

26 CFR 601.204: Changes in accounting periods and in methods of accounting.  
(Also Part I, §§ 162, 263(a), 263A, 446, 481; 1.446-1.)

Rev. Proc. 2014-16

## SECTION 1. PURPOSE

This revenue procedure modifies the procedures in Rev. Proc. 2012-19, 2012-14 I.R.B. 689, and Rev. Proc. 2011-14, 2011-4 I.R.B. 330, regarding certain changes in method of accounting for amounts paid to acquire, produce, or improve tangible property. This revenue procedure supersedes Rev. Proc. 2012-19 and provides the procedures by which a taxpayer may obtain the automatic consent of the Commissioner of Internal Revenue to change to the methods of accounting provided in §§ 1.162-3, 1.162-4, 1.263(a)-1, 1.263(a)-2, and 1.263(a)-3 of the Income Tax Regulations and §§ 1.162-3T, 1.162-4T, 1.263(a)-1T, 1.263(a)-2T, and 1.263(a)-3T of the temporary regulations. This revenue procedure also modifies Rev. Proc. 2011-14 and provides the procedures by which a taxpayer may obtain the automatic consent of the Commissioner of Internal Revenue to change to a reasonable method described in § 1.263A-1(f)(4) for self-constructed assets and to change to a permissible method of accounting under section 263A(b)(2) of the Internal Revenue Code and § 1.263A-3(a)(1) for certain costs related to real property acquired through foreclosure, by deed in lieu of foreclosure, or in

another similar transaction. Finally, this revenue procedure also modifies section 3.09 of the APPENDIX of Rev. Proc. 2011-14 regarding a change to the method of accounting described in Rev. Proc. 2011-43, 2011-37 I.R.B. 326, for taxpayers in the business of transporting, delivering, or selling electricity.

## SECTION 2. BACKGROUND

.01 The Internal Revenue Service (IRS) and the Treasury Department recently issued final regulations under §§ 1.162-3, 1.162-4, 1.263(a)-1, 1.263(a)-2, and 1.263(a)-3 (T.D. 9636, 2013-43 I.R.B. 331, 78 Fed. Reg. 57686) (the final tangible property regulations). Section 1.162-3 provides rules for amounts paid or incurred for materials and supplies. Section 1.162-4 provides rules for amounts paid or incurred for repairs and maintenance. Section 1.263(a)-1 provides general rules for capital expenditures. Section 1.263(a)-2 provides rules for amounts paid or incurred for the acquisition and production of tangible property. Section 1.263(a)-3 provides rules for amounts paid or incurred for the improvement of tangible property. The final tangible property regulations generally apply to taxable years beginning on or after January 1, 2014, but also permit a taxpayer to choose to apply these sections to taxable years beginning on or after January 1, 2012. Alternatively, the final tangible property regulations permit a taxpayer to apply the temporary regulations under §§ 1.162-3T, 1.162-4T, 1.263(a)-1T, 1.263(a)-2T, and 1.263(a)-3T (T.D. 9564, 2012-14 I.R.B. 614, 76 Fed. Reg. 81060) (the temporary tangible property regulations) to taxable years (or where applicable, to amounts paid or incurred) beginning on or after January 1, 2012, and before January 1, 2014.

.02 Except as otherwise expressly provided by the Internal Revenue Code or the regulations thereunder, section 446(e) and § 1.446-1(e)(2) require a taxpayer to secure the consent of the Commissioner before changing a method of accounting for federal income tax purposes.

.03 Sections 1.162-3(i), 1.162-4(b), 1.263(a)-1(g), 1.263(a)-2(i), and 1.263(a)-3(q) of the final tangible property regulations provide that a taxpayer seeking to change to a method of accounting provided in the final tangible property regulations must secure the consent of the Commissioner in accordance with the requirements of § 1.446-1(e).

.04 Sections 1.162-3T(i), 1.162-4T(b), 1.263(a)-1T(f), 1.263(a)-2T(j), and 1.263(a)-3T(o) of the temporary tangible property regulations provide that a taxpayer seeking to change to a method of accounting provided in the temporary tangible property regulations must secure the consent of the Commissioner in accordance with the requirements of § 1.446-1(e).

.05 Section 1.446-1(e)(3)(ii) authorizes the Commissioner to prescribe administrative procedures setting forth the terms and conditions necessary for a taxpayer to obtain consent to change a method of accounting. Rev. Proc. 2011-14 provides procedures by which a taxpayer may obtain automatic consent from the Commissioner to change to a method of accounting described in the APPENDIX of Rev. Proc. 2011-14. A taxpayer complying with all the applicable provisions of Rev. Proc. 2011-14 obtains the consent of the Commissioner to change its method of accounting under section 446(e).

.06 Section 3.01 of this revenue procedure modifies the APPENDIX of Rev. Proc.

2011-14 to amend existing method change procedures to be consistent with both the temporary and final tangible property regulations.

.07 Section 3.02 of this revenue procedure modifies the APPENDIX of Rev. Proc. 2011-14 to provide new method change procedures consistent with both the temporary and final tangible property regulations.

.08 Section 11.01 and 11.02 of the APPENDIX of Rev. Proc. 2011-14 provide procedures by which a taxpayer may obtain the automatic consent of the Commissioner to change to certain uniform capitalization (UNICAP) methods of accounting. These procedures do not apply to a change to a reasonable method, within the meaning of § 1.263A-1(f)(4), to properly allocate direct and indirect costs among units of property produced during the taxable year unless the methods are specifically described in § 1.263A-1(f)(2) or (3).

.09 The Service is aware that, as a result of applying the final tangible property regulations, taxpayers may want to change to a reasonable method, within the meaning of § 1.263A-1(f)(4), other than the methods specifically described in § 1.263A-1(f)(2) or (3) to properly allocate direct and indirect costs among units of property produced during the taxable year. To align the filing requirements for certain changes in method of accounting for amounts paid to acquire, produce, or improve tangible property with a change to a reasonable method described in § 1.263A-1(f)(4), section 3.02 of this revenue procedure adds section 11.09 to the APPENDIX of Rev. Proc. 2011-14 to provide automatic consent for changes to a reasonable method of accounting under section 263A, provided certain limited conditions are met.

.10 The Service is aware that questions have arisen regarding whether the

capitalization rules of section 263A(b)(2)(A) apply to real property acquired by certain taxpayers through a foreclosure proceeding, or a deed-in-lieu of foreclosure transaction. Currently there is no automatic consent procedure for a change in method of accounting to stop capitalizing under section 263A(b)(2) costs of acquiring and holding property obtained through foreclosure (or similar transaction). To facilitate a change in method of accounting in this situation, section 3.02 of this revenue procedure adds section 11.10 to the APPENDIX to provide automatic consent for a change in method of accounting to an otherwise permissible method of accounting that does not capitalize under section 263A(b)(2) amounts for acquiring or holding real property obtained through a foreclosure proceeding, a deed-in-lieu of foreclosure transaction, or another similar transaction.

.11 Section 3.09 of the APPENDIX to Rev. Proc. 2011-14 allows taxpayers in the business of transporting, delivering, or selling electricity to change their method of accounting to the safe harbor method of accounting described in Rev. Proc. 2011-43. Under Rev. Proc. 2011-43, the scope limitations of section 4.02 of Rev. Proc. 2011-14 do not apply to an electric transmission or distribution company that changes to the method of accounting provided in Rev. Proc. 2011-43 for its first or second taxable year ending after December 30, 2010. Under Rev. Proc. 2012-39, 2012-41 I.R.B. 470, the scope waiver limitation was modified to include the first, second, or third taxable year ending after December 30, 2010.

.12 The Service is aware that a number of electric transmission and distribution companies still have not had time to change their method of accounting to the safe harbor method of accounting described in Rev. Proc. 2011-43. Accordingly, this

revenue procedure modifies section 3.09 of the APPENDIX of Rev. Proc. 2011-14 to extend the waiver of scope limitations to the fourth taxable year ending after December 30, 2010.

### SECTION 3. CHANGES IN METHODS OF ACCOUNTING

#### .01 Modifications to existing automatic changes.

(1) Section 3.05 and section 3.06 of the APPENDIX to Rev. Proc. 2011-14 are modified to read as follows:

3.05 Materials and supplies. See section 10.11 of the APPENDIX.

3.06 Repair and maintenance costs. See section 10.11 of the APPENDIX.

(2) Section 3.09(2) of the APPENDIX to Rev. Proc. 2011-14 is modified to read as follows:

The scope limitations in section 4.02 of this revenue procedure do not apply to an electric transmission or distribution company that changes to the method of accounting provided in Rev. Proc. 2011-43 for its first, second, third, or fourth taxable year ending after December 30, 2010.

(3) Sections 3.10 through 3.19, and sections 10.08 through 10.10 of the APPENDIX to Rev. Proc. 2011-14 are modified to read “Reserved.”.

(4) Section 10.03(1) of the APPENDIX to Rev. Proc. 2011-14 is modified to read as follows:

#### (1) Description of Change

(a) Applicability. This change applies to a taxpayer that wants to change its method of accounting for certain costs in the retirement and removal of a depreciable asset to conform with Rev. Rul. 2000-7, 2000-1 C.B. 712, or for removal costs in

disposal of a depreciable asset, including a partial disposition, as described under §1.263(a)-3(g)(2)(i).

(b) Inapplicability. This change does not apply to a taxpayer that wants to change its method of accounting for removal costs in the disposal of a component of a unit of property where the disposal of the component is not a disposition for federal tax purposes. To make this change, see section 10.11 of the APPENDIX of this revenue procedure.

(c) Manner of Making Change.

(i) A qualifying taxpayer, as defined in paragraph (ii) below, is required to complete only the following information on Form 3115:

- (A) The identification section of page 1 (above Part I);
- (B) The signature section at the bottom of page 1;
- (C) Part I, line 1(a);
- (D) Part II, all lines except lines 11, 13, 14, 15, and 17;
- (E) Part II, line 13, if the change is to depreciating property;
- (F) Part IV, lines 25 and 26; and
- (G) Schedule E, if applicable.

(ii) The term qualifying taxpayer means a taxpayer whose average annual gross receipts, as determined under § 1.263(a)-3(h)(3), for the three preceding taxable years is less than or equal to \$10,000,000.

.02 New automatic changes.

(1) Rev. Proc. 2011-14 is modified to add new section 10.11 of the APPENDIX, to read as follows:

.11 Tangible property.

(1) Description of change.

(a) Applicability. This change applies to a taxpayer that wants to make a change to a method of accounting specified in section 10.11(3) of this APPENDIX and permitted under:

(i) Section 1.162-3, § 1.162-4, § 1.263(a)-1, § 1.263(a)-2, or § 1.263(a)-3 of the Income Tax Regulations (the final tangible property regulations) for taxable years beginning on or after January 1, 2012;

(ii) Section 1.162-3T, § 1.162-4T, § 1.263(a)-2T, or § 1.263(a)-3T of the temporary Income Tax Regulations (T.D. 9564, 76 Fed. Reg. 81060, as contained in 26 CFR part 1 edition revised as of Apr. 1, 2013) (the temporary tangible property regulations) for a taxable year beginning on or after January 1, 2012, and before January 1, 2014; or

(iii) Section 1.446-1(e)(2)(ii)(d)(2) if the property for which the taxpayer is otherwise changing its method of accounting under this section of the APPENDIX is depreciable under either the present or the proposed method of accounting.

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

(i) A taxpayer that wants to change its method of accounting for dispositions of depreciable property, including a change in the asset disposed of (but see sections 6.29, 6.30, 6.31, 6.33, 6.34, and 6.35 of this APPENDIX);

(ii) Amounts paid or incurred for certain materials and supplies that the taxpayer has elected to capitalize and depreciate under § 1.162-3(d);

(iii) Amounts paid or incurred to which the taxpayer has elected to apply the de



minimis safe harbor under § 1.263(a)-1(f);

(iv) Amounts paid or incurred for employee compensation or overhead that the taxpayer has elected to capitalize under § 1.263(a)-2(f)(2)(iv)(B);

(v) Amounts paid or incurred to which the taxpayer has elected to apply the safe harbor for small taxpayers under § 1.263(a)-3(h);

(vi) Amounts paid or incurred for repair and maintenance costs that the taxpayer has elected to capitalize under § 1.263(a)-3(n); or

(vii) Amounts paid or incurred to facilitate the acquisition or disposition of assets that constitute a trade or business (but see section 10.05 of this APPENDIX).

(2) Certain scope limitations inapplicable.

(a) In general. The scope limitations in section 4.02 of this revenue procedure do not apply to a taxpayer that makes one or more changes in method of accounting under this section of this APPENDIX for any taxable year beginning before January 1, 2015.

(b) Concurrent automatic change. If the taxpayer makes both a change under this section of this APPENDIX and a change to a UNICAP method under section 11.01, 11.02, or 11.09 of this APPENDIX (as applicable) for any taxable year beginning before January 1, 2015, on a single Form 3115 for the same year of change in accordance with section 10.11(5) of this APPENDIX, the scope limitations in section 4.02 of this revenue procedure do not apply to the taxpayer for either change.

(3) Covered Changes. Section 10.11 of this APPENDIX only applies to the following changes in methods of accounting:

(a) Changes under the final tangible property regulations.

(i) A change to deducting amounts paid or incurred to acquire or produce non-

incidental materials and supplies in the taxable year in which they are first used in the taxpayer's operations or consumed in the taxpayer's operations in accordance with §§ 1.162-3(a)(1) and 1.162-3(c)(1);

(ii) A change to deducting amounts to acquire or produce incidental materials and supplies in the taxable year in which paid or incurred in accordance with §§ 1.162-3(a)(2) and 1.162-3(c)(1);

(iii) A change to deducting amounts paid or incurred to acquire or produce non-incidental rotatable and temporary spare parts in the taxable year in which the taxpayer disposes of the parts in accordance with §§ 1.162-3(a)(3) and 1.162-3(c)(2);

(iv) A change to the optional method of accounting for rotatable and temporary spare parts in accordance with § 1.162-3(e);

(v) A change to deducting amounts paid or incurred for repair and maintenance in accordance with § 1.162-4, including a change, if any, in identifying the unit of property under § 1.263(a)-3(e) or, in the case of a building, identifying the building structure or building systems under § 1.263(a)-3(e)(2) for purposes of making the change to deducting the amounts;

(vi) A change to capitalizing amounts paid or incurred for improvements to tangible property in accordance with § 1.263(a)-3 and, if depreciable, to depreciating such property under section 167 or section 168, including a change, if any, in identifying the unit of property under § 1.263(a)-3(e) or, in the case of a building, identifying the building structure or building systems under § 1.263(a)-3(e)(2) for purposes of making the change to capitalizing the amounts;

(vii) A change by a dealer in property to deduct amounts paid or incurred for

commissions and other transaction costs that facilitate the sale of property in accordance with § 1.263(a)-1(e)(2);

(viii) A change by a non-dealer in property to capitalizing amounts paid or incurred for commissions and other costs that facilitate the sale of property in accordance with §1.263(a)-1(e);

(ix) A change to capitalizing amounts paid or incurred to acquire or produce property in accordance with §1.263(a)-2, and if depreciable, to depreciating such property under section 167 or section 168;

(x) A change to deducting amounts paid or incurred in the process of investigating or otherwise pursuing the acquisition of real property if the amounts meet the requirements of § 1.263(a)-2(f)(2)(iii); and

(xi) A change to the optional regulatory accounting method in accordance with § 1.263(a)-3(m) to determine whether amounts paid or incurred to repair, maintain, or improve tangible property are treated as deductible expenses or capital expenditures.

(b) Changes under the temporary tangible property regulations.

(i) A change to deducting amounts paid or incurred to acquire or produce non-incidental materials and supplies in the taxable year in which they are used or consumed in the taxpayer's operations in accordance with §§ 1.162-3T(a)(1) and 1.162-3T(c)(1);

(ii) A change to deducting amounts to acquire or produce incidental materials and supplies in the taxable year in which they are paid or incurred in accordance with §§ 1.162-3T(a)(2) and 1.162-3T(c)(1);

(iii) A change to deducting the amounts paid or incurred to acquire or produce

non-incidental rotatable and temporary spare parts in the taxable year which the taxpayer disposes of the parts in accordance with §§ 1.162-3T(a)(3) and 1.162-3T(c)(2);

(iv) A change to the optional method of accounting for rotatable and temporary spare parts in accordance with § 1.162-3T(e);

(v) A change to deducting amounts paid or incurred for repair and maintenance in accordance with § 1.162-4T, including a change, if any, in identifying the unit of property under § 1.263(a)-3T(e) or, in the case of a building, identifying the building structure or building systems under § 1.263(a)-3T(e)(2) for purposes of making the change to deducting the amounts;

(vi) A change to capitalizing amounts paid or incurred for improvements to tangible property in accordance with § 1.263(a)-3 and, if depreciable, to depreciating such property under section 167 or section 168, including a change, if any, in identifying the unit of property under § 1.263(a)-3(e) or, in the case of a building, identifying the building structure or building systems under § 1.263(a)-3(e)(2) for purposes of making the change to capitalizing the amounts;

(vii) A change by a dealer in property to deduct amounts paid or incurred for commissions and other transaction costs that facilitate the sale of property in accordance with §1.263(a)-1T(d);

(viii) A change by a non-dealer in property to capitalizing amounts paid or incurred for commissions and other costs that facilitate the sale of property in accordance with §1.263(a)-1T(e);

(ix) A change to capitalizing amounts paid or incurred to acquire or produce property in accordance with §1.263(a)-2T, and if depreciable, to depreciating such

property under section 167 or section 168;

(x) A change to deducting amounts paid or incurred in the process of investigating or otherwise pursuing the acquisition of real property if the amounts meet the requirements of § 1.263(a)-2T(f)(2)(iii);

(xi) A change to apply the de minimis rule under § 1.263(a)-2T(g) to amounts paid or incurred to acquire or produce a unit of property; and

(xii) A change to the optional regulatory accounting method in accordance with § 1.263(a)-3T(k) to determine whether amounts paid or incurred to repair, maintain, or improve tangible property are treated as deductible expenses or capital expenditures.

(4) Manner of making change.

(a) Form 3115. In addition to the other information required on line 12 of Form 3115, the taxpayer must include the following:

(i) The citation to the paragraph of the final tangible property regulations or temporary tangible property regulations that provides for the proposed method, or methods, of accounting to which the taxpayer is changing (e.g., § 1.162-3(a), § 1.263(a)-3(i), § 1.263(a)-3(k)); and

(ii) If the taxpayer is changing any unit(s) of property under § 1.263(a)-3(e) (or § 1.263(a)-3T(e)) or, in the case of a building, is changing the identification of any building structure(s) or building system(s) under § 1.263-3(e)(2) (or § 1.263-3T(e)(2)) for purposes of determining whether amounts are deducted as repair and maintenance costs under section § 1.162-4 (or § 1.162-4T) or capitalized as improvement costs under § 1.263(a)-3 (or § 1.263(a)-3T), the taxpayer must include a detailed description of the unit(s) of property, building structure(s), or buildings system(s) used under its

present method of accounting and a detailed description of the unit(s) of property, building structure(s), and building system(s) under its proposed method of accounting, together with a citation to the paragraph of the final regulation or temporary regulation under which the unit of property is permitted.

(iii) A taxpayer changing its method of accounting under this section of the APPENDIX to capitalizing amounts paid or incurred and to depreciating such property under section 167 or section 168, as applicable, must complete Schedule E of Form 3115.

(b) Reduced Filing Requirement for Small Taxpayers.

(i) A qualifying taxpayer, as defined in paragraph (ii) below, is required to complete only the following information on Form 3115:

- (A) The identification section of page 1 (above Part I);
- (B) The signature section at the bottom of page 1;
- (C) Part I, line 1(a);
- (D) Part II, all lines except lines 11, 13, 14, 15, and 17;
- (E) Part II, line 13, if the change is to depreciating property;
- (F) Part IV, lines 25 and 26; and
- (G) Schedule E, if applicable.

(ii) The term qualifying taxpayer means a taxpayer whose average annual gross receipts, as determined under § 1.263(a)-3(h)(3), for the three preceding taxable years is less than or equal to \$10,000,000.

(5) Concurrent automatic change.

(a) A taxpayer that wants to make one or more changes in method of accounting

pursuant to this section 10.11 of the APPENDIX relating to the same identified unit of property or, in the case of a building, the same identified building structure or building system should file such change on the same Form 3115 and provide a single section 481(a) adjustment for all the changes related to the identified property. If one or more changes related to the identified property generate a negative section 481(a) adjustment and other changes related to the same identified property generate a positive section 481(a) adjustment, the taxpayer may provide a single negative section 481(a) adjustment for all the changes related to the identified property generating such negative adjustment and a single positive adjustment for all the changes related to the identified property generating such positive adjustment.

(b) A taxpayer that wants to make both one or more changes in method of accounting pursuant to this section 10.11 of the APPENDIX and a change to a UNICAP method pursuant to the APPENDIX for the same year of change should file a single Form 3115 that includes both changes, in which case the taxpayer must enter the designated automatic accounting method change numbers for both changes on the appropriate line on that Form 3115. For guidance on filing a single application for two or more changes, see section 6.02(1)(b)(ii) of this revenue procedure.

(6) Section 481(a) adjustment.

(a) In general. Except as provided in paragraph 10.11(6)(b) of this APPENDIX, a taxpayer changing to a method of accounting provided in Section 10.11 of this APPENDIX must apply section 481(a) and take into account any applicable section 481(a) adjustment in the manner provided in sections 5.03 and 5.04 of this revenue procedure.

(b) Modified section 481(a) adjustment.

(i) Final tangible property regulations. A taxpayer changing to a method of accounting under § 1.162-3 (except § 1.162-3(e)), § 1.263(a)-2(f)(2)(iii), § 1.263(a)-2(f)(3)(ii), § 1.263(a)-3(m), § 1.263A-1(e)(2)(i)(A), and § 1.263A-1(e)(3)(ii)(E) is required to calculate a section 481(a) adjustment as of the first day of the taxpayer's taxable year of change that takes into account only amounts paid or incurred in taxable years beginning on or after January 1, 2014 ("modified section 481(a) adjustment"). Optionally, a taxpayer may take into account amounts paid or incurred in taxable years beginning on or after January 1, 2012. For guidance on computing a section 481(a) adjustment see sections 5.03 and 5.04 of this revenue procedure.

(ii) Temporary tangible property regulations. A taxpayer changing to a method of accounting under § 1.162-3T (except § 1.162-1T(e)), § 1.263(a)-2T(f)(2)(iii), § 1.263(a)-2T(f)(3)(ii), § 1.263(a)-2T(g), § 1.263(a)-3T(k), § 1.263A-1T(e)(2)(i)(A), and § 1.263A-1T(e)(3)(ii)(E) is required to calculate a section 481(a) adjustment as of the first day of the taxpayer's taxable year of change that takes into account only amounts paid or incurred in taxable years beginning on or after January 1, 2012, for a year of change beginning on or after January 1, 2012, and ending before January 1, 2014 . For guidance on computing a section 481(a) adjustment see sections 5.03 and 5.04 of this revenue procedure.

(c) Itemized listing on Form 3115. A taxpayer changing to a method of accounting provided in section 10.11 of this APPENDIX must include on Form 3115, Part IV, line 25, the total section 481(a) adjustment for each change in method of accounting being made. If the taxpayer is making more than one change in method of



accounting under the final tangible property regulations, the taxpayer must include on an attachment to Form 3115 --

(i) The information required by Part IV, line 25 for each change in method of accounting (including the amount of the section 481(a) adjustment for each change in method of accounting, which includes the portion of the section 481(a) adjustment attributable to UNICAP);

(ii) The information required by Part II, line 12 of Form 3115 that is associated with each change; and

(iii) The citation to the paragraph of the final tangible property regulations or temporary tangible property regulations that provides for each proposed method of accounting.

(d) Repair allowance property. A taxpayer changing to a method of accounting provided by § 1.263(a)-3 of the final tangible property regulations or § 1.263(a)-3T of the temporary tangible property regulations under this section of the APPENDIX must not include in the section 481(a) adjustment any amount attributable to property for which the taxpayer elected to apply the repair allowance under § 1.167(a)-11(d)(2) for any taxable year in which the repair allowance election was made.

(e) Statistical Sampling. Except for a change in accounting method under this section 10.11 of the APPENDIX that requires a modified section 481(a) adjustment, a taxpayer changing its method of accounting under section 10.11 of the APPENDIX may use statistical sampling in determining the section 481(a) adjustment by following the guidance provided in Rev. Proc. 2011-42, 2011-37 I.R.B. 318.

(7) Ogden copy of Form 3115 required in lieu of national office copy. A taxpayer

changing its method of accounting under this section of the APPENDIX must file a signed copy of its completed Form 3115 with the IRS in Ogden, UT (Ogden copy), in lieu of filing the national office copy, no earlier than the first day of the year of change and no later than the date the taxpayer files the original Form 3115 with its federal income tax return for the year of change. If a taxpayer makes both this change and a change to a UNICAP method under section 11.01, 11.02, or 11.09 of this APPENDIX (as applicable) on a single Form 3115 for the same year of change in accordance with section 10.11 of this APPENDIX, the taxpayer must file a signed copy of that completed Form 3115 with the IRS in Ogden, UT (Ogden copy), in lieu of filing the national office copy, no earlier than the first day of the year of change and no later than the date the taxpayer files the original Form 3115 with its federal income tax return for the year of change. See sections 6.02(3)(a)(ii)(B) (providing the general rules) and 6.02(7)(b) (providing the mailing address) of this revenue procedure.

(8) Designated automatic accounting method change number. See the following tables for the designated automatic accounting method change numbers for the changes in method of accounting under section 10.11 of this APPENDIX. See section 6.02(4) of this revenue procedure.

(a) Changes under the final tangible property regulations.

<u>Description of Change</u>	<u>DCN</u>	<u>Citation</u>
A change to deducting amounts paid or incurred for repair and maintenance or a change to capitalizing amounts paid or incurred for improvements to tangible property and, if depreciable, to depreciating such property under section 167 or section 168. Includes a change, if any, in the method of identifying the unit of property, or in the case of a building, identifying the building structure or building systems for the purpose of making this change.	184	§§ 1.162-4, 1.263(a)-3

Change to the regulatory accounting method.	185	§ 1.263(a)-3(m)
Change to deducting non-incidental materials and supplies when used or consumed.	186	§§ 1.162-3(a)(1), (c)(1)
Change to deducting incidental materials and supplies when paid or incurred.	187	§§ 1.162-3(a)(2), (c)(1)
Change to deducting non-incidental rotatable and temporary spare parts when disposed of.	188	§ 1.162-3(a)(3), (c)(2)
Change to the optional method for rotatable and temporary spare parts.	189	§ 1.162-3(e)
Change by a dealer in property to deduct commissions and other transaction costs that facilitate the sale of property.	190	§ 1.263(a)-1(e)(2)
Change by a non-dealer in property to capitalizing commissions and other costs that facilitate the sale of property.	191	§ 1.263(a)-1(e)(1)
Change to capitalizing acquisition or production costs and, if depreciable, to depreciating such property under section 167 or section 168.	192	§ 1.263(a)-2
Change to deducting certain costs for investigating or pursuing the acquisition of real property (whether and which).	193	§ 1.263(a)-2(f)(2)(iii)

(b) Changes under the temporary tangible property regulations.

<u>Description of Change</u>	<u>DCN</u>	<u>Citation</u>
A change to deducting amounts paid or incurred for repair and maintenance or a change to capitalizing amounts paid or incurred for improvements to tangible property and, if depreciable, to depreciating such property under section 167 or section 168. Includes a change, if any, in the method of identifying the unit of property, or in the case of a building, identifying the building structure or building systems for the purpose of making this change.	162	§§ 1.162-4T, 1.263(a)-3T
Change to the regulatory accounting method.	163	§ 1.263(a)-3T(k)(2)
Change to deducting non-incidental materials and supplies when used or consumed.	164	§§ 1.162-3T(a)(1), (c)(1)
Change to deducting incidental materials and supplies when paid or incurred.	165	§§ 1.162-3T(a)(2), (c)(1)
Change to deducting non-incidental rotatable and temporary spare parts when disposed of.	166	§ 1.162-3T(a)(3), (c)(2)

Change to the optional method for rotatable and temporary spare parts.	167	§ 1.162-3T(e)
Change by a dealer in property to deduct commissions and other costs that facilitate sales.	168	§ 1.263(a)-1T(d)(1)
Change to applying the de minimis rule	169	§§ 1.263(a)-2T(g), 1.263A-1T(b)(14)
Change to deducting certain costs for investigating or pursuing the acquisition of real property.	170	§ 1.263(a)-2T(f)(2)(iii)
Change by non-dealer in property to capitalizing commissions and other costs that facilitate sales.	172	§ 1.263(a)-1T(d)(1)
Change to capitalizing acquisition or production costs and, if depreciable, to depreciating such property under section 167 or section 168.	173	§1.263(a)-2T

(9) Contact information. For further information regarding a change under this section, contact Alan S. Williams at 202-317-5100 (not a toll-free call).

(2) Rev. Proc. 2011-14 is modified to add new section 11.09 of the APPENDIX, to read as follows:

.09 Change to a reasonable allocation method described in § 1.263A-1(f)(4) for self-constructed assets.

(1) Description of change.

(a) Applicability. This change applies to a producer (as defined in section 11.01(2)(d) of this APPENDIX) that wants to change to a UNICAP method that uses a reasonable method, within the meaning of § 1.263A-1(f)(4), other than the methods specifically described in § 1.263A-1(f)(2) or (3) to properly allocate direct and indirect costs among units of property produced during the taxable year.

(b) Inapplicability. This change does not apply to an allocation method based on the number of units produced or an allocation method that does not allocate costs to the units of property produced. This change does not apply to a change described in another section of this APPENDIX or in other guidance published in the Internal

Revenue Bulletin. For example, this change does not apply to a change described in section 11.01 or 11.02 of this APPENDIX.

(2) No ruling on reasonableness of method. The consent granted under this revenue procedure for this change is not a determination by the Commissioner that the taxpayer is using a reasonable allocation method for costs subject to section 263A and does not create any presumption that the proposed allocation method is permissible. The director will ascertain whether the taxpayer's allocation method is reasonable within the meaning of § 1.263A-1(f)(4).

(3) Multiple changes. A taxpayer making both this change and another change in method of accounting under section 10.11 of the APPENDIX for the same year of change must comply with the ordering rules of § 1.263A-7(b)(2).

(4) Ogden copy of Form 3115 required in lieu of national office copy. A taxpayer changing its method of accounting under this section 11.09 of the APPENDIX must file a signed copy of its completed Form 3115 with the IRS in Ogden, UT (Ogden copy), in lieu of filing the national office copy, no earlier than the first day of the year of change and no later than the date the taxpayer files the original Form 3115 with its federal income tax return for the year of change. If a taxpayer makes both this change and a change under section 10.11 of this APPENDIX on a single Form 3115 for the same year of change, then the taxpayer must file a signed copy of that completed Form 3115 with the IRS in Ogden, UT (Ogden copy), in lieu of filing the national office copy, no earlier than the first day of the year of change and no later than the date the taxpayer files the original Form 3115 with its federal income tax return for the year of change and in accordance with section 10.11 of this APPENDIX. See sections 6.02(3)(a)(ii)(B)

(providing the general rules) and 6.02(7)(b) (providing the mailing address) of this revenue procedure.

(5) Designated automatic accounting method change number. The designated automatic accounting method change number for a change under section 11.09 of this APPENDIX is “194.” See section 6.02(4) of this revenue procedure.

(6) Contact information. For further information regarding a change under this section, contact Christopher W. Call at 202-317-6970 (not a toll-free call).

(3) Rev. Proc. 2011-14 is modified to add new section 11.10 of the APPENDIX, to read as follows:

.10 Real property acquired through foreclosure.

(1) Applicability. This change applies to a taxpayer that capitalizes costs under section 263A(b)(2) and § 1.263A-3(a)(1) to real property acquired through foreclosure, or similar transaction, where the taxpayer wants to change its method of accounting to an otherwise permissible method of accounting under which the acquisition and holding costs for real property acquired through foreclosure, or similar transaction, are not capitalized under section 263A(b)(2) and § 1.263A-3(a)(1). To qualify for this change in method of accounting, a taxpayer must:

(a) originate, or acquire and hold for investment, loans that are secured by real property; and

(b) acquire the real property that secures the loans at a foreclosure sale, by deed in lieu of foreclosure, or in another similar transaction.

(2) Inapplicability. This change does not apply to costs capitalized under § 263A(b)(1) and § 1.263A-2(a)(1) by the taxpayer to the acquired real property as a

result of production activities.

(3) Certain scope limitations temporarily inapplicable. The scope limitations in sections 4.02(1) through (4) and (7) of this revenue procedure do not apply to a taxpayer making this accounting method change for its first or second taxable year ending after December 31, 2012.

(4) Ogden copy of Form 3115 required in lieu of national office copy. A taxpayer changing its method of accounting under this section 11.10 of the APPENDIX must file a signed copy of its completed Form 3115 with the IRS in Ogden, UT (Ogden copy), in lieu of filing the national office copy, no earlier than the first day of the year of change and no later than the date the taxpayer files the original Form 3115 with its federal income tax return for the year of change. See sections 6.02(3)(a)(ii)(B) (providing the general rules) and 6.02(7)(b) (providing the mailing address) of this revenue procedure.

(5) Designated automatic accounting method change numbers. The designated automatic accounting method change number for a change under section 11.10 of this APPENDIX is “195.”

(6) Contact information. For further information regarding a change under this section, contact Roy Hirschhorn at (202) 317-6970 (not a toll-free call).

#### SECTION 4. EFFECTIVE DATE

.01 In general. Except as provided in section 4.02 of this revenue procedure, this revenue procedure is effective January 24, 2014.

.02 Transition rules. The following transition rules apply:

(1) Form 3115 filed under Rev. Proc. 97-27. If before January 24, 2014, a taxpayer properly filed an application under Rev. Proc. 97-27 requesting consent for a

change in method of accounting described in section 3 of this revenue procedure, and the Form 3115 is pending with the national office on January 24, 2014, the taxpayer may choose to make the change under this revenue procedure if the taxpayer is otherwise eligible under this revenue procedure. The taxpayer must notify the national office of its intent to make the change under this revenue procedure prior to the issuance of a letter ruling granting or denying consent for the change. If the taxpayer timely notifies the national office that it will make the change under this revenue procedure, the national office ordinarily will return the Form 3115 to the taxpayer to make the necessary modifications to comply with the applicable provisions of this revenue procedure and will refund the user fee submitted with the Form 3115.

A Form 3115 that is returned to the taxpayer for necessary modifications will be converted to an application under this revenue procedure if the taxpayer resubmits the Form 3115 with the necessary modifications, along with a copy of the national office letter sent with the returned Form 3115, to the national office within 30 calendar days after the date of the Service's letter returning the Form 3115 to the taxpayer.

(2) Form 3115 filed under Rev. Proc. 2012-19.

(a) General rule. If a taxpayer properly files an application with the IRS in Ogden, UT (Ogden Copy) under Rev. Proc. 2012-19 to make a change in method of accounting described in Rev. Proc. 2012-19 and the application was either post-marked or received by the IRS on or before January 24, 2014, the taxpayer makes the change under Rev. Proc. 2012-19.

(b) Option to file an amended application. If on or before January 24, 2014, a taxpayer properly filed an application under Rev. Proc. 2012-19, the taxpayer may



choose to file an amended application for that year of change under this revenue procedure if, by the due date of the federal income tax return for the year of change (excluding extensions), the taxpayer (i) files an original or amended return using the new method of accounting pursuant to this revenue procedure, (ii) attaches the original amended application filed under this revenue procedure to its original or amended return for the year of change, (iii) writes on the top of page 1 of the Ogden Copy of the amended application "FILED UNDER SECTION 4.02(2) OF REV. PROC. 2014-16"; and (iv) sends the Ogden Copy of the amended application to the following address no later than the date the original amended application is filed with the original or amended return: Internal Revenue Service, 1973 North Rulon White Blvd., Mail Stop 4917, Ogden, UT 84404.

#### SECTION 5. EFFECT ON OTHER DOCUMENTS

.01 Rev. Proc. 2011-14 is modified and clarified.

.02 Rev. Proc. 2012-19 is modified and superseded.

#### SECTION 6. PAPERWORK REDUCTION ACT

The collection of information contained in this revenue procedure has been reviewed and approved by the Office of Management and Budget in accordance with the Paperwork Reduction Act (44 U.S.C. 3507) under control number 1545-1551. An agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless the collection of information displays a valid OMB control number.

The collections of information in this revenue procedure are in section 3. This information is necessary and will be used to determine whether the taxpayer properly

changed to a permitted method of accounting. The collections of information are required for the taxpayer to obtain consent to change its method of accounting. The likely respondents are the following: individuals, farms, business or other for-profit institutions, nonprofit institutions, and small businesses or organizations.

The estimated total annual reporting and/or recordkeeping burden is 9,162.5 hours.

The estimated annual burden per respondent/recordkeeper varies from  $\frac{1}{4}$  hour to  $8\frac{1}{2}$  hours, depending on individual circumstances, with an estimated average of  $1\frac{1}{4}$  hours. The estimated number of respondents is 7,330. The estimated annual frequency of responses is on occasion.

## SECTION 7. DRAFTING INFORMATION

The principal author of this revenue procedure is Alan S. Williams of the Office of Associate Chief Counsel (Income Tax & Accounting). For further information regarding this revenue procedure contact Alan S. Williams at 202-317-5100 (not a toll free call).