



TaxNewsFlash

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Notice 2024-12 and Rev. Proc. 2024-9: Modified guidance on application of section 174

The IRS today released [Notice 2024-12](#) [PDF 189 KB], which clarifies and modifies Notice 2023-6, which announced that the Treasury Department and IRS intend to issue proposed regulations addressing:

- The capitalization and amortization of specified research or experimental (SRE) expenditures under section 174 as amended by Pub. L. No. 115-97 (commonly referred to as the “Tax Cuts and Jobs Act” (TCJA))
- The treatment of SRE expenditures under section 460
- The application of section 482 to cost sharing arrangements involving SRE expenditures

Notice 2024-12 clarifies and modifies Notice 2023-63 (read [TaxNewsFlash](#)) regarding:

- The treatment of costs paid or incurred by a research provider for research performed under contract, to clarify that a research provider would not have SRE expenses if it is not at risk, and any rights it acquires are separately bargained for
- The requirement that a taxpayer that chooses to rely on any of the rules described in Notice 2023-63 must rely on all the rules described in sections 3 through 9 of the notice, and waives that requirement
- The obsolescence of section 5 of Rev. Proc. 2000-50

Rev. Proc. 2024-9

The IRS today released [Rev. Proc. 2024-9](#) [PDF 107 KB] that modifies sections 7 and 19 of Rev. Proc. 2023-24 (providing an updated annual list of automatic accounting method changes) to provide procedures under section 446 and Treas. Reg. § 1.446-1(e) for obtaining automatic consent of the IRS Commissioner to change methods of accounting for expenditures paid or incurred in tax years beginning after December 31, 2021, in reliance on interim guidance under sections 174 and 460 provided in Notice 2023-63, as modified by Notice 2024-12.

Rev. Proc. 2024-9 also clarifies section 9 of Rev. Proc. 2023-24 to provide that section 5 of Rev. Proc. 2000-50 is obsoleted for costs of developing computer software paid or incurred in any tax year beginning after December 31, 2021, and continues to apply to costs of developing computer software paid or incurred in any tax year beginning on or before December 31, 2021.

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The new revenue procedure:

- Waives 5-years scope restriction against automatic changes for 2023 changes
- Makes it explicit that changes from SRE treatment to non-SRE changes are in scope
- Provides audit protection for 2022 if the taxpayer made a change for 2022
- Permits section 460 changes for the numerator and denominator and not require the cutoff method based only on new contracts and permit a 481 adjustment for post-2021 costs
- Provides that the prior procedures for the treatment of pre-2022 software development costs remain available for such pre-2022 costs

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