TaxNewsFlash

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Rev. Proc. 2018-35: Automatic change, method of accounting for citrus replanting costs

The IRS today released an advance version of Rev. Proc. 2018-35 that provides procedures by which certain taxpayers may obtain automatic consent to change their method of accounting with respect to expensing certain citrus replanting costs.

Rev. Proc. 2018-35 [PDF 19 KB] provides guidance with respect to measures included in the new tax law (Pub. L. No. 115-97, enacted December 22, 2017).

Background

A new provision was added to the Code (section 263A(d)(2)(C)) for certain costs that are paid or incurred after December 22, 2017, and on or before December 22, 2027, to replant citrus plants after loss or damage of the citrus plants by reason of freezing temperatures, disease, drought, pests, or casualty.

Under this special rule for replanting costs paid or incurred after December 22, 2017, but not more than 10 years after the date of enactment (December 22, 2027), for citrus plants lost or damaged due to casualty, the costs may be deducted by a person other than the taxpayer if:

- The taxpayer has an equity interest of at least 50% in the replanted citrus plants and the other person owns the remaining equity interest; or
- The other person acquires all the taxpayer's equity interest in the land on which the citrus plants were located when damaged and replants on that land.

Rev. Proc. 2018-35

Today's revenue procedure modifies and adds to the list of automatic changes under Rev. Proc. 2018-31—that is, the procedures by which a taxpayer may obtain automatic consent from the Commissioner to change to a method of accounting described in Rev. Proc. 2018-31.

Rev. Proc. 2018-35 provides that a taxpayer that wants to change its method of accounting under this revenue procedure must follow the automatic change procedures in Rev. Proc. 2018-31 as modified to include new provision 12.15: *Change to not apply section 263A to replanting costs for lost or damaged citrus plants pursuant to section 263A(d)(2)(C).*