



# TaxNewsFlash

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## Proposed regulations: Simplified accounting for small businesses, long-term contracts (text of regulations)

The U.S. Treasury Department and IRS today released for publication in the Federal Register a notice of proposed rulemaking (REG-132766-18) as guidance to implement legislative changes to sections 263A, 448, 460, and 471 made by the 2017 tax law (Pub. L. No. 115-97, the law that is often referred to as the “Tax Cuts and Jobs Act” (TCJA)).

The [proposed regulations](#) [PDF 386 KB] include guidance implementing these following changes made by the 2017 tax law:

- Simplifying the application of tax accounting provisions for certain businesses having average annual gross receipts not exceeding \$25 million (adjusted for inflation)
- Certain special accounting rules for long-term contracts under section 460 for corporate taxpayers

According to a related IRS release—[IR-2020-174](#)—for tax years beginning in 2019 and 2020, simplified tax accounting rules apply for taxpayers having inflation-adjusted average annual gross receipts of \$26 million or less (known as the gross receipts test). Prior to the TCJA, certain taxpayers could determine whether they were eligible to determine their taxable income under the cash method of accounting by meeting a different gross receipts test—that gross receipts test was met if the taxpayer’s average annual gross receipts for all prior tax years did not exceed \$5 million. After the TCJA, a taxpayer satisfying the gross receipts test can use the cash method if average annual gross receipts for the three-tax year period ending immediately before the current tax year are \$25 million (adjusted for inflation) or less.

The TCJA also exempted taxpayers meeting the gross receipts test from the uniform capitalization rules. The 2017 tax law added an exception to the requirement to use an inventory method if the inventory is treated as non-incident materials and supplies, or in accordance with the applicable financial statement (AFS). If the taxpayer does not have an AFS, the taxpayer can use its books and records. The proposed regulations issued today implement these statutory changes and provide clarifying definitions.

Also, today's proposed regulations provide guidance for small businesses with long-term construction contracts and the requirements for the exemption from the percentage-of-completion method and the uniform capitalization rules. For taxpayers with income from long-term contracts reported under the percentage-of-completion method, the proposed regulations provide guidance for applying the look-back method after repeal of the corporate alternative minimum tax and enactment of the base erosion and anti-abuse tax (BEAT).

The purpose of this report is to provide text of these regulations.

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