



# TaxNewsFlash

## United States



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## Rev. Proc. 2022-14: List of automatic changes, accounting methods

The IRS today released an advance version of Rev. Proc. 2022-14 providing an updated list of automatic changes to which the automatic change procedures of Rev. Proc. 2015-13 (as clarified and modified by subsequent revenue procedures) apply.

Read [Rev. Proc. 2022-14](#) [PDF 1.7 MB] (454 pages)

The purpose of this report is to provide text of today's revenue procedure.

### Significant changes

According to today's revenue procedure, the following are among the "significant changes" to the list of automatic changes since the issuance of Rev. Proc. 2019-43 (the references below to "Section" with an upper case "S" are to the provisions of Rev. Proc. 2022-14 or to provisions of prior revenue procedures):

- Section 20.01, relating to a taxpayer changing its timing of incurring liabilities for employee compensation, is modified to add new paragraph (4) which allows a taxpayer using an overall accrual method of accounting to change its method of accounting for taking into account certain employee commission liabilities.
- Section 6.01, relating to impermissible to permissible depreciation method changes, is modified by removing language in paragraph (1)(c)(viii) and paragraph (1)(c)(xvii) allowing a Form 3115 to be filed under 6.01 for certain changes described in Sections 6.04, 6.05 and/or 6.19 of Rev. Proc. 2022-14 if the original Form 3115 was filed between specified dates beginning and ending before January 31, 2022 (the "drop date") because this language is obsolete.
- Section 6.18, relating to late elections or revocation of elections under section 168(k)(5), (7), and (10), is modified to clarify the waiver of the eligibility rules in Sections 5.01(1)(d) and (f) of Rev. Proc. 2015-13 applies for the taxpayer's first, second, or third tax year succeeding the taxpayer's tax year beginning in 2016 or 2017 and ending on or after September 28, 2017.

- Section 6.19, relating to changes for qualified improvement property placed in service after December 31, 2017, is modified by removing language in paragraph (2) providing for a waiver of the eligibility rules in Section 5.01(d) and Section 5.01(f) of Rev. Proc. 2015-13 for changes made under Section 6.19 for a tax year for which the original Form 3115 was filed between specified dates beginning and ending before January 31, 2022 (the drop date) because this language is obsolete.
- Section 6.20, relating to certain late elections or revocations of elections under sections 168 and 1502, is modified by removing language in paragraph (2) requiring a changes under 6.20(1)(a)(i) and (a)(ii) and (b)(i) and (b)(ii) to be made for a tax year for which the taxpayer timely files an original federal income tax return between specified dates beginning and ending before January 31, 2022 (the drop date) because this language is obsolete. Section 6.20 is further modified by removing language in paragraph (3) providing for a waiver of the eligibility rules under Section 5.01(d) and Section 5.01(f) of Rev. Proc. 2015-13 for changes made under Section .20(1)(a)(i) and (a)(ii) and (b)(i) and (b)(ii) for a tax year for which the taxpayer timely files an original federal income tax return between specified dates beginning and ending before January 31, 2022 (the drop date) because this language is obsolete.
- Section 6.21, relating to changes in depreciation as a result of applying the additional first year depreciation regulations, is modified by removing language in paragraph (2)(b) providing of a waiver of the eligibility rule in Section 5.01(f) of Rev. Proc. 2015-13 for a change for the property or specified plant within the scope of Section 4 of Rev. Proc. 2020-50 as modified by Section 6.21(1)(b) of Rev. Proc. 2022-14 when the taxpayer files an original federal income tax return between specified dates beginning and ending before January 31, 2022 (the drop date) because this language is obsolete.
- Section 6.21, relating to a change in depreciation as a result of applying the additional first year depreciation regulations, is modified to clarify paragraph (3)(b) as follows.
  - First, an amended federal income tax return, or AAR, as applicable, to change from the impermissible method of determining depreciation to the permissible method of determining depreciation for the one-year property or one-year plant must be filed prior to the date the taxpayer files its federal income tax return for the tax year succeeding the one-year property's placed-in-service year or one-year plant's planting or grafting year, as applicable.
  - Second, if the one-year property or one-year plant is within the scope of Section 4.03 of Rev. Proc. 2020-50, as modified by Section 6.21(1)(b) of Rev. Proc. 2022-14, the taxpayer may change from the impermissible method of determining depreciation to the permissible method of determining depreciation for the one-year property or one-year plant by filing an amended federal income tax return, or AAR, as applicable, in accordance with Section 4.03(4)(a) of Rev. Proc. 2020-50.
- Section 6.22, relating to depreciation of tangible property under section 168(g) by controlled foreign corporations, is modified to require any section 481(a) adjustment (or component of a section 481(a) adjustment) from a change under this section that shares all of the same characteristics as any other section 481(a) adjustment (or component) from a change under this section included in the same Form 3115 to be provided as a single section 481(a) adjustment on the Form 3115, and any section 481(a) adjustment (or component) from a change under this section that does not share all of the same characteristics as any other section 481(a) adjustment (or component) from a change under this section included in the same Form 3115 to be provided as a separate section 481(a) adjustment on the Form 3115.
- Section 7.01, relating to a change in method of accounting for the treatment of expenditures that qualify as research and experimental expenditures under section 174 as in effect prior to amendment by a provision of the "Tax Cuts and Jobs Act" (TCJA) is modified to provide that

Section 7.01 does not apply to any amount paid or incurred in any tax year for which section 174 as amended by the TCJA is in effect.

- Section 9.01, relating to a change in method of accounting for the costs of computer software to a method described in Rev. Proc. 2000-50, as modified by Rev. Proc. 2007-16, is modified to provide that Section 5 of Rev. Proc. 2000-50 (costs of developing computer software) does not apply to any amount paid or incurred in any tax year for which section 174 as amended by the TCJA is in effect.
- Section 12.01, relating to certain uniform capitalization (UNICAP) methods used by resellers and reseller-producers, is modified as follows.
  - First, to provide that Section 12.01 applies to a taxpayer that uses a historic absorption ratio election with the simplified production method, the modified simplified production method, or the simplified resale method and wants to change to a different method for determining the additional section 263A costs that must be capitalized to ending inventories or other eligible property on hand at the end of the tax year (that is, to a different simplified method or a facts-and-circumstances method).
  - Second, to remove the transition rule in Section 12.01(1)(b)(iii)(B) because this language is obsolete.
- Section 12.02, relating to certain uniform capitalization (UNICAP) methods used by producers and reseller-producers, is modified as follows.
  - First, to provide that Section 12.02 applies to a taxpayer that uses a historic absorption ratio election with the simplified production method or the modified simplified production method and wants to change to a different method for determining the additional section 263A costs that must be capitalized to ending inventories or other eligible property on hand at the end of the tax year (that is, to a different simplified method or a facts-and-circumstances method).
  - Second, to remove the transition rule in Section 12.02(1)(b)(ii)(B) because this language is obsolete.
- Section 12.14, relating to interest capitalization, is modified to provide that Section 12.14 does not apply to a taxpayer that wants to change its method of accounting for interest from either capitalizing interest to not capitalizing interest or not capitalizing interest to capitalizing interest for improvements that involve the associated property rules in Reg. section 1.263A-11(e)(1)(ii)(B).
- Section 13.01, relating to a taxpayer changing its method of accounting to comply with section 267, is clarified to provide such section also applies to a taxpayer that, by reason of the exception in Reg. section 1.267(a)-3(c)(4), wants to change its method of accounting with respect to the deduction of amounts owed to a controlled foreign corporation (CFC, as defined in section 957) that does not have any United States shareholders (as defined in section 951(b)) owning stock of the CFC within the meaning of section 958(a).
- Section 15.10, relating to a specified transportation industry taxpayer that wants to change to the overall cash receipts and disbursement (cash) method, has been modified to provide that such taxpayer must have average annual gross receipts of more than the inflation-adjusted amount provided in section 448(c)(4) and not in excess of \$50 million.
- Section 15.17, relating to a change to the overall cash method or to a method of accounting in which a small business taxpayer uses an accrual method for purchases and sales of inventories and uses the cash method for computing all other items of income and expense, is modified to clarify that the acceleration of a section 481(a) adjustment remaining on a prior overall change in method of accounting to an accrual method, as provided in Section 15.17(7)(a) of Rev. Proc. 2022-

14, applies to a taxpayer making a change described in Section 15.17(2)(a) or (b) of Rev. Proc. 2022-14.

- Section 16.10 (formerly Section 16.12 of Rev. Proc. 2019-43, as modified by Rev. Proc. 2021-34), relating to changes in the timing of income recognition under section 451(b) and (c), is modified as follows.
  - First, paragraph 16.10(4)(b)(ii)(C) is modified to provide that a taxpayer making a change to the full inclusion method under Prop. Reg. section 1.451-8(a) is not permitted to make the change on a cut-off basis.
  - Second, paragraph 16.10(5) is modified to provide that a change made under Section 16.10(2)(a)(iii)(A), (B), (F) and/or (G), Section 16.10(2)(a)(iv)(A), (B), (C), (G) and/or (H), or Section 16.10(2)(b)(ii)(A), (B), and/or (F) will be disregarded for purposes of Section 5.01(1)(f) of Rev. Proc. 2015-13 if: (1) the change is made for the taxpayer's early application year, as defined in Section 16.10(4)(c)(i) or, in the case of a taxpayer that does not apply Reg. section 1.451-3 and/or Reg. section 1.451-8 for a tax year beginning before January 1, 2021, for the taxpayer's first tax year beginning on or after January 1, 2021, and (2) the section 481(a) adjustment required to implement the change is zero.
- Section 16.10 (formerly Section 16.12 of Rev. Proc. 2019-43, as modified by Rev. Proc. 2021-34) is clarified to provide (1) an example on how the five-year item eligibility rule in Section 5.01(1)(f) of Rev. Proc. 2015-13 applies to changes made under Section 16.10 and (2) the situations in which the cost-offset related inventory method changes in Sections 16.10(2)(a)(iii)(E), 16.10(2)(a)(iv)(F), and 16.10(2)(b)(ii)(E) apply, and to provide guidance regarding the ordering of concurrent cost-offset and cost-offset related inventory method changes.
- Section 20.01, relating to a taxpayer changing its timing of incurring liabilities for employee compensation, is modified to provide paragraph (1) does not include any amounts for medical services that are deferred compensation under section 404.
- Section 20.12, relating to an accrual method taxpayer changing its treatment of "ratable service contracts" to conform to the safe harbor method provided by Rev. Proc. 2015-39, is modified to remove paragraph (2), relating to the temporary waiver of the eligibility rule in Section 5.01(1)(f) of Rev. Proc. 2015-13, because the paragraph is obsolete.
- Section 22.18, relating to a small business taxpayer, as defined in Section 22.18(2) of Rev. Proc. 2022-14, that wants to change its section 471 method of accounting for inventory, is modified to add paragraph 22.18(5)(c), providing that a change made under Section 22.18(1)(b) of Rev. Proc. 2022-14 will be disregarded for purposes of Section 5.01(1)(f) of Rev. Proc. 2015-13 if: (1) the change is made for the taxpayer's early application year, as defined in Section 16.10(4)(c)(i) or, in the case of a taxpayer that does not apply Reg. section 1.471-1(b) for a tax year beginning before January 5, 2021, for the taxpayer's first tax year beginning on or after January 5, 2021, and (2) the section 481(a) adjustment required to implement the change is zero.
- Section 26.04, relating to a change in basis of computing reserves under section 807(f), is modified as follows.
  - First, paragraphs (2)(a) and (b) are modified to clarify the manner in which a nonlife insurance company implements a change in basis of computing life insurance reserves, to require the netting of section 481(a) adjustments at the level of each item referred to in section 807(c), and to provide that a taxpayer that was an insurance company for the year of change does not accelerate a section 481(a) adjustment merely because it changes from a life insurance company to a non-life insurance company or vice versa.

- o Second, paragraph (2)(d)(i), relating to the information required to be furnished with a taxpayer's return or on Form 3115, is removed because Reg. section 1.801-5(c) has been removed by final regulations (T.D. 9911, November 2, 2020).

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