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Rev. Proc. 2023-9: New rules and conditions for implementing alternative cost method for real estate developers

The IRS today released an advance version of [Rev. Proc. 2023-9](#) [PDF 232 KB] that obsoletes Rev. Proc. 92-29, and provides new rules and conditions for implementing the optional safe harbor method of accounting (“Alternative Cost Method”) for real estate developers to determine when common improvement costs may be included in the basis of individual units in a real property development project for purposes of determining the gain or loss from sales of those units.

Under Rev. Proc. 2023-9, the Alternative Cost Method is a method of accounting under sections 446 and 481 and is an alternative to the general requirements under section 461(h).

Under the Alternative Cost Method, a real estate developer includes the share of the estimated cost of common improvements allocable to the units sold in the basis of such units regardless of whether the costs have been incurred under section 461(h), subject to the alternative cost limitations set forth in Rev. Proc. 2023-9.

Rev. Proc. 2023-9 also provides guidance on the application of the Alternative Cost Method to contracts accounted for under section 460 and the regulations thereunder.

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