26 CFR 601.204: Changes in accounting periods and in methods of accounting.
(Also: §§ 446, 451; 1.446-1, 1.451-1.)

Rev. Proc. 2013-29

SECTION 1. PURPOSE

This revenue procedure allows a taxpayer to defer recognizing in gross income certain advance payments received from the sale of gift cards that are redeemable for goods or services by an unrelated entity. This revenue procedure modifies and clarifies Rev. Proc. 2011-18, 2011-5 I.R.B. 443, which modified and clarified Rev. Proc. 2004-34, 2004-1 C.B. 991.

SECTION 2. BACKGROUND

.01 Under the deferral method of accounting in section 5.02 of Rev. Proc. 2004-34, an accrual method taxpayer that receives an advance payment for goods or services must include the advance payment in gross income in the taxable year of receipt to the extent recognized in revenues in the taxpayer's applicable financial statement (as defined in section 4.06 of Rev. Proc. 2004-34) for that taxable year. For a taxpayer without an applicable financial statement, an advance payment must be included in gross income to the extent earned in the taxable year of receipt. Any portion not included in gross income in the year of receipt must be included in gross income in the next succeeding taxable year.

.02 Rev. Proc. 2011-18 allows a taxpayer that sells an eligible gift card redeemable through another entity (that may or may not be related to the taxpayer) to use the deferral method of accounting. See section 3.02 of Rev. Proc. 2011-18, which expands the definition of advance payment in section 4.01 of Rev. Proc. 2004-34 to include an “eligible gift card sale.”

.03 To qualify as an advance payment, the payment must be recognized by the taxpayer (in whole or part) in revenues in its applicable financial statement for a subsequent taxable year, or, for taxpayers without an applicable statement, the payment must be earned by the taxpayer (in whole or part) in a subsequent taxable year. See section 4.01(2) of Rev. Proc. 2004-34.

.04 However, if a gift card is redeemed by an unrelated entity whose financial statement revenues are not consolidated with the taxpayer’s revenues on the taxpayer’s applicable financial statement, the taxpayer will never recognize any portion of the gift card sale proceeds in revenues in its applicable financial statement because that revenue is accounted for only by the unrelated redeeming entity upon the sale of goods or services. Similarly, for a taxpayer without an applicable financial statement, the payment is never earned by the taxpayer because the payment is earned by the unrelated redeeming entity.

.05 The Treasury Department and the Internal Revenue Service have concluded that a taxpayer should not be precluded from using the deferral method of accounting provided in section 5.02 of Rev. Proc. 2004-34 solely because the taxpayer never recognizes in revenues in its applicable financial statement payments from an eligible gift card sale, or, for taxpayers without an applicable financial statement, never earns payments from an eligible gift card sale.

SECTION 3. MODIFICATION TO REV. PROC. 2011-18

Section 4.07 of Rev. Proc. 2004-34, as added by section 3.02 of Rev. Proc. 2011-18, is modified to add two new sentences. As modified, this provision will read in its entirety as follows:

.07 Eligible Gift Card Sale. An eligible gift card sale is the sale of a gift card (or gift certificate) if: (1) the taxpayer is primarily liable to the customer (or holder of the gift card) for the value of the card until redemption or expiration, and (2) the gift card is redeemable by the taxpayer or by any other entity that is legally obligated to the taxpayer to accept the gift card from a customer as payment for items listed in sections 4.01(3)(a)-(j) of this revenue procedure. For purposes of sections 4.01(2), 5.02(1)(b)(i), and 5.02(3)(a) of this revenue procedure, if a gift card is redeemable by an entity described in this section 4.07 whose financial results are not included in the taxpayer's applicable financial statement, a payment will be treated as recognized by the taxpayer in revenues in its applicable financial statement to the extent the gift card is redeemed by the entity during the taxable year. For a taxpayer without an applicable financial statement, for purposes of sections 4.01(2), 5.02(1)(b)(ii), and 5.02(3)(b) of this revenue procedure, if a gift card is redeemable by an entity described in this section 4.07, including an entity whose financial results are not included in the taxpayer's financial statement, a payment will be treated as earned by the taxpayer to the extent the gift card is redeemed by the entity during the taxable year.

SECTION 4. EFFECTIVE DATE

The modification in this revenue procedure will be treated as in effect as of the effective date of Rev. Proc. 2011-18: taxable years ending on or after December 31, 2010.

SECTION 5. AUDIT PROTECTION

For taxable years ending before December 31, 2010, the modification set forth in section 3 of this revenue procedure shall be treated as originally included in section 3.02 of Rev. Proc. 2011-18, and thus eligible for audit protection to the extent provided in section 5 of Rev. Proc. 2011-18.

SECTION 6. EFFECT ON OTHER DOCUMENTS

Rev. Proc. 2011-18, modifying and clarifying Rev. Proc. 2004-34, is modified and clarified.

SECTION 7. DRAFTING INFORMATION

The principal author of this revenue procedure is Elizabeth R. Binder of the Office of Associate Chief Counsel (Income Tax & Accounting). For further information regarding this revenue procedure contact Elizabeth R. Binder at (202) 622-5020 (not a toll free call).