Part III - Administrative, Procedural, and Miscellaneous

Request for Comments Regarding New Financial Accounting Standards Board and International Accounting Standards Board Revenue Recognition Standards

Notice 2015-40

PURPOSE

This notice invites comments regarding the effect on taxpayers' methods of accounting of new financial accounting revenue recognition standards, titled "Revenue from Contracts with Customers," announced by the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB).

BACKGROUND

Section 446(a) of the Internal Revenue Code and § 1.446-1(a)(1) of the Income Tax Regulations provide that taxable income is computed under the method of accounting the taxpayer regularly uses to compute income in keeping the taxpayer's books. Section 1.446-1(a)(4) requires a taxpayer to maintain accounting records that include the taxpayer's regular books of account and other records and data necessary to support the entries on the taxpayer's books of account and on the taxpayer's return.

Under § 451, a taxpayer using an accrual method of accounting accrues income when the right to receive income is fixed and the amount can be determined with reasonable accuracy (the all events test). See § 1.451-1(a).

In a joint announcement on May 28, 2014, the FASB and the IASB announced new financial accounting standards for recognizing revenue (new standards). See FASB Update No. 2014-09, "Revenue from Contracts with Customers (Topic 606)," and IASB International Financial Reporting Standard (IFRS) 15, "Revenue from Contracts with Customers."

The new standards for the timing of income for financial accounting purposes may affect the timing of income for tax accounting purposes for many taxpayers, such as taxpayers (1) presently using the percentage of completion method, (2) deriving income from the provision of services, (3) engaging in bill and hold transactions for the sale of goods, (4) accounting for sales and returns of goods, and (5) earning income from warranties. The new standards may affect some industries more than others. Commenters on the new standards have noted that the software, entertainment, manufacturing, and construction industries may be particularly affected because the new standards may change the timing of income recognition for financial accounting purposes significantly for these industries.

Accounting method changes for federal income tax purposes require the permission of the Internal Revenue Service (IRS). The new standards raise a number of substantive and procedural issues for the IRS, including whether the new standards are permissible methods of accounting for federal income tax purposes, the types of accounting method change requests that will result from adopting the new standards, and whether the current procedures for obtaining IRS consent to change a method of accounting are adequate to accommodate those requests. See section 2.03(1) & (2) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419.

REQUEST FOR COMMENTS

Adoption of the new standards may create or increase differences between financial accounting and tax accounting rules. The Treasury Department and the IRS are considering whether to issue guidance on the new standards and request public comments on the scope, substance, and form of guidance needed.

Comments are requested on issues of conformity between the new standards and the Code. Specific comments are requested on the following issues:

1. To what extent do the new standards deviate from the requirements of § 451? How may they affect deferral of income?

2. What industry and/or transaction-specific issues may arise as a result of the new standards that might be addressed in future guidance?

3. What types of changes in methods of accounting do taxpayers anticipate requesting?

4. Do taxpayers anticipate requesting changes in methods of accounting prior to the effective dates of the new standards?

5. Should taxpayers be required to use the automatic consent accounting method change procedures or the advance consent procedures to request permission to change a method of accounting under the new standards, and why?

6. Which accounting method changes under the new standards, if any, should be allowed using a cut-off method instead of a § 481(a) adjustment, and why?

7. Will advance or automatic consent procedures or other procedural guidance (such as Rev. Proc. 2004-34, 2004-22 I.R.B. 991) need to be modified and if so, how?

8. What transition procedures may be helpful?

9. What related accounting method changes do taxpayers anticipate requesting that may appropriately be made on a single Form 3115, *Application for Change in Accounting Method*?

Comments should be submitted in writing on or before September 16, 2015. Comments should be sent to the following address:

Internal Revenue Service
CC:PA:LPD:PR (Notice 2015-40)
P.O. Box 7604
Ben Franklin Station
Washington, DC 20044

Comments may be hand delivered to:

Courier's Desk
Internal Revenue Service
1111 Constitution Avenue, NW
Washington, DC 20224
CC:PA:LPD:PR (Notice 2015-40)

Comments also may be sent electronically to notice.comments@irscounsel.treas.gov. Please include "Notice 2015-40" in the subject line.

All comments will be available for public inspection.

DRAFTING INFORMATION

The principal author of this notice is Charles Gorham of the Office of Associate Chief Counsel (Income Tax & Accounting). For further information regarding this notice contact Mr. Gorham at (202) 317-5091 (not a toll-free call).