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Rev. Proc. 2017-59: Changes in method of accounting, section 481 adjustment period

The IRS today released an advance version of Rev. Proc. 2017-59 that specifies the section 481 adjustment period is 15 tax years with respect to elections under section 404A (treated as changes in method of accounting for purposes of section 481).

Read **Rev. Proc. 2017-59** [PDF 18 KB]

Background

Rev. Proc. 2015-13 provides that a change of method of accounting must follow certain terms and conditions, and that a taxpayer making a change in method of accounting must compute an adjustment pursuant to section 481(a) and take this adjustment into account.

In general (unless otherwise provided to the taxpayer by for example a letter ruling or other IRS guidance), the section 481(a) adjustment period is one tax year (the “year of change”) when the section 481(a) adjustment is negative, and four tax years (the year of change plus the next three tax years) when the section 481(a) adjustment is positive.

Rev. Proc. 2015-13 also provides additional rules for a section 481(a) adjustment, such as when there is a shortened or accelerated adjustment period.

For purposes of section 481, an election under section 404A is treated as a change in method of accounting, for the year when the election is made and the following 14 years.

Rev. Proc. 2017-59

Today's guidance modifies Rev. Proc. 2015-13 to specify that the section 481 adjustment period with respect to an election under section 404A is:

- 15 tax years for a positive section 481(a) adjustment
- 15 tax years for a negative section 481(a) adjustment

Rev. Proc. 2017-59 is effective for Forms 3115 filed under Rev. Proc. 2015-13 on or after November 13, 2017.