier Delivery: Submission may be hand-delivered Monday through Friday between the hours of 8 a.m. and 4 p.m. to:

  Courier's Desk
  Internal Revenue Service
  Attn: CC:PA:LPD:PR
  (Revenue Procedure 2018-29)
  1111 Constitution Avenue, NW
  Washington, DC 20224

- Electronic: Alternatively, persons may submit comments electronically to Revenue.Procedure.Comments@irscounsel.treas.gov. Please include "Revenue Procedure 2018-29" in the subject line of any electronic communications.

All submissions will be available for public inspection and copying in room 1621, 1111 Constitution Avenue, NW, Washington, DC, from 9 a.m. to 4 p.m.

SECTION 5. EFFECTIVE DATE

.01 In general. Except as otherwise provided under this section, this revenue procedure is effective for a taxpayer's first, second, or third taxable year ending on or after May 10, 2018.

.02 Limited time period to convert a Form 3115 filed under the non-automatic change procedures in Rev. Proc. 2015-13. If before May 10, 2018, a taxpayer properly filed a Form 3115 under the non-automatic change procedures in Rev. Proc. 2015-13 requesting the Commissioner's consent for a change in method of accounting described in this revenue procedure, and the Form 3115 is pending with the national office on May 10, 2018, the taxpayer may choose to make the change in method of accounting under the automatic change procedures in Rev. Proc. 2015-13 if the taxpayer is otherwise eligible to use this revenue procedure and the automatic change procedures in Rev. Proc. 2015-13. The taxpayer must notify the national office contact person for the Form 3115 (if unknown, see section 9.08(6) of Rev. Proc. 2018-1, 2018-1 I.R.B. 50 (or successor)) of the taxpayer's intent to make the change in method of accounting under the automatic change procedures in Rev. Proc. 2015-13 before the later of (a) June 11, 2018, or (b) the issuance of a letter ruling granting or denying consent for the change. The notification should indicate that the taxpayer chooses to convert the Form 3115 to the automatic change procedures in Rev. Proc. 2015-13. If the taxpayer timely notifies the national office that it chooses to convert the Form 3115 to the automatic change procedures in Rev. Proc. 2015-13, the national office will send a letter to the taxpayer acknowledging its request and will return the user fee submitted with the Form 3115.

A taxpayer converting a Form 3115 to the automatic change procedures in Rev. Proc. 2015-13 for a change in method of accounting described in this revenue procedure must resubmit a Form 3115 that conforms to the automatic change procedures, with a copy of the national office letter sent acknowledging the taxpayer's request to convert attached, by the earlier of (a) the 30th calendar day after the date of the national office's letter acknowledging the taxpayer's request to convert, or (b) the date the taxpayer is required to file the original Form 3115 under section 6.03(1)(a)(i)(A) of Rev. Proc. 2015-13. See section 6.03(3) of Rev. Proc. 2015-13 regarding additional required copies of Form 3115.

For purposes of the eligibility rules in section 5 of Rev. Proc. 2015-13, the timely resubmitted Form 3115 will be considered filed as of the date the taxpayer originally filed the converted Form 3115 under the non-automatic change procedures in Rev. Proc. 2015-13. This paragraph does not extend the date the taxpayer must file the original (converted) Form 3115 under section 6.03(1)(a)(i)(A) of Rev. Proc. 2015-13.

SECTION 6. EFFECT ON OTHER DOCUMENTS

This revenue procedure modifies Rev. Proc. 2017-30.

SECTION 7. DRAFTING INFORMATION

The principal authors of this revenue procedure are Peter E. Ford and Charles Gorham of the Office of the Associate Chief Counsel (Income Tax & Accounting). For further information regarding this revenue procedure, contact Mr. Ford on (202) 317-7011 (not a toll free call) or Mr. Gorham on (202) 317-5091 (not a toll free call).