



TaxNewsFlash

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Rev. Proc. 2018-44: Accounting method change, “eligible terminated S corporation” (new tax law)

The IRS today released an advance version of Rev. Proc. 2018-44 that provides guidance for “eligible terminated S corporations” that, because the S corporation election is terminated or revoked, realize a positive or negative adjustment on changing from the overall cash method of accounting to the overall accrual method.

[Rev. Proc. 2018-44](#) [PDF 23 KB] provides guidance for implementing section 481(d) as added to the Code by the new U.S. tax law (Pub. L. No. 115-97, enacted December 22, 2017).

Today’s revenue procedure also modifies the “list of automatic changes” as currently provided by Rev. Proc. 2018-31.

Background

The new tax law added section 481(d) to the Code, as a provision that relates to accounting method changes required as a result of an S corporations’ conversion to a C corporation. Under this measure, in the event of an eligible terminated S corporation, any section 481(a) adjustment arising from an accounting method change attributable to the corporation’s revocation of its S corporation election is to be taken into account ratably during the six-year period (tax years) beginning with the year of the method change (as opposed to the normal four-year spread for positive adjustments, and one-year pick up for negative adjustments).

Rev. Proc. 2018-44

Today’s revenue procedure provides rules relating to adjustments that are attributable to certain revocations of S corporation elections. It also modifies Rev. Proc. 2018-31—i.e., the current guidance on automatic consent of the Commissioner to a change in method of accounting for certain taxpayers that want to change their overall method of

accounting from the cash method to an accrual method, including taxpayers required to make this change under section 448.

Rev. Proc. 2018-44 provides that an “eligible terminated S corporation” required to change from the cash method to an accrual method as a result of a revocation of its S corporation election and that makes this change in method of accounting under a provision of Rev. Proc. 2018-31 for the first tax year that it is a C corporation, must take the resulting positive or negative adjustment required by section 481(a)(2) into account ratably during the six-year period beginning with the year of change.

Rev. Proc. 2018-44 also allows an eligible terminated S corporation that is permitted to continue to use the cash method after the revocation of its S corporation election, and that changes to an accrual method pursuant to Rev. Proc. 2018-31 for the first tax year that it is a C corporation, to optionally take the resulting positive or negative adjustment required by section 481(a)(2) into account ratably during the six-year period beginning with the year of change.

This guidance applies to adjustments under section 481(a)(2) that result from an eligible terminated S corporation’s change to an overall accrual method of accounting in the C corporation’s first tax year after the revocation of the S corporation election when the revocation occurs during the first two-year period beginning on December 22, 2017 (the date of enactment of the new tax law).

In addition to the change to an accrual method (as described by Rev. Proc. 2018-31), an eligible terminated S corporation may have other changes in method of accounting that result in adjustments required by section 481(a) that are attributable to its revocation of its S corporation election. Today’s release states that: “Any such change is not within the scope of this revenue procedure.”

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