



TaxNewsFlash

United States

No. 2018-533
November 29, 2018

Rev. Proc. 2018-60: Automatic consent procedures, method of accounting changes for timing of revenue recognition

The IRS today released an advance version of Rev. Proc. 2018-60 that taxpayers may follow to obtain automatic consent to change to a method of accounting for the timing of recognition of revenue in order to comply with section 451(b), as amended by the new U.S. tax law (Pub. L. No. 115-97, enacted December 22, 2017, and referred to as the “Tax Cuts and Jobs Act” or TCJA).

Read [Rev. Proc. 2018-60](#) [PDF 68 KB]

Background

Code section 451(b), as amended by the TCJA, requires accrual method taxpayers to recognize amounts in revenue no later than when such an item is taken into account in the taxpayer’s applicable financial statements (AFS). The amendment applies beginning with a taxpayer’s first tax year beginning after December 31, 2017, except for provisions related to original issue discount (OID) which apply to tax years beginning after December 31, 2018.

FASB ASC 606, *Revenue from Contracts with Customers*, (“new standards”) provides new financial accounting standards for revenue recognition. Rev. Proc. 2018-29, as modified by Rev. Proc. 2018-49 permitted automatic method changes for taxpayers that want to change their method of accounting for the recognition of income to a method that uses the new standards under ASC 606 for identifying performance obligations, allocation transaction price to performance obligations, and/or consider performance obligations satisfied. This guidance permitted an automatic method change for the year in which ASC 606 is adopted for financial accounting purposes.

Rev. Proc. 2018-60

Rev. Proc. 2018-60 provides automatic procedures by which taxpayers may comply with the TCJA amendments to section 451. Prior to the release of this guidance, many changes to a method of accounting for the timing of recognition of revenue were treated as non-automatic method changes. The new automatic method change added by Rev. Proc. 2018-60 applies to:

- An accrual method taxpayer with an AFS that wants to change its method of accounting for the recognition of income no later than when it is taken into account as revenue in its AFS, or
- An accrual method taxpayer with an AFS that is not adopting ASC 606 in the year of change and wants to allocate the transaction price to performance obligations under section 451(b)(4)

Form 3115

Taxpayers are permitted to file a “short” Form 3115, *Application for Change in Accounting Method*. See Section 16.12(4)(a) of Rev. Proc. 2018-31, as modified by Rev. Proc. 2018-60 for specific information required.

A taxpayer is not required to file the duplicate copy with the IRS in Covington, KY. The eligibility requirements prohibiting a method change for the same item in five tax years ending with the year of change are waived for the first, second, or third tax year beginning after December 31, 2017 (beginning after December 31, 2018, for changes involving OID). A taxpayer wishing to make a change under these procedures and a change to adopt the new standards under Rev. Proc. 2018-29, as modified by Rev. Proc. 2018-49, is permitted to file the changes on a single Form 3115.

Streamlined method change procedures

This permit a taxpayer to make a change in method of accounting in the first tax year beginning after December 31, 2017, **without** filing Form 3115. Taxpayers will only be eligible to use the streamlined method change procedures if they are considered a small business taxpayer (average annual gross receipts for the three prior tax years of \$25 million or less) or the adjustment under section 481(a) required by the change is zero (\$0). However, taxpayers using the streamlined method change procedures do not receive audit protection for the method being changed. The eligibility requirements prohibiting a method change for the same item in five tax years ending with the year of change are waived for the first tax year beginning after December 31, 2017.

Change in overall method

In addition, Rev. Proc. 2018-60 modifies the procedures for a change in a taxpayer’s overall method from the cash method to an accrual method, permitting a taxpayer to make such a change for a tax year ending after December 31, 2017, to comply with

section 451 as modified by the TCJA. The eligibility requirements prohibiting a method change for the taxpayer's overall method in the five tax years ending with the year of change are waived for the taxpayer's first, second, or third tax year beginning after December 31, 2017. A single Form 3115 may be filed for the change from the cash method to accrual method and a concurrent change to adopt the new standards pursuant to Rev. Proc. 2018-29, as modified by Rev. Proc. 2018-49.

Effective date

Rev. Proc. 2018-60 is effective for tax years beginning after December 31, 2017.

The procedures provide that if a taxpayer has a pending Form 3115 with the National Office that was filed on or before November 29, 2018, requesting consent under the non-automatic change procedures for an item that would be eligible for the automatic change procedures described above, the form and user fee will be returned to the taxpayer.

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