Internal Revenue
bulletin

Bulletin No. 2014–12
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HIGHLIGHTS OF THIS ISSUE

These synopses are intended only as aids to the reader in identifying the subject matter covered. They may not be relied upon as authoritative interpretations.

INCOME TAX

Notice 2014–15, page 661.

Notice 2012–18, published in the Internal Revenue Bulletin on March 5, 2012, provided state housing finance agencies that participated in the Physical Inspections Pilot Program a temporary alternative method to satisfy the physical inspection and certification review requirements of § 1.42–5(c)(2) of the Income Tax Regulations. The availability of this alternative method ended on December 31, 2012. This notice extends the time period announced in Notice 2012–18 through December 31, 2014.

Rev. Proc. 2014–17, page 661.

Rev. Proc. 2014–17 provides the procedures by which a taxpayer may obtain the automatic consent of the Commissioner of Internal Revenue to change to the methods of accounting provided in §§ 1.167(a)–4 and 1.168(i)–7 of the Income Tax Regulations (T.D. 9636), §§ 1.167(a)–4T, 1.168(i)–1T, 1.168(i)–7T, and 1.168(i)–8T of the temporary regulations (T.D. 9564), and §§ 1.168(i)–1, 1.168(i)–7, and 1.168(i)–8 of the proposed regulations (REG–110732–13). This revenue procedure also modifies Rev. Proc. 2011–14 and allows a late partial disposition election under Prop. Reg. § 1.168(i)–8 or a revocation of a general asset account election under § 1.168(i)–1T or Prop. Reg. § 1.168(i)–1 to be treated as a change in method of accounting for a limited period of time. Finally, this revenue procedure modifies section 6.01 of the APPENDIX of Rev. Proc. 2011–14 to waive a scope limitation in certain circumstances.

Rev. Proc. 2014–23, page 684.

The proposed revenue procedure provides issuers of qualified mortgage bonds, as defined in § 143(a) of the Internal Revenue Code, and issuers of mortgage credit certificates, as defined in § 25(c), with the United States median gross income figure most recently computed by the Department of Housing and Urban Development (HUD). The proposed revenue procedure also provides these issuers with guidance concerning the area median gross incomes as computed by HUD. Issuers of qualified mortgage bonds (QMB) and mortgage credit certificates (MCC) must use these income figures in determining whether the income limitation placed on the beneficiaries of the mortgages and certificates may be increased because the residences to be financed are located in high housing cost areas. See §§ 25(c)(2)(A)(iii)(IV) and 143(f)(5).

T.D. 9652, page 655.

Final regulations provide rules under sections 263A and 471 of the Code relating to capitalizing and allocating sales-based royalties, and adjusting the cost of merchandise inventory for sales-based vendor allowances. The regulations provide rules for accounting for these items under the simplified production method and the simplified resale method.

T.D. 9659, page 653.

Section 83 addresses the income tax consequences of property transferred in connection with the performance of services. The final regulations clarify the definition of a substantial risk of forfeiture under §1.83–3(c)(1). The final regulations also update the regulations under §1.83–3 to incorporate the holdings in Revenue Ruling 2005–48 (2005–2 CB 259) which address the substantial risk of forfeiture created by liability under Section 16(b) of the Securities Exchange Act of 1934. Rev. Rul. 2005–48 (2005–2 CB 259) is obsolete as of February 26, 2014.

(Continued on the next page)

Finding Lists begin on page ii.
Index for July through March begins on page iv.

Department of the Treasury
Internal Revenue Service

EMPLOYEE PLANS

T.D. 9659, page 653.

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ADMINISTRATIVE

Rev. Proc. 2014–23, page 684.

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The IRS Mission

Provide America's taxpayers top-quality service by helping them understand and meet their tax responsibilities and enforce the law with integrity and fairness to all.

Introduction

The Internal Revenue Bulletin is the authoritative instrument of the Commissioner of Internal Revenue for announcing official rulings and procedures of the Internal Revenue Service and for publishing Treasury Decisions, Executive Orders, Tax Conventions, legislation, court decisions, and other items of general interest. It is published weekly.

It is the policy of the Service to publish in the Bulletin all substantive rulings necessary to promote a uniform application of the tax laws, including all rulings that supersede, revoke, modify, or amend any of those previously published in the Bulletin. All published rulings apply retroactively unless otherwise indicated. Procedures relating solely to matters of internal management are not published; however, statements of internal practices and procedures that affect the rights and duties of taxpayers are published.

Revenue rulings represent the conclusions of the Service on the application of the law to the pivotal facts stated in the revenue ruling. In those based on positions taken in rulings to taxpayers or technical advice to Service field offices, identifying details and information of a confidential nature are deleted to prevent unwarranted invasions of privacy and to comply with statutory requirements.

Rulings and procedures reported in the Bulletin do not have the force and effect of Treasury Department Regulations, but they may be used as precedents. Unpublished rulings will not be relied on, used, or cited as precedents by Service personnel in the disposition of other cases. In applying published rulings and procedures, the effect of subsequent legislation, regulations, court decisions, rulings, and procedures must be considered, and Service personnel and others concerned are cautioned against reaching the same conclusions in other cases unless the facts and circumstances are substantially the same.

The Bulletin is divided into four parts as follows:

Part I.—1986 Code.
This part includes rulings and decisions based on provisions of the Internal Revenue Code of 1986.

Part II.—Treaties and Tax Legislation.
This part is divided into two subparts as follows: Subpart A, Tax Conventions and Other Related Items, and Subpart B, Legislation and Related Committee Reports.

Part III.—Administrative, Procedural, and Miscellaneous.
To the extent practicable, pertinent cross references to these subjects are contained in the other Parts and Subparts. Also included in this part are Bank Secrecy Act Administrative Rulings. Bank Secrecy Act Administrative Rulings are issued by the Department of the Treasury's Office of the Assistant Secretary (Enforcement).

Part IV.—Items of General Interest.
This part includes notices of proposed rulemakings, disbarment and suspension lists, and announcements.

The last Bulletin for each month includes a cumulative index for the matters published during the preceding months. These monthly indexes are cumulated on a semiannual basis, and are published in the last Bulletin of each semiannual period.

Part I. Rulings and Decisions Under the Internal Revenue Code of 1986

TD 9659

DEPARTMENT OF THE TREASURY
Internal Revenue Service
26 CFR Part 1

Property Transferred in Connection with the Performance of Services under Section 83

AGENCY: Internal Revenue Service, Department of Treasury.

ACTION: Final regulations.

SUMMARY: This document contains final regulations relating to property transferred in connection with the performance of services under section 83 of the Internal Revenue Code (Code). These final regulations affect certain taxpayers who receive property transferred in connection with the performance of services.

DATES: *Effective Date:* These regulations are effective on February 26, 2014.

Applicability Date: For dates of applicability, see §1.83–3(l).

FOR FURTHER INFORMATION CONTACT: Thomas Scholz or Michael Hughes at (202) 317-5600 (not a toll-free number).

SUPPLEMENTARY INFORMATION:

Background

On May 30, 2012, the Department of Treasury (Treasury) and the Internal Revenue Service (IRS) published a notice of proposed rulemaking (REG–141075–09) in the **Federal Register** (77 FR 31783) under section 83 of the Code. Treasury and the IRS received two comments responding to the notice of proposed rulemaking. No public hearing was requested and no public hearing was held. After consideration of these comments, Treasury and the IRS adopt the proposed regulations as final regulations with the modifications described in this preamble.

Explanation of Provisions

Section 83 of the Code addresses the tax consequences of the transfer of property in connection with the performance of services. These final regulations provide several clarifications regarding whether a substantial risk of forfeiture exists in connection with property subject to section 83. Specifically, the final regulations clarify that (1) except as specifically provided in section 83(c)(3) and §§1.83–3(j) and (k), a substantial risk of forfeiture may be established *only* through a service condition or a condition related to the purpose of the transfer, (2) in determining whether a substantial risk of forfeiture exists based on a condition related to the purpose of the transfer, both the likelihood that the forfeiture event will occur and the likelihood that the forfeiture will be enforced must be considered, and (3) except as specifically provided in section 83(c)(3) and §§1.83–3(j) and (k), transfer restrictions do not create a substantial risk of forfeiture, including transfer restrictions that carry the potential for forfeiture or disgorgement of some or all of the property, or other penalties, if the restriction is violated.

Summary of Comments

Treasury and the IRS received two written comments on the notice of proposed rulemaking. The first comment was not responsive to the notice of proposed rulemaking. The second comment expressed concern that the proposed regulations result in a narrowing of the circumstances that would establish a substantial risk of forfeiture and requested clarification regarding whether an involuntary separation from service without cause could establish a substantial risk of forfeiture. The comment noted that, for purposes of section 409A, an amount that is payable only upon a service provider's involuntary separation from service without cause is subject to a substantial risk of forfeiture if the possibility of forfeiture is substantial, and it suggested that these regulations specifically state that an involuntary separation without cause may qualify as a substantial risk of forfeiture under section 83 in appropriate circumstances.

These regulations are intended to clarify the definition of a substantial risk of forfeiture and are consistent with the interpretation that the IRS historically has applied, and therefore from the perspective of Treasury and the IRS they do not constitute a narrowing of the requirements to establish a substantial risk of forfeiture. See *Robinson v. Commissioner*, 805 F.2d 38 (1st Cir. 1986). Further, Treasury and the IRS believe that these regulations should not be modified to state that an involuntary separation from service without cause may qualify as a substantial risk of forfeiture under section 83. While a service provider's right to receive property (or an amount in cash) in the future upon the service provider's involuntary separation from service without cause may be subject to a substantial risk of forfeiture for purposes of section 409A if the possibility of forfeiture is substantial, a substantial risk of forfeiture under section 83 can exist only when property is actually transferred in connection with the performance of services. A right to receive property in the future is generally not property for purposes of section 83. See § 1.83–3(e). Accordingly, an involuntary separation from service without cause cannot qualify as a substantial risk of forfeiture under section 83 if property is not transferred until after the separation from service occurs.

When a transfer of property does occur, a substantial risk of forfeiture may be established through a substantial services condition or a condition related to the purpose of the transfer if the possibility of forfeiture is substantial. The acceleration of vesting upon an involuntary separation from service without cause (or separation from service as a result of death or disability) will not cause a requirement of substantial services that otherwise would be treated as a substantial risk of forfeiture to fail to qualify as a substantial risk of forfeiture, provided that facts and circumstances do not demonstrate that the occurrence of an involuntary separation from

service without cause is likely to occur during the agreed upon service period.

Certain practitioners informally requested clarification regarding the application of section 83(c)(3) to a variation of the facts set forth in *Example 4* of proposed regulation § 1.83–3(j)(2). Specifically, practitioners asked whether the purchase of shares in a transaction not exempt from section 16(b) of the Securities Exchange Act of 1934 prior to the exercise of a stock option that would not otherwise give rise to section 16(b) liability would defer taxation of the stock option exercise. Treasury and the IRS do not believe that such a non-exempt purchase of shares would defer taxation of the subsequent stock option exercise. This result is consistent with *Example 3* of § 1.83–3(j)(2). In response to these requests for clarification, Treasury and the IRS have revised *Example 4* of proposed regulation § 1.83–3(j)(2) to address the situation raised.

Applicability Date

These regulations apply to property transferred on or after January 1, 2013.

Effect on Other Documents

Rev. Rul. 2005–48 (2005–2 CB 259) is obsolete as of February 26, 2014.

Special Analyses

It has been determined that this final regulation is not a significant regulatory action as defined in Executive Order 12866, as supplemented by Executive Order 13653. Therefore, a regulatory assessment is not required. It also has been determined that section 553(b) of the Administrative Procedure Act (5 U.S.C. chapter 5) does not apply to these regulations, and because the regulations do not impose a collection of information on small entities, the Regulatory Flexibility Act (5 U.S.C. chapter 6) does not apply. Pursuant to section 7805(f) of the Code, the notice of proposed rule making preceding these final regulations was submitted to the Chief Counsel for Advocacy of the Small Business Administration for comment on their impact on small business.

Drafting Information

The principal authors of these final regulations are Thomas Scholz and Michael Hughes, Office of the Division Counsel/Associate Chief Counsel (Tax Exempt and Government Entities). Other personnel from Treasury and the IRS also participated in their development.

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List of Subjects in 26 CFR Part 1

Adoption of Amendments to the Regulations

Accordingly, 26 CFR Part 1 is amended as follows:

PART 1—INCOME TAXES

Paragraph 1. The authority citation for Part 1 continues to read in part as follows:

Authority: 26 U.S.C. 7805 * * *

Par. 2. Section 1.83–3 is amended by:

1. Revising paragraph (c)(1).
2. Adding *Example 6* and *Example 7* to paragraph (c)(4).
3. Adding *Example 4* to paragraph (j)(2).
4. Removing paragraph (j)(3).
5. Removing paragraph (k).
6. Redesignating paragraph (k)(1) as paragraph (k).
7. Adding paragraph (l).

The revisions and additions read as follows:

§ 1.83–3 Meaning and use of certain terms.

* * * * *

(c) *Substantial risk of forfeiture.* (1) *In general.* For purposes of section 83 and these regulations, whether a risk of forfeiture is substantial or not depends upon the facts and circumstances. Except as set forth in paragraphs (j) and (k) of this section, a substantial risk of forfeiture exists only if rights in property that are transferred are conditioned, directly or indirectly, upon the future performance (or refraining from performance) of substantial services by any person, or upon the occurrence of a condition related to a purpose of the transfer if the possibility of forfeiture is substantial. Property is not transferred subject to a substantial risk of forfeiture if at the time of transfer the facts and circumstances demonstrate that the forfeiture condition is unlikely to be enforced. Further, property is not transferred subject to a substantial risk of forfeiture to the extent that the employer is required to pay the fair market value of a portion of such property to the employee upon the return of such property. The risk that the value of property will decline during a certain period of time does not constitute a substantial risk of forfeiture. A nonlapse restriction, standing by itself, will not result in a substantial risk of forfeiture. A restriction on the transfer of property, whether contractual or by operation of applicable law, will result in a substantial risk of forfeiture only if and to the extent that the restriction is described in paragraph (j) or (k) of this section. For this purpose, transfer restrictions that will not result in a substantial risk of forfeiture include, but are not limited to, restrictions that if violated, whether by transfer or attempted transfer of the property, would result in the forfeiture of some or all of the property, or liability by the employee for any damages, penalties, fees, or other amount.

* * * * *

(4) * * *

Example 6. On April 3, 2013, Y corporation grants to Q, an officer of Y, a nonstatutory option to purchase Y common stock. Although the option is immediately exercisable, it has no readily ascertainable fair market value when it is granted. Under the option, Q has the right to purchase 100 shares of Y common stock for $10 per share, which is the fair market value of a Y share on the date of grant of the option. On August 1, 2013, Y sells its common stock in an initial public offering. Pursuant to an underwriting agreement entered into in connection with the initial public offering, Q agrees not to sell, otherwise dispose of, or hedge any Y common stock from August 1 through February 1 of 2014 ("the lock-up period"). Q exercises the option and Y shares are transferred to Q on November 15, 2013, during the lock-up period. The underwriting agreement does not impose a substantial risk of forfeiture on the Y shares acquired by Q because the provisions of the agreement do not condition Q's rights in the shares upon anyone's future performance (or refraining from performance) of substantial services or on the occurrence of a condition related to the purpose of the transfer of shares to Q. Accordingly, neither section 83(c)(3) nor the imposition of the lock-up period by the underwriting agreement precludes taxation under section 83 when the shares resulting from exercise of the option are transferred to Q.

Example 7. Assume the same facts as in *Example 6*, except that on August 1, 2013, Y also adopts an insider trading compliance program, under which, as applied to 2013, insiders (such as Q) may trade Y shares only during a limited number of days following each quarterly earnings release ("a trading window"). Under the program, if Q trades Y shares outside a trading window without Y's permission, Y has the right to terminate Q's employment. However, the exercise of the nonstatutory options outside a trading window for Y shares is not prohibited under the insider trading compliance program. Q fully exercises the option, and Y shares are transferred to Q, on November 15, 2013. The exercise of the option occurs outside a trading window, and, on the date of exercise, Q is in possession of material nonpublic information concerning Y that would subject him to liability under Rule 10b–5 under the Securities Exchange Act of 1934 if Q sold the Y shares while in possession of such information. Neither the insider trading compliance program nor the potential liability under Rule 10b–5 impose a substantial risk of forfeiture on the Y shares acquired by Q because the provisions of the program and Rule 10b–5 do not condition Q's rights in the shares upon anyone's future performance (or refraining from performance) of substantial services or on the occurrence of a condition related to the purpose of the transfer of shares to Q. Accordingly, none of section 83(c)(3), the imposition of the trading windows by the insider trading compliance program, and the potential liability under Rule 10b–5 preclude taxation under section 83 when the shares resulting from exercise of the option are transferred to Q.

* * * * *

(j) * * *

(2) * * *

Example 4. (i) On June 3, 2013, Y corporation grants to Q, an officer of Y, a nonstatutory option to purchase Y common stock. Y stock is traded on an established securities market. Although the option is immediately exercisable, it has no readily ascertainable fair market value when it is granted. Under the option, Q has the right to purchase 100 shares of Y common stock for $10 per share, which is the fair market value of a Y share on the date of grant of the option. The grant of the option is not one that satisfies the requirements for a transaction that is exempt from section 16(b) of the Securities Exchange Act of 1934. On December 15, 2013, Y stock is trading at more than $10 per share. On that date, Q fully exercises the option, paying the exercise price in cash, and receives 100 Y shares. Q's rights in the shares received as a result of the exercise are not conditioned upon the future performance of substantial services. Because no exemption from section 16(b) was available for the June 3, 2013 grant of the option, the section 16(b) liability period expires on December 1, 2013. Accordingly, the section 16(b) liability period expires *before* the date that Q exercises the option and the Y common stock is transferred to Q. Thus, the shares acquired by Q pursuant to the exercise of the option are not subject to a substantial risk of forfeiture under section 83(c)(3) as a result of section 16(b). As a result, section 83(c)(3) does not preclude taxation under section 83 when the shares acquired pursuant to the December 15, 2013 exercise of the option are transferred to Q.

(ii) Assume the same facts as in paragraph (i) of this *Example 4* except that Q exercises the nonstatutory option on October 30, 2013 when Y stock is trading at more than $10 per share. The shares acquired are subject to a substantial risk of forfeiture under section 83(c)(3) as a result of section 16(b) through December 1, 2013.

(iii) Assume the same facts as in paragraph (i) of this *Example 4* except that on November 5, 2013, Q also purchases 100 shares of Y common stock on the public market. The purchase of the shares is not a transaction exempt from section 16(b) of the Securities Exchange Act of 1934. Because no exemption from section 16(b) was available for the November 5, 2013 purchase of shares, the section 16(b) liability period with respect to such shares will last for a period of six months after the November 5, 2013 purchase of shares. Notwithstanding the non-exempt purchase of Y common stock on November 5, 2013, the shares acquired by Q pursuant to the December 15, 2013 exercise of the option are not subject to a substantial risk of forfeiture under section 83(c)(3) as a result of section 16(b). As a result, section 83(c)(3) does not preclude taxation under section 83 when the shares acquired pursuant to the December 15, 2013 exercise of the option are transferred to Q.

* * * * *

(l) *Effective/applicability date*. This section applies to property transferred on or after January 1, 2013. For rules relating to property transferred before that date, see § 1.83–3 as contained in 26 CFR part 1 (as of April 1, 2012).

John Dalrymple,
Deputy Commissioner for Services and Enforcement.

Approved, January 31, 2014.

Mark J. Mazur,
Assistant Secretary of the Treasury (Tax Policy).

(Filed by the Office of the Federal Register on February 25, 2014, 8:45 a.m., and published in the issue of the Federal Register for February 26, 2014, 79 F.R. 10663)

Section 167.—Depreciation

Procedures are provided by which a taxpayer may obtain the automatic consent of the Commissioner of Internal Revenue to change to the methods of accounting provided in § 1.167(a)–4 of the Income Tax Regulations (T.D. 9636) and § 1.167(a)–4T of the temporary regulations (T.D. 9564). See Rev. Proc. 2014–17, page 661.

Section 197.—Amortization of goodwill and certain other intangibles

Procedures are provided by which a taxpayer may obtain the automatic consent of the Commissioner of Internal Revenue to change from improperly amortizing leasehold improvements to which § 197 applies over the term of the lease (including renewals, if applicable) to properly amortizing these improvements under § 197. See Rev. Proc. 2014–17, page 661.

TD 9652

DEPARTMENT OF THE TREASURY
Internal Revenue Service
26 CFR Part 1

Sales-Based Royalties and Vendor Allowances

AGENCY: Internal Revenue Service (IRS), Treasury.

ACTION: Final regulations.

SUMMARY: This document contains final regulations relating to the capitalization and allocation of royalties that are incurred only upon the sale of property produced or property acquired for resale (sales-based royalties). This document also contains final regulations relating to adjusting inventory costs for a type of an allowance, discount, or price rebate earned on the sale of merchandise (sales-based vendor chargebacks). These regulations modify the simplified production method and the simplified resale method of allocating capitalized costs between ending inventory and cost of goods sold. These regulations affect taxpayers that incur capitalizable sales-based royalties or earn sales-based vendor chargebacks.

DATES: *Effective Date*: These regulations are effective on January 13, 2014.

Comment Date: Comments will be accepted until April 14, 2014.

Applicability Date: For dates of applicability, see §§1.263A–1(l), 1.263A–2(f), 1.263A–3(f), and 1.471–3(g).

ADDRESSES: Written (including electronic) comments should be submitted to Internal Revenue Service, CC:PA:

LPD:PR (REG–149338–08), Room 5203, Internal Revenue Service, PO Box 7604, Ben Franklin Station, Washington, DC 20044, or electronically to *www.regulations.gov* (IRS REG–149338–08). Alternatively, comments may be hand-delivered Monday through Friday between the hours of 8 a.m. and 4 p.m. to CC:PA:LPD:PR (REG–149338–08), Courier's Desk, Internal Revenue Service, 1111 Constitution Avenue, NW., Washington, DC. All comments will be available for public inspection and copying.

FOR FURTHER INFORMATION CONTACT: John Roman Faron, 202-317-7005 (not a toll-free number).

SUPPLEMENTARY INFORMATION:

Background

This document contains final regulations that amend the Income Tax Regulations (26 CFR part 1) relating to the allocation under section 263A of the Internal Revenue Code (Code) of certain sales-based royalties and relating to the determination of cost of merchandise in inventory under section 471 when a taxpayer earns a type of sales-based vendor allowance. On December 17, 2010, a notice of proposed rulemaking (REG–149335–08) was published in the Federal Register (75 FR 78940). Written comments responding to the notice of proposed rulemaking were received. The comments are available for public inspection at www.regulations.gov or on request. A public hearing was requested and held on April 13, 2011. After consideration of all the comments, the proposed regulations are adopted as revised by this Treasury decision. The comments are discussed in the preamble.

Summary of Comments and Explanation of Provisions

Sales-based royalties

The proposed regulations clarified that sales-based royalties, like other royalties, may be capitalizable to property a taxpayer produces or acquires for resale. Royalty costs are capitalizable when they are incurred in securing the contractual right to use a trademark, corporate plan, manufacturing procedure, special recipe, or other similar right associated with property produced or property acquired for resale. Sales-based royalty costs are royalties that are incurred only upon the sale of property produced or acquired for resale.

The proposed regulations provided that sales-based royalties required to be capitalized must be allocated only to property that has been sold or, for inventory property, deemed to be sold under the taxpayer's inventory cost flow assumption. In response to concerns that the requirement to allocate sales-based royalties only to cost of goods sold would unduly burden taxpayers using simplified allocation methods, the final regulations provide that the allocation of sales-based royalties to property sold is optional rather than mandatory. Therefore, the final regulations permit taxpayers to either allocate sales-based royalties entirely to property sold and include those costs in cost of goods sold or to allocate sales-based royalties between cost of goods sold and ending inventory using a facts-and-circumstances cost allocation method described in § 1.263A–1(f) or a simplified method provided in § 1.263A–2(b) (the simplified production method) or § 1.263A–3(d) (the simplified resale method). The final regulations also clarify that sales-based royalties that a taxpayer allocates entirely to inventory property sold are included in cost of goods sold and may not be included in determining the cost of goods on hand at the end of the taxable year regardless of the taxpayer's cost flow assumption.

A commentator suggested that the final regulations acknowledge that a sales-based royalty payable by a reseller of inventory to its supplier is a direct acquisition cost under section 471 and included in cost of goods sold when the inventory item is sold. The final regulations do not adopt this comment because whether a cost is a royalty described in §1.263A–1(e)(3)(ii)(U) or is a contingent acquisition cost is beyond the scope of these regulations.

Sales-based vendor allowances in general

The proposed regulations provided that the amount of an allowance, discount, or price rebate that a taxpayer earns by selling specific merchandise is a reduction in the cost of the merchandise sold or deemed sold under a taxpayer's cost flow assumption. The preamble to the proposed regulations referred to this type of allowance as a sales-based vendor allowance. The proposed regulations required that these allowances reduce cost of goods sold and not reduce ending inventory cost or value of goods on hand at the end of the taxable year.

A commentator disagreed with the requirement in the proposed regulations that the vendor allowances described in the proposed regulations always must reduce cost of goods sold. The commentator disputed that a vendor allowance should reduce cost of goods sold merely because the allowance is dependent on a sale of merchandise. Citing *Pittsburgh Milk Co. v. Commissioner*, 26 T.C. 707 (1956), the commentator suggested that sales-based vendor allowances that are the subject of an advance agreement between the vendor and the purchaser at the time the merchandise is purchased must be netted against the original cost of the merchandise and applied to ending inventory or cost of goods sold depending on the taxpayer's inventory cost flow assumption. Accordingly, the commentator suggested that the regulations be revised to provide that a sales-based vendor allowance may properly reduce the value of goods on hand at the end of the taxable year.

The final regulations reflect the commentator's suggestion that a vendor allowance does not reduce the cost of goods sold merely because the allowance is dependent on a sale of merchandise. The proposed regulations were overbroad because they required taxpayers to allocate to cost of goods sold all allowances that arise from selling merchandise. For example, if, after selling a certain number of units, a taxpayer earns a discount off each unit purchased during the taxable year, the allowance properly may be allocable to both the cost of units that remains in ending inventory and the cost of units included in cost of goods sold during the year. Similarly, a sales-volume allowance that provides only a reduction in the cost of any purchases made by a taxpayer in the next taxable year properly reduces the cost of the units of the product purchased in the next year. As the preceding two

examples illustrate, the proposed regulations were overbroad in that they could be interpreted to require these allowances to reduce cost of goods sold solely because they arose as a result of selling merchandise. The extent to which a vendor allowance is properly allocable to the cost of goods in ending inventory or the cost of goods sold depends on all facts and circumstances, including the terms and conditions of the agreement between the vendor and the taxpayer. See *Pittsburgh Milk Co. v. Commissioner*. As described later in this preamble, the final regulations more clearly identify a type of sales-based vendor allowance that, to clearly reflect income, must reduce the cost of goods sold.

The commentator also asserted that Rev. Rul. 2001–8 (2001–1 CB 726), see § 601.601(d)(2), and earlier rulings support the proposition that sales-based vendor allowances are an adjustment to the cost of merchandise physically removed from inventory. Although allowances, discounts, and price rebates properly are treated as adjustments to the price of merchandise, the final regulations do not adopt the commentator's rationale for determining whether these adjustments properly reduce ending inventory or cost of goods sold. Rev. Rul. 2001–8 does not establish a general principle that sales-based vendor allowances reduce the invoice cost of merchandise physically sold. Rev. Rul. 2001–8 addresses a unique cost adjustment (floor stocks payments) that relates to goods physically on hand on a particular date and should not be applied beyond its specific facts.

Sales-based vendor chargebacks

In response to comments that the proposed regulations were overbroad, the Treasury and IRS are considering alternatives to a broad definition of sales-based vendor allowances. The final regulations, however, specifically identify one type of sales-based vendor allowance (sales-based vendor chargebacks) that, to clearly reflect income, reduces cost of goods sold and does not reduce the cost of goods on hand at the end of the taxable year. Therefore, the final regulations apply the rule articulated in the notice of proposed rulemaking to sales-based vendor chargebacks. A sales-based vendor chargeback is defined as an allowance, discount, or price rebate that a taxpayer becomes unconditionally entitled to by selling a vendor's merchandise to specific customers identified by the vendor at a price determined by the vendor. Sales-based vendor chargebacks protect a taxpayer from realizing a loss or a reduced profit on the sale of specific merchandise when the taxpayer is obligated by contract with the vendor of the merchandise to resell the merchandise at a specific price (in some cases below the taxpayer's cost). Under the terms and conditions of the agreement between the vendor and the taxpayer and the economics of the transaction, it is inappropriate to treat the allowance as an adjustment to the cost of goods in ending inventory. A sales-based vendor chargeback properly reduces only cost of goods sold because it arises from and relates only to merchandise sold. Thus, it reduces the invoice cost of the merchandise sold and clearly reflects income only if it reduces cost of goods sold.

Sales-based vendor allowances other than chargebacks

The final regulations reserve rules for the treatment of other sales-based vendor allowances. Given the factual nature of particular vendor allowance arrangements between sellers and purchasers of merchandise, the IRS and Treasury Department request comments regarding additional guidance defining or describing particular sales-based vendor allowances and on objective rules for allocating such allowances to the purchase price of goods acquired in the future, ending inventory, or cost of goods sold.

Effective/Applicability Date

These regulations apply for taxable years ending on or after January 13, 2014.

Special Analyses

This Treasury decision is not a significant regulatory action as defined in Executive Order 12866, as supplemented by Executive Order 13563. Therefore, a regulatory assessment is not required. Section 553(b) of the Administrative Procedure Act (5 U.S.C. chapter 5) does not apply to these regulations, and because the regulations do not impose a collection of information on small entities, the Regulatory Flexibility Act (5 U.S.C. chapter 6) does not apply. Pursuant to section 7805(f) of the Code, the notice of proposed rulemaking that preceded these final regulations was submitted to the Chief Counsel for Advocacy of the Small Business Administration for comment on its impact on small business. No comments were received from the Small Business Administration.

Drafting Information

The principal author of these regulations is John Roman Faron of the Office of the Associate Chief Counsel (Income Tax and Accounting). However, other personnel from the IRS and Treasury Department participated in their development.

*** * * * ***

Adoption of Amendments to the Regulations

Accordingly, 26 CFR part 1 is amended as follows:

PART 1—INCOME TAXES

Paragraph 1. The authority citation for part 1 continues to read in part as follows:

Authority: 26 U.S.C. 7805 * * *

Section 1.263A–1 also issued under 26 U.S.C. 263A.

Section 1.263A–2 also issued under 26 U.S.C. 263A.

Section 1.263A–3 also issued under 26 U.S.C. 263A. * * *

Section 1.471–3 also issued under 26 U.S.C. 471. * * *

Par. 2. Section 1.263A–0 Table of Contents is amended by adding new entries for §§ 1.263A–1(c)(5), (k), and (l); 1.263A–2(b)(3)(ii)(C), (e), and (f); 1.263A–3(d)(3)(i)(C)(*3*) and (f); and revising the entry for § 1.263A–1(e)(3)(ii) to read as follows:

§ 1.263A–0 Outline of regulations under section 263A.

* * * * *

§ 1.263A–1 Uniform Capitalization of Costs.

* * * * *

(c) * * *

(5) Costs allocable only to property sold.

* * * * *

(e) * * *

(3) * * *

(ii) Examples of indirect costs required to be capitalized.

* * * * *

(k) Change in method of accounting.

(1) In general.

(2) Scope limitations.

(3) Audit protection.

(4) Section 481(a) adjustment.

(5) Time for requesting change.

(l) Effective/applicability date.

§ 1.263A–2 Rules Relating to Property Produced by the Taxpayer.

* * * * *

(b) * * *

(3) * * *

(ii) * * *

(C) Costs allocable only to property sold.

* * * * *

(e) Change in method of accounting.

(1) In general.

(2) Scope limitations.

(3) Audit protection.

(4) Section 481(a) adjustment.

(5) Time for requesting change.

(f) Effective/applicability date.

§ 1.263A–3 Rules Relating to Property Acquired for Resale.

* * * * *

(d) * * *

(3) * * *

(i) * * *

(C) * * *

(*3*) Costs allocable only to property sold.

* * * * *

(f) Effective/applicability date.

* * * * *

Par. 3. Section 1.263A–1 is amended by:

1. Adding a new paragraph (c)(5).

2. Revising paragraph (e)(3)(i), the introductory text of paragraph (e)(3)(ii), and paragraph (l).

3. Redesignating paragraph (e)(3)(ii)(U) as paragraph (e)(3)(ii)(U)(*1*), revising the second sentence of newly-designated paragraph (e)(3)(ii)(U)(*1*), and adding a sentence to the end of newly-designated paragraph (e)(3)(ii)(U)(*1*).

4. Adding a new paragraph (e)(3)(ii)(U)(*2*).

The additions and revisions read as follows:

§ 1.263A–1 Uniform capitalization of costs.

* * * * *

(c) * * *

(5) *Costs allocable to property sold.* A cost that is allocated under this section, § 1.263A–2, or § 1.263A–3 entirely to property sold must be included in cost of goods sold and may not be included in determining the cost of goods on hand at the end of the taxable year.

* * * * *

(e) * * *

(3) * * *

(i) *In general.* (A) Indirect costs are defined as all costs other than direct material costs and direct labor costs (in the case of property produced) or acquisition costs (in the case of property acquired for resale). Taxpayers subject to section 263A must capitalize all indirect costs properly allocable to property produced or property acquired for resale. Indirect costs are properly allocable to property produced or property acquired for resale when the costs directly benefit or are incurred by reason of the performance of production or resale activities. Indirect costs may directly benefit or be incurred by reason of the performance of production or resale activities even if the costs are calculated as a percentage of revenue or gross profit from the sale of inventory, are determined by reference to the number of units of property sold, or are incurred only upon the sale of inventory. Indirect costs may be allocable to both production and resale activities, as well as to other activities that are not subject to section 263A. Taxpayers must make a reasonable allocation of indirect costs between production, resale, and other activities.

(B) *Example.* The following example illustrates the provisions of this paragraph (e)(3)(i):

Example. (i) Taxpayer A manufactures tablecloths and other linens. A enters into a licensing agreement with Company L under which A may label its tablecloths with L's trademark if the tablecloths meet certain specified quality standards. In exchange for its right to use L's trademark, the licensing agreement requires A to pay L a royalty of $X for each tablecloth carrying L's trademark that A sells. The licensing agreement does not require A to pay L any minimum or lump-sum royalties.

(ii) The licensing agreement provides A with the right to use L's intellectual property, a trademark. The licensing agreement also requires A to conduct its production activities according to certain standards as a condition of exercising that right. Thus, A's right to use L's trademark under the licensing agreement is directly related to A's production of tablecloths. The royalties the licensing agreement requires A to pay for using L's trademark are the costs A incurs in exchange for these rights. Therefore, although A incurs royalty costs only when A sells a tablecloth carrying L's trademark, the royalty costs directly benefit production activities and are incurred by reason of production activities within the meaning of paragraph (e)(3)(i)(A) of this section.

(ii) *Examples of indirect costs required to be capitalized.* The following are examples of indirect costs that must be capitalized to the extent they are properly allocable to property produced or property acquired for resale:

* * * * *

(U) *Licensing and franchise costs.* (*1*) * * * These costs include the otherwise deductible portion (such as amortization) of the initial fees incurred to obtain the license or franchise and any minimum annual payments and any royalties that are incurred by a licensee or a franchisee. These costs also include fees, payments, and royalties otherwise described in this paragraph (e)(3)(ii)(U) that a taxpayer incurs (within the meaning of section 461) only upon the sale of property produced or acquired for resale.

(*2*) If a taxpayer incurs (within the meaning of section 461) a fee, payment, or royalty described in this paragraph (e)(3)(ii)(U) only upon the sale of property produced or acquired for resale and the cost is required to be capitalized under this paragraph (e)(3), the taxpayer may properly allocate the cost entirely to property produced or acquired for resale by the taxpayer that has been sold.

* * * * *

(l) *Effective/applicability date.* (1) Paragraphs (h)(2)(i)(D), (k), and (l) of this section apply for taxable years ending on or after August 2, 2005.

(2) Paragraphs (c)(5), (e)(3)(i), and (e)(3)(ii)(U) of this section apply for taxable years ending on or after January 13, 2014.

Par. 4. Section 1.263A–2 is amended by:

1. Adding paragraphs (b)(3)(ii)(C) and (b)(4)(ii)(A)(*4*).

2. Revising paragraph (f).

The additions and revision read as follows:

§ 1.263A–2 Rules relating to property produced by the taxpayer.

* * * * *

(b) * * *

(3) * * *

(ii) * * *

(C) *Costs allocated to property sold.* Additional section 263A costs incurred during the taxable year, as defined in paragraph (b)(3)(ii)(A)(*1*) of this section, section 471 costs incurred during the taxable year, as defined in paragraph (b)(3)(ii)(A)(*2*) of this section, and section 471 costs remaining on hand at year end, as defined in paragraph (b)(3)(ii)(B) of this section, do not include costs described in § 1.263A–1(e)(3)(ii) or cost reductions described in § 1.471–3(e) that a taxpayer properly allocates entirely to property that has been sold.

* * * * *

(4) * * *

(ii) * * *

(A) * * *

(*4*) Additional section 263A costs incurred during the test period, as defined in paragraph (b)(4)(ii)(A)(*2*) of this section, and section 471 costs incurred during the test period, as defined in paragraph (b)(4)(ii)(A)(*3*) of this section, do not include costs specifically described in § 1.263A–1(e)(3)(ii) or cost reductions described in § 1.471–3(e) that a taxpayer properly allocates entirely to property that has been sold.

* * * * *

(f) *Effective/applicability date.* (1) Paragraphs (b)(2)(i)(D), (e), and (f) of this section apply for taxable years ending on or after August 2, 2005.

(2) Paragraphs (b)(3)(ii)(C) and (b)(4)(ii)(A)(*4*) of this section apply for taxable years ending on or after January 13, 2014.

Par. 5. In § 1.263A–3, paragraphs (d)(3)(i)(C)(*3*), (d)(3)(i)(D)(*3*), (d)(3)(i)(E)(*3*), and (f) are added to read as follows:

§ 1.263A–3 Rules relating to property acquired for resale.

* * * * *

(d) * * *

(3) * * *

(i) * * *

(C) * * *

(*3*) *Costs allocable to property sold.* Section 471 costs remaining on hand at year end, as defined in paragraph (d)(3)(i)(C)(*2*) of this section, do not include costs that are specifically described in § 1.263A–1(e)(3)(ii) or cost reductions described in § 1.471–3(e) that a taxpayer properly allocates entirely to property that has been sold.

(D) * * *

(*3*) Current year's storage and handling costs, beginning inventory, and current year's purchases, as defined in paragraph (d)(3)(i)(D)(*2*) of this section, do not include costs that are specifically described in § 1.263A–1(e)(3)(ii) or cost reductions described in § 1.471–3(e) that a taxpayer properly allocates entirely to property that has been sold.

(E) * * *

(*3*) Current year's purchasing costs and current year's purchases, as defined in paragraph (d)(3)(i)(E)(*2*) of this section, do not include costs that are specifically described in § 1.263A–1(e)(3)(ii) or cost reductions described in § 1.471–3(e) that a taxpayer properly allocates entirely to property that has been sold.

* * * * *

(f) *Effective/applicability date.* Paragraphs (d)(3)(i)(C)(*3*), (d)(3)(i)(D)(*3*), and (d)(3)(i)(E)(*3*) of this section apply for taxable years ending on or after January 13, 2014.

Par. 6. Section 1.471–3 is amended by:

1. Adding paragraphs (e) and (g).

2. Designating the undesignated text following paragraph (d) as paragraph (f).

The additions read as follows:

§ 1.471–3 Inventories at cost.

* * * * *

(e) *Sales-based vendor allowances*—(1) *Treatment of sales-based vendor chargebacks*—(i) *In general.* A sales-based vendor chargeback is an allowance, discount, or price rebate that a taxpayer becomes unconditionally entitled to by selling a vendor's merchandise to specific customers identified by the vendor at a price determined by the vendor. A sales-based vendor chargeback decreases cost of goods sold and does not reduce the cost of goods on hand at the end of the taxable year.

(ii) *Example.* The following example illustrates the provisions of this paragraph (e)(1).

Example. (i) W is a wholesaler of pharmaceuticals. W purchases Drug X from the manufacturer, M, for $10x per unit. M has agreements with specific customers that allow those customers to acquire Drug X from M's wholesalers for $6x per unit. Under an agreement between W and M, W is required to sell Drug X to specific customers at the prices M has negotiated with such customers ($6x per unit) and, in exchange, M agrees to provide a price rebate to W equal to the difference between W's cost for Drug X and the price W is required to charge specific customers under the agreement (a difference of $4x per unit). W sells Drug X to specific customer Y for $6x. Under the agreement between W and M, the price rebate can be paid to W, credited against M's invoice to W for W's purchase of Drug X, or it can be credited to W's future purchases of drugs from M.

(ii) Under the terms of the agreement, W is unconditionally entitled to the price rebate of Drug X when it sells Drug X to specific customer Y, a specifically identified customer of M. The price rebate received by W for the sale of Drug X to Y is a sales-based vendor chargeback. Therefore, the amount of the sales-based vendor charge back, $4x per unit for Drug X, whether paid to W, credited against M's invoice to W for W's purchase of Drug X or credited against a future purchase, decreases cost of goods sold and does not reduce the cost of Drug X on hand at the end of the taxable year.

(2) *Treatment of other sales-based vendor allowances.* [Reserved]

* * * * *

(g) *Effective/applicability date.* Paragraph (f) of this section applies to taxable years ending on or after January 13, 2014.

John Dalrymple
Deputy Commissioner for Services and Enforcement.

Approved, December 13, 2013

Mark J. Mazur
Assistant Secretary of the Treasury (Tax Policy).

(Filed by the Office of the Federal Register on January 10, 2014, 8:45 a.m., and published in the issue of the Federal Register for January 13, 2014, 79 F.R. 2094)

Section 446.—General rule for methods of accounting

Modifications are made to the procedures in Rev. Proc. 2012–20, 2012–14 I.R.B. 700, and Rev. Proc. 2011–14, 2011–4 I.R.B. 330, regarding certain changes in method of accounting for dispositions of tangible depreciable property. Procedures are provided by which a taxpayer may obtain the automatic consent of the Commissioner of Internal Revenue to change to the methods of accounting provided in §§ 1.167(a)–4 and 1.168(i)–7 of the Income Tax Regulations (T.D. 9636), §§ 1.167(a)–4T, 1.168(i)–1T, 1.168(i)–7T, and 1.168(i)–8T of the temporary regulations (T.D. 9564), and §§ 1.168(i)–1, 1.168(i)–7, and 1.168(i)–8 of the proposed regulations (REG–110732–13). Modifications are also made to Rev. Proc. 2011–14 to allow a late partial disposition election under Prop. Reg. § 1.168(i)–8 or a revocation of a general asset account election under § 1.168(i)–1T or Prop. Reg. § 1.168(i)–1 to be treated as a change in method of accounting for a limited period of time. Finally, modifications are made to section 6.01 of the APPENDIX of Rev. Proc. 2011–14 to waive a scope limitation in certain circumstances. See Rev. Proc. 2014–17, page 661.

Part III. Administrative, Procedural, and Miscellaneous

Extension of Notice 2012–18 Treatment for States Participating in the Physical Inspections Pilot Program

Notice 2014–15

PURPOSE

This notice extends the time period for the alternative method, announced in Notice 2012–18, 2012–10 I.R.B. 438, to satisfy certain physical inspection and certification review requirements under § 1.42–5(c)(2) of the Income Tax Regulations.

BACKGROUND

Section 42 of the Internal Revenue Code sets forth rules for determining the amount of the low-income housing credit. Section 1.42–5(c) and (d) provides physical inspection and certification review procedures that a state or local housing credit agency (or its Authorized Delegate within the meaning of § 1.42–5(f)(1)) (a "state housing finance agency") must follow in monitoring for compliance with the provisions of § 42.

In 2011, the Rental Policy Working Group established by the White House Domestic Policy Council instituted a Physical Inspections Pilot Program for state housing finance agencies in participating states. Under this program, to avoid duplicate inspections, participating state housing finance agencies addressed their physical inspection responsibilities under § 1.42–5(c)(2) by using the inspection protocol of the Real Estate Assessment Center (REAC) of the Department of Housing and Urban Development.

As described in Notice 2012–18, however, some details of the REAC protocol differ from the requirements in § 1.42–5(c)(2), and the use of the REAC protocol poses administrative difficulties for state housing finance agencies in satisfying their certification review responsibilities. Notice 2012–18, therefore, provided that if a state housing finance agency participated in the Physical Inspections Pilot Program, then for the year of participation—

(1) The inspections under the program were deemed to satisfy the requirements of § 1.42–5(c)(2)(ii) regarding on-site physical inspections of at least 20 percent of the low-income units and of all buildings in a project; and

(2) The state housing finance agency was able to satisfy the certification review requirements of § 1.42–5(c)(2)(ii) by reviewing the appropriate records for 20 percent of the low-income units in the project regardless of whether any of the units whose files were reviewed were among the units that were physically inspected.

These provisions of Notice 2012–18 applied from November 7, 2011, through December 31, 2012.

EXTENSION OF NOTICE 2012–18 TREATMENT

This notice extends the provisions of Notice 2012–18 through December 31, 2014. Thus, if a state housing finance agency participated and/or participates in the Physical Inspections Pilot Program in 2013 and/or 2014, then the provisions of Notice 2012–18 that are described above apply to the agency's satisfaction of the physical inspection and certification review requirements of § 1.42–5(c)(2)(ii) for the year or years in which the agency participated and/or participates in the program.

As is described in the Department of the Treasury 2013–2014 Priority Guidance Plan, the Internal Revenue Service and the Department of the Treasury are working on regulations under § 42 relating to compliance monitoring, including issues identified in Notice 2012–18. If those regulations apply for 2014, their application in 2014 will be no less favorable than the provisions of Notice 2012–18 as extended by this notice.

EFFECT ON OTHER DOCUMENTS

Notice 2012–18 is amplified.

DRAFTING INFORMATION

The principal author of this notice is Jian H. Grant of the Office of the Associate Chief Counsel (Passthroughs and Special Industries). For further information regarding this notice, please contact Ms. Grant at (202) 317-4137 (not a toll-free number).

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26 CFR 601.204: Changes in accounting periods and in methods of accounting.
(Also Part I, §§ 162, 167, 168, 197, 446, 481; 1.162–3, 1.167(a)–4, 1.168(i)–7, 1.446–1.)

Rev. Proc. 2014–17

SECTION 1. PURPOSE

This revenue procedure modifies the procedures in Rev. Proc. 2012–20, 2012–14 I.R.B. 700, and Rev. Proc. 2011–14, 2011–4 I.R.B. 330, regarding certain changes in method of accounting for dispositions of tangible depreciable property. This revenue procedure supersedes Rev. Proc. 2012–20 and provides the procedures by which a taxpayer may obtain the automatic consent of the Commissioner of Internal Revenue to change to the methods of accounting provided in §§ 1.167(a)–4 and 1.168(i)–7 of the Income Tax Regulations, §§ 1.167(a)–4T, 1.168(i)–1T, 1.168(i)–7T, and 1.168(i)–8T of the temporary regulations, and §§ 1.168(i)–1, 1.168(i)–7, and 1.168(i)–8 of the proposed regulations. This revenue procedure also modifies Rev. Proc. 2011–14 and allows a late partial disposition election under Prop. Reg. § 1.168(i)–8 or a revocation of a general asset account election under § 1.168(i)–1T or Prop. Reg. § 1.168(i)–1 to be treated as a change in method of accounting for a limited period of time. Finally, this revenue procedure modifies section 6.01 of the APPENDIX of Rev. Proc. 2011–14 to waive a scope limitation in certain circumstances.

SECTION 2. BACKGROUND

.01 The Internal Revenue Service (IRS) and the Treasury Department recently issued final regulations under §§ 1.167(a)–4 and 1.168(i)–7 (T.D. 9636, 2013–43 I.R.B. 331, 78 Fed. Reg. 57686) (the final regulations). Section 1.167(a)–4 provides rules for depreciating or amortizing leasehold improvements. Section 1.168(i)–7 provides rules for accounting for property depreci-

ated under § 168 of the Internal Revenue Code (MACRS property). The final regulations generally apply to taxable years beginning on or after January 1, 2014, but also permit a taxpayer to choose to apply these sections to taxable years beginning on or after January 1, 2012. Alternatively, the final regulations permit a taxpayer to apply the temporary regulations under §§ 1.167(a)–4T and 1.168(i)–7T (T.D. 9564, 2012-14 I.R.B. 614, 76 Fed. Reg. 81060) to taxable years beginning on or after January 1, 2012, and before January 1, 2014.

.02 The IRS and the Treasury Department also recently issued proposed regulations under §§ 1.168(i)–1, 1.168(i)–7, and 1.168(i)–8 (REG–110732–13, 2013–43 I.R.B. 404, 78 Fed. Reg. 57547) (the proposed regulations). Prop. Reg. § 1.168(i)–1, when finalized, will modify the rules for general asset accounts. Prop. Reg. § 1.168(i)–7, when finalized, will provide rules for accounting for partial dispositions of MACRS property. Prop. Reg. § 1.168(i)–8, when finalized, will provide rules for dispositions of MACRS property. The proposed regulations, when finalized, will apply to taxable years beginning on or after January 1, 2014, and will permit a taxpayer to choose to rely on them for taxable years beginning on or after January 1, 2012, and before January 1, 2014. Alternatively, the proposed regulations, when finalized, will permit a taxpayer to apply the temporary regulations under §§ 1.168(i)–1T, 1.168(i)–7T, and 1.168(i)–8T (T.D. 9564, 2012–14 I.R.B. 614, 76 Fed. Reg. 81060) to taxable years beginning on or after January 1, 2012, and before January 1, 2014.

.03 Except as otherwise expressly provided by the Code or the regulations thereunder, § 446(e) and § 1.446–1(e)(2) require a taxpayer to secure the consent of the Commissioner before changing a method of accounting for federal income tax purposes.

.04 Section 1.446–1(e)(2)(ii)(*d*) provides the changes in depreciation or amortization that are changes in a method of accounting and the changes in depreciation or amortization that are not changes in a method of accounting. For changes in a method of accounting under § 1.446–1(e)(2)(ii)(*d*) the item being changed generally is the depreciation treatment of each individual depreciable or amortizable asset. However, the item is the depreciation treatment of each general asset account for a depreciable asset for which the taxpayer has elected general asset account treatment under § 168(i)(4).

.05 Section 1.446–1(e)(2)(ii)(*d*)(*2*) provides, in relevant part, that each of the following changes in depreciation or amortization is a change in method of accounting:

(1) A change in the depreciation method or amortization method, period of recovery, or convention of a depreciable or amortizable asset;

(2) A change in the accounting for depreciable or amortizable assets from a single asset account to a multiple asset account (pooling), or vice versa, or from one type of multiple asset account (pooling) to a different type of multiple asset account (pooling);

(3) For depreciable or amortizable assets that are mass assets accounted for in multiple asset accounts or pools, a change in the method of identifying which assets have been disposed of; and

(4) Any other change in depreciation or amortization as the Secretary may designate by publication in the Federal Register or in the Internal Revenue Bulletin.

.06 Section 1.446–1(e)(2)(ii)(*d*)(*3*) provides, in relevant part, that none of the following changes in depreciation or amortization is a change in method of accounting:

(1) An adjustment in the useful life of a depreciable or amortizable asset for which depreciation is determined under § 167 (other than under § 168, § 1400I, § 1400L(c), former § 168, or an additional first year depreciation deduction provision of the Code (for example, § 168(k), § 1400L(b), or § 1400N(d))). However, if a taxpayer is changing to or from a useful life (or recovery period or amortization period) that is specifically assigned by the Code (for example, § 167(f)(1), § 168(c), § 168(g)(2), § 168(g)(3), or § 197), the regulations thereunder, or other guidance published in the Internal Revenue Bulletin, such a change is a change in method of accounting;

(2) The making of a late depreciation or amortization election or the revocation of a timely valid depreciation or amortization election, except as otherwise expressly provided by the Code, the regulations thereunder, or other guidance published in the Internal Revenue Bulletin;

(3) Any change in the placed-in-service date of a depreciable or amortizable asset, except as otherwise expressly provided by the Code, the regulations thereunder, or other guidance published in the Internal Revenue Bulletin; and

(4) Any other change in depreciation or amortization as the Secretary may designate by publication in the Federal Register or in the Internal Revenue Bulletin.

.07 Section 1.446–1(e)(2)(ii)(*d*)(*5*)(*iii*) provides that except as otherwise expressly provided by the Code, the regulations thereunder, or other guidance published in the Internal Revenue Bulletin, no § 481(a) adjustment is required or permitted for a change from one permissible method of computing depreciation or amortization to another permissible method of computing depreciation or amortization for an asset. Instead, this change is implemented by either a cut-off method (see section 2.06 of Rev. Proc. 2011–14, 2011–4 I.R.B. 330, 338) or a modified cut-off method, as appropriate. Under the modified cut-off method, the adjusted depreciable basis of the asset as of the beginning of the year of change is recovered using the new permissible method of accounting. Section 1.446–1(e)(2)(ii)(*d*)(*5*)(*iii*) also provides that a change from an impermissible method of computing depreciation or amortization to a permissible method of computing depreciation or amortization for an asset results in a § 481 adjustment.

.08 Section 1.446–1(e)(3)(ii) authorizes the Commissioner to prescribe administrative procedures setting forth the terms and conditions necessary for a taxpayer to obtain consent to change a method of accounting. Rev. Proc. 2011–14 provides the procedures by which a taxpayer may obtain automatic consent of the Commissioner to change to a method of accounting described in the APPENDIX of Rev. Proc. 2011–14.

.09 Section 3.02 of this revenue procedure modifies the APPENDIX of Rev. Proc. 2011–14 by (1) revising sections 6.27 through 6.32 to provide additional changes in method of accounting that are consistent with Prop. Reg. § 1.168(1)–1, Prop. Reg. § 1.168(i)–7, or Prop. Reg. § 1.168(i)–8, (2) revising section 6.01 to

provide an additional scope limitation that is not applicable, (3) removing section 6.20 because it is obsolete, and (4) revising section 10.07 to provide additional inapplicability provisions that are consistent with § 1.162–3 or § 1.162–3T.

.10 Section 3.03 of this revenue procedure modifies the APPENDIX of Rev. Proc. 2011–14 by adding sections 6.33 through 6.37 to the APPENDIX to provide additional changes in method of accounting that are consistent with § 1.167(a)–4, § 1.168(i)–7, Prop. Reg. § 1.168(i)–1, or Prop. Reg. § 1.168(i)–8.

SECTION 3. CHANGES IN METHODS OF ACCOUNTING

.01 *In general*.

(1) Except as provided in section 3.01(2) of this revenue procedure and in § 1.446–1(e)(2)(ii)(*d*)(*3*)(*iii*) (the making of a late depreciation or amortization election or the revocation of a timely valid depreciation or amortization election), a change to comply with § 1.168(i)–7, § 1.168(i)–1T, § 1.168(i)–7T, or § 1.168(i)–8T is a change in method of accounting to which § 446(e) applies. *See* § 1.168(i)–7(e)(4), § 1.168(i)–1T(m)(3), § 1.168(i)–7T(e)(3), and § 1.168(i)–8T(i)(3). Except as provided in section 3.01(2) of this revenue procedure and in § 1.446–1(e)(2)(ii)(*d*)(*3*)(*i*) (a change in useful life), a change to comply with § 1.167(a)–4 or § 1.167(a)–4T also is a change in method of accounting to which § 446(e) applies. *See* § 1.167(a)–4(b)(4) and § 1.167(a)–4T(b)(4). Except as provided in section 3.01(2) of this revenue procedure and in § 1.446–1(e)(2)(ii)(*d*)(*3*)(*iii*) (the making of a late depreciation or amortization election or the revocation of a timely valid depreciation or amortization election), a change to rely on Prop. Reg. § 1.168(i)–1, Prop. Reg. § 1.168(i)–7, or Prop. Reg. § 1.168(i)–8 is a change in method of accounting to which § 446(e) applies. *See* Prop. Reg. § 1.168(i)–1(m)(5), Prop. Reg. § 1.168(i)–7(e)(5), and Prop. Reg. § 1.168(i)–8(j)(5). A taxpayer that wants to change to a method of accounting described in section 3.03 of this revenue procedure must use the automatic change in method of accounting provisions in Rev. Proc. 2011–14, as modified by this revenue procedure.

(2) If a taxpayer placed in service assets in a taxable year ending before December 30, 2003 (pre-2003 assets), the taxpayer may treat the change to comply with § 1.167(a)–4, § 1.168(i)–7, § 1.167(a)–4T, § 1.168(i)–1T, § 1.168(i)–7T, or § 1.168(i)–8T, or to rely on Prop. Reg. § 1.168(i)–1, Prop. Reg. § 1.168(i)–7, or Prop. Reg. § 1.168(i)–8, for all, or some, of the pre-2003 assets as not a change in method of accounting. In this situation, the taxpayer should file amended federal tax returns for the placed-in-service year of the pre-2003 asset and all subsequent taxable years, limited to the taxable years open under the period of limitation for assessment, to implement the change to comply with § 1.167(a)–4, § 1.168(i)–7, § 1.167(a)–4T, § 1.168(i)–1T, § 1.168(i)–7T, or § 1.168(i)–8T, or to rely on Prop. Reg. § 1.168(i)–1, Prop. Reg. § 1.168(i)–7, or Prop. Reg. § 1.168(i)–8, for these pre-2003 assets. If the taxpayer files such amended federal tax returns for the pre-2003 assets, neither an adjustment under § 481 or a similar cumulative depreciation adjustment is required or permitted.

.02 *Modifications to existing automatic changes*.

(1) Section 6.01(2) of the APPENDIX of Rev. Proc. 2011–14 is modified to read as follows:

(2) *Certain scope limitations inapplicable*. The scope limitations in sections 4.02(4) and 4.02(5) of this revenue procedure are not applicable to this change. If during any of the five taxable years ending with the year of change, a taxpayer requested or made a change in method of accounting from expensing to capitalizing, or vice versa, the cost or other basis of an asset, the scope limitation in section 4.02(7) of this revenue procedure is not applicable to a change under this section 6.01 of the APPENDIX for that same asset.

(2) Section 6.01(10) of the APPENDIX of Rev. Proc. 2011–14 is modified to read as follows:

(10) *Contact information*. For further information regarding a change under this section, contact Douglas Kim at 202-317-7005 (not a toll-free call).

(3) Section 6.20 of the APPENDIX of Rev. Proc. 2011–14 is modified to read as follows:

6.20 *Reserved*.

(4) Section 6.27 of the APPENDIX of Rev. Proc. 2011–14 is modified to read as follows:

6.27 *Depreciation of leasehold improvements (sections 167, 168, and 197; § 1.167(a)–4T).*

(1) *Description of change*.

(a) *Applicability*. This change applies to a taxpayer that wants to change its method of accounting to comply with § 1.167(a)–4T for leasehold improvements in which the taxpayer has a depreciable interest at the beginning of the year of change:

(i) from improperly depreciating the leasehold improvements to which § 168 applies over the term of the lease (including renewals, if applicable) to properly depreciating these improvements under § 168;

(ii) from improperly amortizing leasehold improvements to which § 197 applies over the term of the lease (including renewals, if applicable) to properly amortizing these improvements under § 197; or

(iii) from improperly amortizing leasehold improvements to which § 167(f)(1) applies over the term of the lease (including renewals, if applicable) to properly amortizing these improvements under § 167(f)(1).

(b) *Inapplicability*. This change does not apply to a taxpayer that wants to make this change for any taxable year beginning before January 1, 2012, or beginning on or after January 1, 2014.

(2) *Certain scope limitations inapplicable*. The scope limitations in section 4.02 of this revenue procedure do not apply to a taxpayer that makes this change for any taxable year beginning on or after January 1, 2012, and beginning before January 1, 2014.

(3) *Manner of making change*.

(a) A taxpayer whose average annual gross receipts, as determined under § 1.263(a)–3(h)(3), for the three preceding taxable years is less than or equal to $10,000,000 (“qualifying taxpayer”) is

required to complete only the following information on Form 3115:

(i) The identification section of page 1 (above Part I);

(ii) The signature section at the bottom of page 1;

(iii) Part I, line 1(a);

(iv) Part II, all lines except lines 11, 14, 15, and 17;

(v) Part IV, lines 25 and 26; and

(vi) Schedule E.

(b) If any leasehold improvement is public utility property within the meaning of § 168(i)(10) or former § 167(l)(3)(A), a taxpayer (including a qualifying taxpayer) making this change must attach to its Form 3115 a statement providing that the taxpayer agrees to the following additional terms and conditions:

(i) A normalization method of accounting (within the meaning of § 168(i)(9) or former § 167(l)(3)(G)) will be used for the public utility property subject to the change;

(ii) As of the beginning of the year of change, the taxpayer will adjust its deferred tax reserve account or similar account in the taxpayer's regulatory books of account by the amount of the deferral of federal income tax liability associated with the § 481(a) adjustment applicable to the public utility property subject to the change; and

(iii) Within 30 calendar days of filing the federal income tax return for the year of change, the taxpayer will provide a copy of the completed Form 3115 to any regulatory body having jurisdiction over the public utility property subject to the change.

(4) *Concurrent automatic change*.

(a) A taxpayer that wants to make this change for more than one asset for the same year of change should file a single Form 3115 for all such assets and provide a single net § 481(a) adjustment for all the changes included in that Form 3115. If one or more of the changes in that single Form 3115 generate a negative § 481(a) adjustment and other changes in that same Form 3115 generate a positive § 481(a) adjustment, the taxpayer may provide a single negative § 481(a) adjustment for all the changes that are included in that Form 3115 generating such adjustment and a single positive § 481(a) adjustment for all the changes that are included in that Form 3115 generating such adjustment.

(b) A taxpayer that wants to make both this change and a change to a UNICAP method under section 11.01, 11.02, or 11.09 of this APPENDIX (as applicable) for the same year of change should file a single Form 3115 for all such changes and must enter the designated automatic accounting method change numbers for the changes on the appropriate line on the Form 3115. For guidance on filing a single application for two or more changes, see section 6.02(1)(b)(ii) of this revenue procedure.

(5) *Ogden copy of Form 3115 required in lieu of national office copy*. A taxpayer changing its method of accounting under this section 6.27 of the APPENDIX must file a signed copy of its completed Form 3115 with the IRS in Ogden, UT (Ogden copy), in lieu of filing the national office copy, no earlier than the first day of the year of change and no later than the date the taxpayer files the original Form 3115 with its federal income tax return for the year of change. If a taxpayer makes both this change and a change to a UNICAP method under section 11.01, 11.02, or 11.09 of this APPENDIX (as applicable) on a single Form 3115 for the same year of change in accordance with section 6.27(4)(b) of this APPENDIX, the taxpayer must file a signed copy of that completed Form 3115 with the IRS in Ogden, UT (Ogden copy), in lieu of filing the national office copy, no earlier than the first day of the year of change and no later than the date the taxpayer files the original Form 3115 with its federal income tax return for the year of change. *See* sections 6.02(3)(a)(ii)(B) (providing the general rules) and 6.02(7)(b) (providing the mailing address) of this revenue procedure.

(6) *Designated automatic accounting method change numbers*. The designated automatic accounting method change number for a change to a method of accounting under section 6.27 of this APPENDIX is "175." *See* section 6.02(4) of this revenue procedure.

(7) *Contact information*. For further information regarding a change under this section, contact Patrick Clinton at (202) 317-7005 (not a toll-free call).

(5) Section 6.28 of the APPENDIX of Rev. Proc. 2011–14 is modified to read as follows:

6.28 *Permissible to permissible method of accounting for depreciation of MACRS property (section 168; §§ 1.168(i)–1T, 1.168(i)–7T, and 1.168(i)–8T, Prop. Reg. §§ 1.168(i)–1, 1.168(i)–7, and 1.168(i)–8).*

(1) *Description of change*.

(a) *Applicability*. This change applies to a taxpayer that wants to make a change in method of accounting for depreciation that is specified in section 6.28(3) of this APPENDIX for an asset:

(i) to which § 168 applies (MACRS property);

(ii) for which the present and proposed methods of accounting are permissible methods of accounting under § 1.168(i)–1T, § 1.168(i)–7T, § 1.168(i)–8T, Prop. Reg. § 1.168(i)–1, Prop. Reg. § 1.168(i)–7, or Prop. Reg. § 1.168(i)–8, as applicable; and

(iii) that is owned by the taxpayer at the beginning of the year of change.

(b) *Inapplicability*. This change does not apply to the following:

(i) A taxpayer that wants to make this change for any taxable year beginning before January 1, 2012, or beginning on or after January 1, 2014; or

(ii) Any property that is not depreciated under § 168 under the taxpayer's present and proposed methods of accounting.

(2) *Certain scope limitations inapplicable*. The scope limitations in section 4.02 of this revenue procedure do not apply to a taxpayer that makes this change for any taxable year beginning on or after January 1, 2012, and beginning before January 1, 2014.

(3) *Changes covered*. Section 6.28 of this APPENDIX only applies to the following changes in methods of accounting for depreciation of MACRS property:

(a) For the items of MACRS property not subject to a general asset account election under § 168(i)(4) and the regulations thereunder—

(i) a change from single asset accounts (or item accounts) for specific items of MACRS property to multiple asset accounts (or pools) for the same assets, or

vice versa, in accordance with § 1.168(i)–7T or Prop. Reg. § 1.168(i)–7;

(ii) a change from grouping specific items of MACRS property in multiple asset accounts to a different grouping of the same assets in multiple asset accounts in accordance with § 1.168(i)–7T(c);

(iii) for the items of MACRS property accounted for in multiple asset accounts, a change in the method of identifying which assets have been disposed of by the taxpayer from the specific identification method under § 1.168(i)–8T(f)(1) or Prop. Reg. § 1.168(i)–8(g)(1), as applicable, to the first-in, first-out (FIFO) method of accounting under § 1.168(i)–8T(f)(2)(i) or Prop. Reg. § 1.168(i)–8(g)(2)(i), as applicable, or the modified FIFO method of accounting under § 1.168(i)–8T(f)(2)(ii) or Prop. Reg. § 1.168(i)–8(g)(2)(ii), as applicable;

(iv) for the items of MACRS property accounted for in multiple asset accounts, a change in the method of identifying which assets have been disposed of by the taxpayer from the FIFO method of accounting under § 1.168(i)–8T(f)(2)(i) or Prop. Reg. § 1.168(i)–8(g)(2)(i), as applicable, or the modified FIFO method of accounting under § 1.168(i)–8T(f)(2)(ii) or Prop. Reg. § 1.168(i)–8(g)(2)(ii), as applicable, to the specific identification method under § 1.168(i)–8T(f)(1) or Prop. Reg. § 1.168(i)–8(g)(1), as applicable;

(v) for the items of MACRS property accounted for in multiple asset accounts, a change in the method of identifying which assets have been disposed of by the taxpayer from the FIFO method of accounting under § 1.168(i)–8T(f)(2)(i) or Prop. Reg. § 1.168(i)–8(g)(2)(i), as applicable, to the modified FIFO method of accounting under § 1.168(i)–8T(f)(2)(ii) or Prop. Reg. § 1.168(i)–8(g)(2)(ii), as applicable, or vice versa;

(vi) for the items of MACRS property that are mass assets (as defined in § 1.168(i)–8T(b)(2) or Prop. Reg. § 1.168(i)–8(b)(3), as applicable) accounted for in multiple asset accounts, a change in the method of identifying which assets have been disposed of by the taxpayer from the specific identification method under § 1.168(i)–8T(f)(1) or Prop. Reg. § 1.168(i)–8(g)(1), as applicable, to a mortality dispersion table in accordance with § 1.168(i)–8T(f)(2)(iii) or Prop. Reg. § 1.168(i)–8(g)(2)(iii), as applicable;

(vii) for the items of MACRS property that are mass assets (as defined in § 1.168(i)–8T(b)(2) or Prop. Reg. § 1.168(i)–8(b)(3), as applicable) accounted for in multiple asset accounts, a change in the method of identifying which assets have been disposed of by the taxpayer from the FIFO method of accounting under § 1.168(i)–8T(f)(2)(i) or Prop. Reg. § 1.168(i)–8(g)(2)(i), as applicable, or the modified FIFO method of accounting under § 1.168(i)–8T(f)(2)(ii) or Prop. Reg. § 1.168(i)–8(g)(2)(ii), as applicable, to a mortality dispersion table in accordance with § 1.168(i)–8T(f)(2)(iii) or Prop. Reg. § 1.168(i)–8(g)(2)(iii), as applicable;

(viii) for the items of MACRS property that are mass assets (as defined in § 1.168(i)–8T(b)(2) or Prop. Reg. § 1.168(i)–8(b)(3), as applicable) accounted for in multiple asset accounts, a change in the method of identifying which assets have been disposed of by the taxpayer from a mortality dispersion table in accordance with § 1.168(i)–8T(f)(2)(iii) or Prop. Reg. § 1.168(i)–8(g)(2)(iii), as applicable, to the specific identification method under § 1.168(i)–8T(f)(1) or Prop. Reg. § 1.168(i)–8(g)(1), as applicable, the FIFO method of accounting under § 1.168(i)–8T(f)(2)(i) or Prop. Reg. § 1.168(i)–8(g)(2)(i), as applicable, or the modified FIFO method of accounting under § 1.168(i)–8T(f)(2)(ii) or Prop. Reg. § 1.168(i)–8(g)(2)(ii), as applicable;

(ix) if § 1.168(i)–8T(e)(2) or Prop. Reg. § 1.168(i)–8(f)(2), as applicable, applies to a disposition of an item of MACRS property in a multiple asset account, a change in the method of determining the unadjusted depreciable basis of all assets in the multiple asset account from one reasonable method to another reasonable method for purposes of determining the unadjusted depreciable basis of the disposed asset; or

(x) if Prop. Reg. § 1.168(i)–8(f)(3) applies to a disposition of more than one portion of the same asset, a change in the method of determining the unadjusted depreciable basis of all portions of the asset from one reasonable method to another reasonable method for purposes of determining the unadjusted depreciable basis of each disposed portion of the asset; and

(b) For the items of MACRS property subject to a general asset account election under § 168(i)(4) and the regulations thereunder—

(i) a change from grouping specific items of MACRS property in general asset accounts to a different grouping of the same assets in general asset accounts in accordance with § 1.168(i)–1T(c) or Prop. Reg. § 1.168(i)–1(c), as applicable;

(ii) a change in the method of identifying which assets have been disposed of by the taxpayer from the specific identification method under § 1.168(i)–1T(j)(2)(i) or Prop. Reg. § 1.168(i)–1(j)(2)(i)(A), as applicable, to the FIFO method of accounting under § 1.168(i)–1T(j)(2)(ii) or Prop. Reg. § 1.168(i)–1(j)(2)(i)(B), as applicable, or the modified FIFO method of accounting under § 1.168(i)–1T(j)(2)(iii) or Prop. Reg. § 1.168(i)–1(j)(2)(i)(C), as applicable;

(iii) a change in the method of identifying which assets have been disposed of by the taxpayer from the FIFO method of accounting under § 1.168(i)–1T(j)(2)(ii) or Prop. Reg. § 1.168(i)–1(j)(2)(i)(B), as applicable, or the modified FIFO method of accounting under § 1.168(i)–1T(j)(2)(iii) or Prop. Reg. § 1.168(i)–1(j)(2)(i)(C), as applicable, to the specific identification method under § 1.168(i)–1T(j)(2)(i) or Prop. Reg. § 1.168(i)–1(j)(2)(i)(A), as applicable;

(iv) a change in the method of identifying which assets have been disposed of by the taxpayer from the FIFO method of accounting under § 1.168(i)–1T(j)(2)(ii) or Prop. Reg. § 1.168(i)–1(j)(2)(i)(B), as applicable, to the modified FIFO method of accounting under § 1.168(i)–1T(j)(2)(iii), or Prop. Reg. § 1.168(i)–1(j)(2)(i)(C), as applicable, or vice versa;

(v) for the items of MACRS property that are mass assets (as defined in § 1.168(i)–1T(b)(5) or Prop. Reg. § 1.168(i)–1(b)(6), as applicable) accounted for in a separate general asset account in accordance with § 1.168–1T(c)(2)(ii)(H) or Prop. Reg. § 1.168(i)–1(c)(2)(ii)(H), as applicable, a change in the method of identifying which assets have been disposed of by the taxpayer from the specific identification method under § 1.168(i)–1T(j)(2)(i) or Prop. Reg.

§ 1.168(i)–1(j)(2)(i)(A), as applicable, to a mortality dispersion table in accordance with § 1.168(i)–1T(j)(2)(iv) or Prop. Reg. § 1.168(i)–1(j)(2)(i)(D), as applicable;

(vi) for the items of MACRS property that are mass assets (as defined in § 1.168(i)–1T(b)(5) or Prop. Reg. § 1.168(i)–1(b)(6), as applicable) accounted for in a separate general asset account in accordance with § 1.168–1T(c)(2)(ii)(H) or Prop. Reg. § 1.168(i)–1(c)(2)(ii)(H), as applicable, a change in the method of identifying which assets have been disposed of by the taxpayer from the FIFO method of accounting under § 1.168(i)–1T(j)(2)(ii) or Prop. Reg. § 1.168(i)–1(j)(2)(i)(B), as applicable, or the modified FIFO method of accounting under § 1.168(i)–1T(j)(2)(iii) or Prop. Reg. § 1.168(i)–1(j)(2)(i)(C), as applicable, to a mortality dispersion table in accordance with § 1.168(i)–1T(j)(2)(iv) or Prop. Reg. § 1.168(i)–1(j)(2)(i)(D), as applicable;

(vii) for the items of MACRS property that are mass assets (as defined in § 1.168(i)–1T(b)(5) or Prop. Reg. § 1.168(i)–1(b)(6), as applicable) accounted for in a separate general asset account in accordance with § 1.168–1T(c)(2)(ii)(H) or Prop. Reg. § 1.168(i)–1(c)(2)(ii)(H), as applicable, a change in the method of identifying which assets have been disposed of by the taxpayer from a mortality dispersion table in accordance with § 1.168(i)–1T(j)(2)(iv) or Prop. Reg. § 1.168(i)–1(j)(2)(i)(D), as applicable, to the specific identification method under § 1.168(i)–1T(j)(2)(i) or Prop. Reg. § 1.168(i)–1(j)(2)(i)(A), as applicable, the FIFO method of accounting under § 1.168(i)–1T(j)(2)(ii) or Prop. Reg. § 1.168(i)–1(j)(2)(i)(B), as applicable, or the modified FIFO method of accounting under § 1.168(i)–1T(j)(2)(iii) or Prop. Reg. § 1.168(i)–1(j)(2)(i)(C), as applicable; or

(viii) for purposes of determining the unadjusted depreciable basis of a disposed asset or a disposed portion of an asset in a general asset account, a change in the method of determining the unadjusted depreciable basis of all assets in the general asset account from one reasonable method to another reasonable method, in accordance with § 1.168(i)–1T(j)(3) or Prop. Reg. § 1.168(i)–1(j)(3), as applicable.

(4) *Manner of making change.*

(a) The changes in methods of accounting specified in section 6.28(3)(a)(i) and (ii) and section 6.28(3)(b)(i) of this APPENDIX are made using a modified cut-off method under which the unadjusted depreciable basis and the depreciation reserve of the asset as of the beginning of the year of change are accounted for using the new method of accounting.

(i) If the change specified in section 6.28(3)(a)(i) of this APPENDIX is a change to a single asset account, the new single asset account must include a beginning balance for both the unadjusted depreciable basis and the depreciation reserve of the asset included in that single asset account.

(ii) If the change specified in section 6.28(3)(a)(i) or (ii) of this APPENDIX is a change to a multiple asset account (either a new one or a different grouping), the multiple asset account must include a beginning balance for both the unadjusted depreciable basis and the depreciation reserve. The beginning balance for the unadjusted depreciable basis of each multiple asset account is equal to the sum of the unadjusted depreciable bases as of the beginning of the year of change for all assets included in that multiple asset account. The beginning balance of the depreciation reserve of each multiple asset account is equal to the sum of the greater of the depreciation allowed or allowable as of the beginning of the year of change for all assets included in that multiple asset account.

(iii) The change specified in section 6.28(3)(b)(i) of this APPENDIX requires the general asset account to include a beginning balance for both the unadjusted depreciable basis and the depreciation reserve. The beginning balance for the unadjusted depreciable basis of each general asset account is equal to the sum of the unadjusted depreciable bases as of the beginning of the year of change for all assets included in that general asset account. The beginning balance of the depreciation reserve of each general asset account is equal to the sum of the greater of the depreciation allowed or allowable as of the beginning of the year of change for all assets included in that general asset account.

(b) The changes in methods of accounting specified in section 6.28(3)(a)(iii), (vi), (ix), and (x) and section 6.28(3)(b)(ii), (v), and (viii) of this APPENDIX are made using a cut-off method and apply to dispositions occurring on or after the beginning of the year of change.

(c) Even though the changes in methods of accounting specified in section 6.28(3)(a)(iv), (v), (vii), and (viii) and section 6.28(3)(b)(iii), (iv), (vi), and (vii) of this APPENDIX are changes from one permissible method of accounting to another permissible method of accounting, these changes are made with a § 481(a) adjustment. For the changes in methods of accounting specified in section 6.28(3)(b)(iii), (iv), (vi), and (vii) of this APPENDIX, the § 481(a) adjustment should be zero unless § 1.168(i)–1T(e)(3) or Prop. Reg. § 1.168(i)–1(e)(3), as applicable, applies to the asset subject to the change.

(d) A taxpayer whose average annual gross receipts, as determined under § 1.263(a)–3(h)(3), for the three preceding taxable years is less than or equal to $10,000,000 ("qualifying taxpayer") is required to complete only the following information on Form 3115:

(i) The identification section of page 1 (above Part I);

(ii) The signature section at the bottom of page 1;

(iii) Part I, line 1(a);

(iv) Part II, all lines except lines 11, 13, 14, 15, and 17;

(v) Part IV, lines 24, 25, and 26; and

(vi) Schedule E, lines 3, 4a, 4b, and 4c.

(e) If any asset subject to this change is public utility property within the meaning of § 168(i)(10), a taxpayer (including a qualifying taxpayer) making this change must attach to its Form 3115 a statement providing that the taxpayer agrees to the following additional terms and conditions:

(i) A normalization method of accounting (within the meaning of § 168(i)(9)) will be used for the public utility property subject to the change;

(ii) As of the beginning of the year of change, the taxpayer will adjust its deferred tax reserve account or similar account in the taxpayer's regulatory books of account by the amount of the deferral of federal income tax liability associated with the § 481(a) adjustment applicable to

a change in method of accounting specified in section 6.28(3)(a)(iv), (v), (vii), or (viii) or section 6.28(3)(b)(iii), (iv), (vi), or (vii) of this APPENDIX made for the public utility property subject to the change; and

(iii) Within 30 calendar days of filing the federal income tax return for the year of change, the taxpayer will provide a copy of the completed application to any regulatory body having jurisdiction over the public utility property subject to the change.

(5) *Concurrent automatic change*.

(a) A taxpayer that wants to make a change under section 6.28 of this Appendix for more than one asset for the same year of change should file a single Form 3115 for all such assets. If the change for more than one asset included in that Form 3115 is specified in section 6.28(3)(a)(iv), (v), (vii), or (viii) or section 6.28(3)(b)(iii), (iv), (vi), or (vii) of this APPENDIX, the single Form 3115 also should provide a single net § 481(a) adjustment for all such changes. If one or more of the changes specified in section 6.28(3)(a)(iv), (v), (vii), or (viii) or section 6.28(3)(b)(iii), (iv), (vi), or (vii) of this APPENDIX in that single Form 3115 generate a negative § 481(a) adjustment and other changes specified in section 6.28(3)(a)(iv), (v), (vii), or (viii) or section 6.28(3)(b)(iii), (iv), (vi), or (vii) of this APPENDIX in that same Form 3115 generate a positive § 481(a) adjustment, the taxpayer may provide a single negative § 481(a) adjustment for all such changes that are included in that Form 3115 generating such negative adjustment and a single positive § 481(a) adjustment for all such changes that are included in that Form 3115 generating such positive adjustment.

(b) For a building, condominium unit, cooperative unit, structural component, or an improvement or addition thereto, a taxpayer that wants to make a change under section 6.28(3)(a)(iii), (iv), (v), (vi), (vii), (viii), (ix), or (x) of this APPENDIX, a change under section 6.29 of this APPENDIX, and/or a change under section 6.01 of this APPENDIX for the same year of change should file a single Form 3115 for all such changes and must enter the designated automatic accounting method change numbers for the changes on the appropriate line on the Form 3115. For guidance on filing a single application for two or more changes, see section 6.02(1)(b)(ii) of this revenue procedure.

(c) For section 1245 property or a depreciable land improvement, a taxpayer that wants to make a change under section 6.28(3)(a)(iii), (iv), (v), (vi), (vii), (viii), (ix), or (x) of this APPENDIX, a change under section 6.30 of this APPENDIX, and/or a change under section 6.01 of this APPENDIX for the same year of change should file a single Form 3115 for all such changes and must enter the designated automatic accounting method change numbers for the changes on the appropriate line on the Form 3115. For guidance on filing a single application for two or more changes, see section 6.02(1)(b)(ii) of this revenue procedure.

(d) A taxpayer that wants to make a change under section 6.28(3)(b)(ii), (iii), (iv), (v), (vi), (vii), or (viii) of this APPENDIX, a change under section 6.31 of this APPENDIX, and/or a change under section 6.01 of this APPENDIX for the same year of change should file a single Form 3115 for all such changes and must enter the designated automatic accounting method change numbers for the changes on the appropriate line on the Form 3115. For guidance on filing a single application for two or more changes, see section 6.02(1)(b)(ii) of this revenue procedure.

(e) A taxpayer that wants to make a change under section 6.28(3)(b)(ii), (iii), (iv), (v), (vi), (vii), or (viii) of this APPENDIX, a change under section 6.32(1)(a)(ii), (iii), (iv), or (v) of this APPENDIX, and/or a change under section 6.01 of this APPENDIX for the same year of change should file a single Form 3115 for all such changes and must enter the designated automatic accounting method change numbers for the changes on the appropriate line on the Form 3115. This section 6.28(5)(e) applies only if all of these changes are made for any taxable year beginning on or after January 1, 2012, and beginning before January 1, 2014. For guidance on filing a single application for two or more changes, see section 6.02(1)(b)(ii) of this revenue procedure.

(f) A taxpayer that wants to make a change under section 6.28(3)(b)(ii), (iii), (iv), (v), (vi), (vii), or (viii) of this APPENDIX, a change under section 6.31 of this APPENDIX, a change under section 6.32(1)(a)(ii), (iii), (iv), or (v) of this APPENDIX, and/or a change under section 6.01 of this APPENDIX for the same year of change should file a single Form 3115 for all such changes and must enter the designated automatic accounting method change numbers for the changes on the appropriate line on the Form 3115. This section 6.28(5)(f) applies only if all of these changes are made for any taxable year beginning on or after January 1, 2012, and beginning before January 1, 2014. For guidance on filing a single application for two or more changes, see section 6.02(1)(b)(ii) of this revenue procedure.

(g) A taxpayer that wants to make both this change and a change under section 6.01 of this APPENDIX for the same year of change should file a single Form 3115 for both changes and must enter the designated automatic accounting method change numbers for both changes on the appropriate line on the Form 3115. For guidance on filing a single application for two or more changes, see section 6.02(1)(b)(ii) of this revenue procedure.

(6) *Ogden copy of Form 3115 required in lieu of national office copy*. A taxpayer changing its method of accounting under this section 6.28 of the APPENDIX must file a signed copy of its completed Form 3115 with the IRS in Ogden, UT (Ogden copy), in lieu of filing the national office copy, no earlier than the first day of the year of change and no later than the date the taxpayer files the original Form 3115 with its federal income tax return for the year of change. *See* sections 6.02(3)(a)(ii)(B) (providing the general rules) and 6.02(7)(b) (providing the mailing address) of this revenue procedure.

(7) *Designated automatic accounting method change numbers*. The designated automatic accounting method change number for a change to the method of accounting under section 6.28 of this APPENDIX is "176." *See* section 6.02(4) of this revenue procedure.

(8) *Contact information*. For further information regarding a change under this section, contact Patrick Clinton at (202) 317-7005 (not a toll-free call).

(6) Section 6.29 of the APPENDIX of Rev. Proc. 2011–14 is modified to read as follows:

6.29 *Disposition of a building or structural component (section 168; § 1.168(i)–8T, and Prop. Reg. § 1.168(i)–8).*

(1) *Description of change*.

(a) *Applicability*. This change applies to a taxpayer that wants to make a change in method of accounting that is specified in section 6.29(3) of this APPENDIX pertaining to the disposition of a building or a structural component or the disposition of a portion of a building (including its structural components) to which the partial disposition rule in Prop. Reg. § 1.168(i)–8(d)(1) applies. These specified changes are consistent with §§ 1.168(i)–8T(b)(1), 1.168(i)–8T(c)(4)(ii)(A), (B), (C), (E), and (F), and 1.168(i)–8T(f), or Prop. Reg. §§ 1.168(i)–8(b)(2), 1.168(i)–8(c)(4)(ii)(A), (B), and (D), and 1.168(i)–8(g), as applicable. This change also affects the determination of gain or loss from the disposition of the building, the structural component, or the portion of the building (including its structural components) and may affect whether the taxpayer must capitalize amounts paid to restore a unit of property (as determined under § 1.263(a)–3T(e) or (f), or § 1.263(a)–3(e) or (f), as applicable) under § 1.263(a)–3T(i) or § 1.263(a)–3(k), as applicable.

(b) *Inapplicability*. This change does not apply to the following:

(i) A taxpayer that wants to make this change for any taxable year beginning before January 1, 2012, or beginning on or after January 1, 2014;

(ii) Any property (or if applicable, a portion thereof) that is not depreciated under § 168 under the taxpayer's present method of accounting and, if applicable, under the taxpayer's proposed method of accounting;

(iii) Any property subject to a general asset account election under § 168(i)(4) and the regulations thereunder (but see section 6.31 of this APPENDIX for making a change for dispositions of tangible depreciable assets subject to a general asset account election);

(iv) Any multiple buildings, condominium units, or cooperative units that are treated as a single building under the taxpayer's present method of accounting, or will be treated as a single building under the taxpayer's proposed method of accounting, pursuant to § 1.1250–1(a)(2)(ii); or

(v) Any disposition of a portion of an asset for which a partial disposition election under Prop. Reg. § 1.168(i)–8(d)(2) is required but for which the taxpayer did not make such election in accordance with Prop. Reg. § 1.168(i)–8(d)(2)(ii) or (iii), as applicable (but see section 6.33 of this APPENDIX for making a late partial disposition election and section 6.35 of this APPENDIX for making a partial disposition election pursuant to Prop. Reg. § 1.168(i)–8(d)(2)(iii)).

(2) *Certain scope limitations inapplicable*. The scope limitations in section 4.02 of this revenue procedure do not apply to a taxpayer that makes this change for any taxable year beginning on or after January 1, 2012, and beginning before January 1, 2014.

(3) *Covered changes*. Section 6.29 of this APPENDIX only applies to the following changes in methods of accounting for a building, condominium unit, cooperative unit, structural component, or an improvement or addition thereto:

(a) For purposes of applying § 1.168(i)–8T(c)(4) (determination of asset disposed of), a change to the appropriate asset as determined under § 1.168(i)–8T(c)(4)(ii)(A), (B), (C), (E), or (F), as applicable;

(b) If the taxpayer makes the change specified in section 6.29(3)(a) of this APPENDIX, and if the taxpayer disposed of the asset as determined under section 6.29(3)(a) of this APPENDIX in a taxable year prior to the year of change but continues to deduct depreciation for such disposed asset under the taxpayer's present method of accounting, a change from depreciating the disposed asset to recognizing gain or loss upon disposition;

(c) If the taxpayer's present method of accounting is in accord with § 1.168(i)–8T(c)(4)(ii)(A), (B), (C), (E), and (F), and if the taxpayer disposed of a building, condominium unit, cooperative unit, structural component, or an improvement or addition thereto in a taxable year prior to the year of change but continues to deduct depreciation for such disposed asset under the taxpayer's present method of accounting, a change from depreciating the disposed asset to recognizing gain or loss upon disposition;

(d) For buildings, condominium units, cooperative units, structural components, or improvements or additions thereto accounted for in multiple asset accounts, a change in the method of identifying which assets have been disposed of from a method of accounting not specified in § 1.168(i)–8T(f)(1) or (2)(i), (ii), or (iii) (for example, the last-in, first-out (LIFO) method of accounting) to a method of accounting specified in § 1.168(i)–8T(f)(1) or (2)(i), (ii), or (iii), as applicable;

(e) For purposes of applying Prop. Reg. § 1.168(i)–8(c)(4) (determination of asset disposed of), a change to the appropriate asset as determined under Prop. Reg. § 1.168(i)–8(c)(4)(ii)(A), (B), or (D), as applicable;

(f) If the taxpayer makes the change specified in section 6.29(3)(e) of this APPENDIX, and if the taxpayer disposed of the asset as determined under section 6.29(3)(e) of this APPENDIX or disposed of a portion of such asset in a taxable year prior to the year of change but continues to deduct depreciation for such disposed asset or such disposed portion under the taxpayer's present method of accounting, a change from depreciating the disposed asset or disposed portion to recognizing gain or loss upon disposition;

(g) If the taxpayer's present method of accounting is in accord with Prop. Reg. § 1.168(i)–8(c)(4)(ii)(A), (B), and (D), and if the taxpayer disposed of an asset as determined under Prop. Reg. § 1.168(i)–8(c)(4)(ii)(A), (B), or (D), as applicable, or disposed of a portion of such asset in a taxable year prior to the year of change but continues to deduct depreciation for such disposed asset or such disposed portion under the taxpayer's present method of accounting, a change from depreciating the disposed asset or disposed portion to recognizing gain or loss upon disposition;

(h) For buildings (including their structural components), condominium units (including their structural components), cooperative units (including their structural components), or improvements or additions thereto accounted for in multiple asset accounts, a change in the method of identifying which assets have been disposed of from a method of accounting not specified in Prop. Reg. § 1.168(i)–8(g)(1) or (2)(i), (ii), or (iii) (for example, the

last-in, first-out (LIFO) method of accounting) to a method of accounting specified in Prop. Reg. § 1.168(i)–8(g)(1) or (2)(i), (ii), or (iii), as applicable; or

(i) If the taxpayer makes the change specified in section 6.34 of this APPENDIX (revocation of a general asset account election), the taxpayer made a qualifying disposition election under § 1.168(i)–1T(e)(3)(iii) in a taxable year prior to the year of change for the disposition of an asset (as determined under Prop. Reg. § 1.168(i)–8(c)(4)(ii)(A), (B), or (D), as applicable) included in a general asset account, the taxpayer's present method of accounting for such asset is in accord with Prop. Reg. § 1.168(i)–8(c)(4)(ii)(A), (B), or (D), as applicable, and the taxpayer recognized a gain or loss under § 1.168(i)–8T upon the disposition of such asset in a taxable year prior to the year of change, a change from recognizing gain or loss upon the disposition of that asset under § 1.168(i)–8T to recognizing gain or loss upon the disposition of the same asset under Prop. Reg. § 1.168(i)–8.

(4) *Examples*. The following examples illustrate the covered changes specified in section 6.29(3) of this APPENDIX.

(a) *Example 1*. X, a calendar year taxpayer, acquired and placed in service a building and its structural components in 1990. X depreciates this building and its structural components under § 168. In 2000, X replaced the entire roof of the building. X did not recognize a loss on the retirement of the original roof and continues to depreciate the original roof. X also capitalized the cost of the replacement roof and has been depreciating this roof under § 168 since 2000. A change by X to treating the building as an asset and each structural component of the building as a separate asset for disposition purposes and also to change from depreciating the original roof to recognizing a loss upon its retirement is a covered change described in section 6.29(3)(a) and (b) of this APPENDIX solely for purposes of § 1.168(i)–8T(c)(4).

(b) *Example 2*. Y, a calendar-year taxpayer, acquired and placed in service a building and its structural components in 2000. In 2005, Y constructed and placed in service an addition to this building. Y depreciates the building, the addition, and their structural components under § 168. A change by Y to treating the original building as an asset, the addition to the building as a separate asset, and each structural component of the original building and the addition as a separate asset for disposition purposes is a change described in section 6.29(3)(a) of this APPENDIX solely for purposes of § 1.168(i)–8T(c)(4).

(c) *Example 3*. Z, a calendar-year taxpayer, acquired and placed in service a building and its structural components in 2000. In 2005, Z constructed and placed in service an addition to this building. Z depreciates the building, the addition, and their structural components under § 168. A change by Z to treating the original building (including its structural components) as an asset and the addition to the building (including the structural components of such addition) as a separate asset for disposition purposes is a change described in section 6.29(3)(e) of this APPENDIX solely for purposes of Prop. Reg. § 1.168(i)–8(c)(4).

(5) *Manner of making change*.

(a) A taxpayer (including a qualifying taxpayer as defined in section 6.29(5)(b)) making this change must attach to its Form 3115 a statement with the following:

(i) A description of the assets to which this change applies;

(ii) If the taxpayer is making a change specified in section 6.29(3)(a) or section 6.29(3)(e) of this APPENDIX, a description of the assets disposed of under the taxpayer's present and proposed methods of accounting;

(iii) If the taxpayer is making the change specified in section 6.29(3)(d) or section 6.29(3)(h) of this APPENDIX, a description of the method of identifying which assets have been disposed of under the taxpayer's present and proposed methods of accounting; and

(iv) If any asset is public utility property within the meaning of § 168(i)(10), a statement providing that the taxpayer agrees to the following additional terms and conditions:

(A) A normalization method of accounting (within the meaning of § 168(i)(9)) will be used for the public utility property subject to the application;

(B) As of the beginning of the year of change, the taxpayer will adjust its deferred tax reserve account or similar account in the taxpayer's regulatory books of account by the amount of the deferral of federal income tax liability associated with the § 481(a) adjustment applicable to the public utility property subject to the application; and

(C) Within 30 calendar days of filing the federal income tax return for the year of change, the taxpayer will provide a copy of the completed application to any regulatory body having jurisdiction over the public utility property subject to the application.

(b) A taxpayer whose average annual gross receipts, as determined under § 1.263(a)–3(h)(3), for the three preceding taxable years is less than or equal to $10,000,000 ("qualifying taxpayer") is required to complete only the following information on Form 3115:

(i) The identification section of page 1 (above Part I);

(ii) The signature section at the bottom of page 1;

(iii) Part I, line 1(a);

(iv) Part II, all lines except lines 11, 13, 14, 15, and 17;

(v) Part IV, lines 25 and 26; and

(vi) Schedule E, line 3.

(6) *No ruling on asset*. The consent granted under this revenue procedure for a change specified in section 6.29(3)(a) of this APPENDIX is not a determination by the Commissioner that the taxpayer is using the appropriate asset under § 1.168(i)–8T(c)(4) for determining what asset is disposed of by the taxpayer and does not create any presumption that the proposed asset is permissible under § 1.168(i)–8T(c)(4). Further, the consent granted under this revenue procedure for a change specified in section 6.29(3)(e) of this APPENDIX is not a determination by the Commissioner that the taxpayer is using the appropriate asset under Prop. Reg. § 1.168(i)–8(c)(4) for determining what asset is disposed of by the taxpayer and does not create any presumption that the proposed asset is permissible under Prop. Reg. § 1.168(i)–8(c)(4). The director will ascertain whether the taxpayer's determination of its asset under § 1.168(i)–8T(c)(4) or Prop. Reg. § 1.168(i)–8(c)(4), as applicable, is permissible.

(7) *Section 481(a) adjustment*. A taxpayer changing its method of accounting under section 6.29 of the APPENDIX may use statistical sampling in determining the § 481(a) adjustment by following the guidance provided in Rev. Proc. 2011–42, 2011–37 I.R.B. 318.

(8) *Section 481(a) adjustment period*.

(a) A taxpayer must take the entire amount of the § 481(a) adjustment into account in computing taxable income for the year of change:

(i) If the taxpayer is making the change specified in section 6.29(3)(e) of this APPENDIX and if the taxpayer recognized a gain or loss under § 1.168(i)–8T on the disposition of the asset (or if applicable, a portion thereof) in a taxable year prior to the year of change; or

(ii) If the taxpayer is making the change specified in section 6.29(3)(i) of this APPENDIX.

(b) For a change not described in section 6.29(8)(a) of this APPENDIX, see section 5.04 of this revenue procedure for the § 481(a) adjustment period.

(c) *Example*. Y, a calendar year taxpayer, acquired and placed in service a building and its structural components in 2000. Y depreciates this building and its structural components under § 168. The roof is a structural component of the building. Y replaced the entire roof in 2010. On its federal tax return for the taxable year ended December 31, 2010, Y did not recognize a loss on the retirement of the original roof and continues to depreciate the original roof. Y also capitalized the cost of the replacement roof and has been depreciating this roof under § 168 since June 2010. In accordance with § 1.168(i)–8T(c)(4)(ii)(A) and (B) and section 6.29(3)(a) and (b) of the APPENDIX to Rev. Proc. 2011–14, as modified by Rev. Proc. 2012–20, 2012–14 I.R.B. 700, Y filed with its federal income tax return for the taxable year ended December 31, 2012, a Form 3115 to treat the building as an asset and each structural component of the building as a separate asset for disposition purposes and also to change from depreciating the original roof to recognizing a loss upon its retirement. The amount of the net negative § 481(a) adjustment on this Form 3115 is $10,000, which is the amount of the loss recognized upon the retirement of the original roof. Y decides to apply Prop. Reg. § 1.168(i)–8 for its taxable year ending December 31, 2013, but decides not to make any late partial disposition election under section 6.33 of this APPENDIX. In accordance with section 6.29(3)(e) of this APPENDIX, Y files a Form 3115 with its 2013 federal income tax return to change to treating the original building (including its original roof and other original structural components) as an asset and the replacement roof as a separate asset for disposition purposes. Because Y is not making a late partial disposition election for the original roof, Y does not recognize the loss of $10,000 upon the retirement of the original roof under Prop. Reg. § 1.168(i)–8 and Y will continue to depreciate the original roof. Assume the depreciation deduction for the original roof is $500 for the 2012 taxable year. Thus, the net positive § 481(a) adjustment for this change is $9,500 (loss of $10,000 claimed on the 2012 return for the retirement of the original roof less depreciation of $500 for the original roof for 2012) and is included in Y's taxable income for 2013.

(9) *Concurrent automatic change*.

(a) A taxpayer that wants to make this change for more than one asset for the same year of change should file a single Form 3115 for all such assets and provide a single net § 481(a) adjustment for all the changes included in that Form 3115. If one or more of the changes in that single Form 3115 generate a negative § 481(a) adjustment and other changes in that same Form 3115 generate a positive § 481(a) adjustment, the taxpayer may provide a single negative § 481(a) adjustment for all the changes that are included in that Form 3115 generating such negative adjustment and a single positive § 481(a) adjustment for all the changes that are included in that Form 3115 generating such positive adjustment.

(b) For a building, condominium unit, cooperative unit, structural component, or an improvement or addition thereto, a taxpayer that wants to make this change, a change under section 6.28(3)(a)(iii), (iv), (v), (vi), (vii), (viii), (ix), or (x) of this APPENDIX, and/or a change under section 6.01 of this APPENDIX for the same year of change should file a single Form 3115 for all of such changes and must enter the designated automatic accounting method change numbers for the changes on the appropriate line on the Form 3115. For guidance on filing a single application for two or more changes, see section 6.02(1)(b)(ii) of this revenue procedure.

(c) A taxpayer that wants to make a change under section 6.29(3)(e), (f), (g), (h), or (i) of this APPENDIX, a change under section 6.01 of this APPENDIX, and/or a change under section 6.34 of this APPENDIX for the same year of change should file a single Form 3115 for all such changes and must enter the designated automatic accounting method change numbers for the changes on the appropriate line on the Form 3115. This section 6.29(9)(c) applies only if all of these changes are made for any taxable year beginning on or after January 1, 2012, and beginning before January 1, 2014. For guidance on filing a single application for two or more changes, see section 6.02(1)(b)(ii) of this revenue procedure.

(d) A taxpayer that wants to make both this change and a change under section 6.01 of this APPENDIX for the same year of change should file a single Form 3115 for both changes and must enter the designated automatic accounting method change numbers for both changes on the appropriate line on the Form 3115. For guidance on filing a single application for two or more changes, see section 6.02(1)(b)(ii) of this revenue procedure.

(10) *Ogden copy of Form 3115 required in lieu of national office copy*. A taxpayer changing its method of accounting under this section 6.29 of the APPENDIX must file a signed copy of its completed Form 3115 with the IRS in Ogden, UT (Ogden copy), in lieu of filing the national office copy, no earlier than the first day of the year of change and no later than the date the taxpayer files the original Form 3115 with its federal income tax return for the year of change. *See* sections 6.02(3)(a)(ii)(B) (providing the general rules) and 6.02(7)(b) (providing the mailing address) of this revenue procedure.

(11) *Designated automatic accounting method change numbers*. The designated automatic accounting method change number for a change to the method of accounting under section 6.29 of this APPENDIX is "177." *See* section 6.02(4) of this revenue procedure.

(12) *Contact information*. For further information regarding a change under this section, contact Patrick Clinton at (202) 317-7005 (not a toll-free call).

(7) Section 6.30 of the APPENDIX of Rev. Proc. 2011–14 is modified to read as follows:

6.30 *Dispositions of tangible depreciable assets (other than a building or its structural components) (section 168; § 1.168(i)–8T and Prop. Reg. § 1.168(i)–8).*

(1) *Description of change*.

(a) *Applicability*. This change applies to a taxpayer that wants to make a change in method of accounting that is specified in section 6.30(3) of this APPENDIX pertaining to the disposition of section 1245 property or a depreciable land improvement or the disposition of a portion of section 1245 property or a depreciable land improvement to which the partial disposition rule in Prop. Reg. § 1.168(i)–8(d)(1) applies. These specified changes are consistent with §§ 1.168(i)–8T(c)(4)(i), 1.168(i)–8T(c)(4)(ii)(D), (E), and (F), and 1.168(i)–8T(f), or Prop. Reg. §§ 1.168(i)–8(c)(4)(i), 1.168(i)–8(c)(4)(ii)(C) and (D), and 1.168(i)–8(g), as applicable. This change also affects the determination of gain or loss from the disposition of the section 1245 property, the depreciable land improvement, or a portion of the section 1245 property or depreciable land improvement, and may affect whether the taxpayer must capitalize amounts paid to restore a unit of property (as determined

under § 1.263(a)–3T(e) or (f) , or § 1.263(a)–3(e) or (f), as applicable) under § 1.263(a)–3T(i) or § 1.263(a)–3(k), as applicable.

(b) *Inapplicability*. This change does not apply to the following:

(i) A taxpayer that wants to make this change for any taxable year beginning before January 1, 2012, or beginning on or after January 1, 2014;

(ii) Any property (or if applicable, a portion thereof) that is not depreciated under § 168 under the taxpayer's present method of accounting and, if applicable, under the taxpayer's proposed method of accounting;

(iii) Any building, condominium unit, cooperative unit, structural component, or improvement or addition thereto (but see section 6.29 of this APPENDIX for making this change);

(iv) Any property subject to a general asset account election under § 168(i)(4) and the regulations thereunder (but see section 6.31 of this APPENDIX for making a change for dispositions of tangible depreciable assets subject to a general asset account election); or

(v) Any disposition of a portion of an asset for which a partial disposition election under Prop. Reg. § 1.168(i)–8(d)(2) is required but for which the taxpayer did not make such election in accordance with Prop. Reg. § 1.168(i)–8(d)(2)(ii) or (iii), as applicable (but see section 6.33 of this APPENDIX for making a late partial disposition election and section 6.35 of this APPENDIX for making a partial disposition election pursuant to Prop. Reg. § 1.168(i)–8(d)(2)(iii)).

(2) *Certain scope limitations inapplicable*. The scope limitations in section 4.02 of this revenue procedure do not apply to a taxpayer that makes this change for any taxable year beginning on or after January 1, 2012, and beginning before January 1, 2014.

(3) *Covered changes*. Section 6.30 of this APPENDIX only applies to the following changes in methods of accounting for a section 1245 property, a depreciable land improvement, or an improvement or addition thereto:

(a) For purposes of applying § 1.168(i)–8T(c)(4) (determination of asset disposed of), a change to the appropriate asset as determined under § 1.168(i)–8T(c)(4)(i), (ii)(D), (ii)(E), or (ii)(F), as applicable;

(b) If the taxpayer makes the change specified in section 6.30(3)(a) of this APPENDIX, and if the taxpayer disposed of the asset as determined under section 6.30(3)(a) of this APPENDIX in a taxable year prior to the year of change but continues to deduct depreciation for such disposed asset under the taxpayer's present method of accounting, a change from depreciating the disposed asset to recognizing gain or loss upon disposition;

(c) If the taxpayer's present method of accounting is in accord with § 1.168(i)–8T(c)(4)(i) or (ii), as applicable, for the section 1245 property, the depreciable land improvement, or the improvement or addition thereto, and if the taxpayer disposed of such asset in a taxable year prior to the year of change but continues to deduct depreciation for this disposed asset under the taxpayer's present method of accounting, a change from depreciating the disposed asset to recognizing gain or loss upon disposition;

(d) For section 1245 property, depreciable land improvements, or improvements or additions thereto accounted for in multiple asset accounts, a change in the method of identifying which assets have been disposed of from a method of accounting not specified in § 1.168(i)–8T(f)(1) or (2)(i), (ii), or (iii) (for example, the last-in, first-out (LIFO) method of accounting) to a method of accounting specified in § 1.168(i)–8T(f)(1) or (2)(i), (ii), or (iii), as applicable;

(e) For purposes of applying Prop. Reg. § 1.168(i)–8(c)(4) (determination of asset disposed of), a change to the appropriate asset as determined under Prop. Reg. § 1.168(i)–8(c)(4)(i), (ii)(C), or (ii)(D), as applicable;

(f) If the taxpayer makes the change specified in section 6.30(3)(e) of this APPENDIX, and if the taxpayer disposed of the asset as determined under section 6.30(3)(e) of this APPENDIX or disposed of a portion of such asset in a taxable year prior to the year of change but continues to deduct depreciation for such disposed asset or such disposed portion, as applicable, under the taxpayer's present method of accounting, a change from depreciating the disposed asset or disposed portion, as applicable, to recognizing gain or loss upon disposition;

(g) If the taxpayer's present method of accounting is in accord with Prop. Reg. § 1.168(i)–8(c)(4)(i) or (ii), as applicable, for the section 1245 property, the depreciable land improvement, or the improvement or addition thereto and if the taxpayer disposed of such asset or a portion of such asset in a taxable year prior to the year of change but continues to deduct depreciation for this disposed asset or disposed portion, as applicable, under the taxpayer's present method of accounting, a change from depreciating the disposed asset or disposed portion, as applicable, to recognizing gain or loss upon disposition;

(h) For section 1245 property, depreciable land improvements, or improvements or additions thereto accounted for in multiple asset accounts, a change in the method of identifying which assets have been disposed of from a method of accounting not specified in Prop. Reg. § 1.168(i)–8(g)(1) or (2)(i), (ii), or (iii) (for example, the last-in, first-out (LIFO) method of accounting) to a method of accounting specified in Prop. Reg. § 1.168(i)–8(g)(1) or (2)(i), (ii), or (iii), as applicable; or

(i) If the taxpayer makes the change specified in section 6.34 of this APPENDIX (revocation of a general asset account election), the taxpayer made a qualifying disposition election under § 1.168(i)–1T(e)(3)(iii) in a taxable year prior to the year of change for the disposition of a section 1245 property, depreciable land improvement, or improvement or addition thereto included in a general asset account, the taxpayer's present method of accounting for such asset is in accord with Prop. Reg. § 1.168(i)–8(c)(4)(i) or (ii), as applicable, and the taxpayer recognized a gain or loss under § 1.168(i)–8T on the disposition of such asset in a taxable year prior to the year of change, a change from recognizing gain or loss upon the disposition of that asset under § 1.168(i)–8T to recognizing gain or loss upon the disposition of the same asset under Prop. Reg. § 1.168(i)–8.

(4) *Manner of making change.*

(a) A taxpayer (including a qualifying taxpayer as defined in section 6.30(4)(b)) making this change must attach to its Form 3115 a statement with the following:

(i) A description of the assets to which this change applies;

(ii) If the taxpayer is making a change specified in section 6.30(3)(a) of this APPENDIX, a description of the assets disposed of under the taxpayer's present and proposed methods of accounting and a statement as to whether or not the taxpayer, under its proposed method of accounting, is treating each of an asset's components as the asset in accordance with § 1.168(i)–8T(c)(4)(ii)(F);

(iii) If the taxpayer is making a change specified in section 6.30(3)(e) of this APPENDIX, a description of the assets disposed of under the taxpayer's present and proposed methods of accounting;

(iv) If the taxpayer is making the change specified in section 6.30(3)(d) or section 6.30(3)(h) of this APPENDIX, a description of the method of identifying which assets have been disposed of under the taxpayer's present and proposed methods of accounting; and

(v) If any asset is public utility property within the meaning of § 168(i)(10), a statement providing that the taxpayer agrees to the following additional terms and conditions:

(A) A normalization method of accounting (within the meaning of § 168(i)(9)) will be used for the public utility property subject to the application;

(B) As of the beginning of the year of change, the taxpayer will adjust its deferred tax reserve account or similar account in the taxpayer's regulatory books of account by the amount of the deferral of federal income tax liability associated with the § 481(a) adjustment applicable to the public utility property subject to the application; and

(C) Within 30 calendar days of filing the federal income tax return for the year of change, the taxpayer will provide a copy of the completed application to any regulatory body having jurisdiction over the public utility property subject to the application.

(b) A taxpayer whose average annual gross receipts, as determined under § 1.263(a)–3(h)(3), for the three preceding taxable years is less than or equal to $10,000,000 ("qualifying taxpayer") is required to complete only the following information on Form 3115:

(i) The identification section of page 1 (above Part I);

(ii) The signature section at the bottom of page 1;

(iii) Part I, line 1(a);

(iv) Part II, all lines except lines 11, 13, 14, 15, and 17;

(v) Part IV, lines 25 and 26; and

(vi) Schedule E, line 3.

(5) *No ruling on asset.* The consent granted under this revenue procedure for a change specified in section 6.30(3)(a) of this APPENDIX is not a determination by the Commissioner that the taxpayer is using the appropriate asset under § 1.168(i)–8T(c)(4) for determining what asset is disposed of by the taxpayer and does not create any presumption that the proposed asset is permissible under § 1.168(i)–8T(c)(4). Further, the consent granted under this revenue procedure for a change specified in section 6.30(3)(e) of this APPENDIX is not a determination by the Commissioner that the taxpayer is using the appropriate asset under Prop. Reg. § 1.168(i)–8(c)(4) for determining what asset is disposed of by the taxpayer and does not create any presumption that the proposed asset is permissible under Prop. Reg. § 1.168(i)–8(c)(4). The director will ascertain whether the taxpayer's determination of its asset under § 1.168(i)–8T(c)(4) or Prop. Reg. § 1.168(i)–8(c)(4), as applicable, is permissible.

(6) *Section 481(a) adjustment.* A taxpayer changing its method of accounting under section 6.30 of the APPENDIX may use statistical sampling in determining the § 481(a) adjustment by following the guidance provided in Rev. Proc. 2011–42, 2011–37 I.R.B. 318.

(7) *Section 481(a) adjustment period.*

(a) A taxpayer must take the entire amount of the § 481(a) adjustment into account in computing taxable income for the year of change:

(i) If the taxpayer is making the change specified in section 6.30(3)(e) of this APPENDIX and if the taxpayer recognized a gain or loss under § 1.168(i)–8T on the disposition of the section 1245 property, depreciable land improvement, or improvement or addition thereto (or if applicable, a portion of such asset) in a taxable year prior to the year of change; or

(ii) If the taxpayer is making the change specified in section 6.30(3)(i) of this APPENDIX.

(b) For a change not described in section 6.30(7)(a) of this APPENDIX, see section 5.04 of this revenue procedure for the § 481(a) adjustment period.

(8) *Concurrent automatic change.*

(a) A taxpayer that wants to make this change for more than one asset for the same year of change should file a single Form 3115 for all such assets and provide a single net § 481(a) adjustment for all the changes included in that Form 3115. If one or more of the changes in that single Form 3115 generate a negative § 481(a) adjustment and other changes in that same Form 3115 generate a positive § 481(a) adjustment, the taxpayer may provide a single negative § 481(a) adjustment for all the changes that are included in that Form 3115 generating such negative adjustment and a single positive § 481(a) adjustment for all the changes that are included in that Form 3115 generating such positive adjustment. For guidance on filing a single application for two or more changes, see section 6.02(1)(b)(ii) of Rev. Proc. 2011–14.

(b) For a section 1245 property or a depreciable land improvement that is depreciated under § 168, a taxpayer that wants to make this change, a change under section 6.28(3)(a)(iii), (iv), (v), (vi), (vii), (viii), (ix), or (x) of this APPENDIX, and/or a change under section 6.01 of this APPENDIX for the same year of change should file a single Form 3115 for all such changes and must enter the designated automatic accounting method change numbers for the changes on the appropriate line on the Form 3115. For guidance on filing a single application for two or more changes, see section 6.02(1)(b)(ii) of this revenue procedure.

(c) A taxpayer that wants to make a change under section 6.30(3)(e), (f), (g), (h), or (i) of this APPENDIX, a change under section 6.01 of this APPENDIX, and/or a change under section 6.34 of this APPENDIX for the same year of change should file a single Form 3115 for all such changes and must enter the designated automatic accounting method change numbers for the changes on the appropriate line on the Form 3115. This section 6.30(8)(c) applies only if all of these changes are made for any taxable year

beginning on or after January 1, 2012, and beginning before January 1, 2014. For guidance on filing a single application for two or more changes, see section 6.02(1)(b)(ii) of this revenue procedure.

(d) A taxpayer that wants to make both this change and a change under section 6.01 of this APPENDIX for the same year of change should file a single Form 3115 for both changes and must enter the designated automatic accounting method change numbers for both changes on the appropriate line on the Form 3115. For guidance on filing a single application for two or more changes, see section 6.02(1)(b)(ii) of this revenue procedure.

(9) *Ogden copy of Form 3115 required in lieu of national office copy*. A taxpayer changing its method of accounting under this section 6.30 of the APPENDIX must file a signed copy of its completed Form 3115 with the IRS in Ogden, UT (Ogden copy), in lieu of filing the national office copy, no earlier than the first day of the year of change and no later than the date the taxpayer files the original Form 3115 with its federal income tax return for the year of change. *See* sections 6.02(3)(a)(ii)(B) (providing the general rules) and 6.02(7)(b) (providing the mailing address) of this revenue procedure.

(10) *Designated automatic accounting method change numbers*. The designated automatic accounting method change number for a change to the method of accounting under section 6.30 of this APPENDIX is "178." *See* section 6.02(4) of this revenue procedure.

(11) *Contact information*. For further information regarding a change under this section, contact Patrick Clinton at (202) 317-7005 (not a toll-free call).

(8) Section 6.31 of the APPENDIX of Rev. Proc. 2011–14 is modified to read as follows:

6.31 *Dispositions of tangible depreciable assets in a general asset account (section 168(i)(4); § 1.168(i)–1T and Prop. Reg. § 1.168(i)–1)*.

(1) *Description of change*.

(a) *Applicability*. This change applies to a taxpayer that wants to make a change in method of accounting that is specified in section 6.31(3) of this APPENDIX pertaining to the disposition of an asset subject to a general asset account election under § 168(i)(4) and the regulations thereunder. These specified changes are consistent with §§ 1.168(i)–1T(e)(1), 1.168(i)–1T(e)(2)(viii), and 1.168(i)–1T(j), or Prop. Reg. §§ 1.168(i)–1(e)(1), 1.168(i)–1(e)(2)(viii), and 1.168(i)–1(j), as applicable. This change also may affect the determination of gain or loss from the disposition of the asset and may affect whether the taxpayer must capitalize amounts paid to restore a unit of property (as determined under § 1.263(a)–3T(e) or (f), or § 1.263(a)–3(e) or (f), as applicable) under § 1.263(a)–3T(i) or § 1.263(a)–3(k), as applicable.

(b) *Inapplicability*. This change does not apply to the following:

(i) A taxpayer that wants to make this change for any taxable year beginning before January 1, 2012, or beginning on or after January 1, 2014;

(ii) Any property that is not depreciated under § 168 under the taxpayer's present method of accounting and, if applicable, proposed method of accounting; or

(iii) Any property not subject to a general asset account election under § 168(i)(4) and the regulations thereunder (but see sections 6.29 and 6.30 of this APPENDIX for making a change for dispositions of tangible depreciable assets not subject to a general asset account election).

(2) *Certain scope limitations inapplicable*. The scope limitations in section 4.02 of this revenue procedure do not apply to a taxpayer that makes this change for any taxable year beginning on or after January 1, 2012, and beginning before January 1, 2014.

(3) *Covered changes*. Section 6.31 of this APPENDIX only applies to the following changes in methods of accounting for an asset subject to a general asset account election under § 168(i)(4) and the regulations thereunder:

(a) For purposes of applying § 1.168(i)–1T(e)(2)(viii) (determination of asset disposed of), a change to the appropriate asset as determined under § 1.168(i)–1T(e)(2)(viii)(A) or (B), as applicable;

(b) A change in the method of identifying which assets have been disposed of from a method of accounting not specified in § 1.168(i)–1T(j)(2)(i), (ii), (iii), or (iv) (for example, the last-in, first-out (LIFO) method of accounting) to a method of accounting specified in § 1.168(i)–1T(j)(2)(i), (ii), (iii), or (iv), as applicable;

(c) For purposes of applying Prop. Reg. § 1.168(i)–1(e)(2)(viii) (determination of asset disposed of), a change to the appropriate asset as determined under Prop. Reg. § 1.168(i)–1(e)(2)(viii)(A) or (B), as applicable; or

(d) A change in the method of identifying which assets have been disposed of from a method of accounting not specified in Prop. Reg. § 1.168(i)–1(j)(2)(i)(A), (B), (C), or (D) (for example, the last-in, first-out (LIFO) method of accounting) to a method of accounting specified in Prop. Reg. § 1.168(i)–1(j)(2)(i)(A), (B), (C), or (D), as applicable.

(4) *Manner of making change*.

(a) A taxpayer (including a qualifying taxpayer as defined in section 6.31(4)(b)) making this change must attach to its Form 3115 a statement with the following:

(i) A description of the assets to which this change applies;

(ii) If the taxpayer is making the change specified in section 6.31(3)(a) of this APPENDIX, a description of the assets disposed of by the taxpayer under the taxpayer's present and proposed methods of accounting and a statement as to whether or not the taxpayer, under its proposed method of accounting, is treating each of an asset's components as the asset in accordance with § 1.168(i)–1T(e)(2)(viii)(B)(6);

(iii) If the taxpayer is making the change specified in section 6.31(3)(c) of this APPENDIX, a description of the assets disposed of by the taxpayer under the taxpayer's present and proposed methods of accounting;

(iv) If the taxpayer is making the change specified in section 6.31(3)(b) or section 6.31(3)(d) of this APPENDIX, a description of the method of identifying which assets have been disposed of under the taxpayer's present and proposed methods of accounting; and

(v) If any asset is public utility property within the meaning of § 168(i)(10), a statement providing that the taxpayer agrees to the following additional terms and conditions:

(A) A normalization method of accounting (within the meaning of § 168(i)(9)) will be used for the public utility property subject to the application;

(B) As of the beginning of the year of change, the taxpayer will adjust its deferred tax reserve account or similar account in the taxpayer's regulatory books of account by the amount of the deferral of federal income tax liability associated with the § 481(a) adjustment applicable to the public utility property subject to the application; and

(C) Within 30 calendar days of filing the federal income tax return for the year of change, the taxpayer will provide a copy of the completed application to any regulatory body having jurisdiction over the public utility property subject to the application.

(b) A taxpayer whose average annual gross receipts, as determined under § 1.263(a)–3(h)(3), for the three preceding taxable years is less than or equal to $10,000,000 ("qualifying taxpayer") is required to complete only the following information on Form 3115:

(i) The identification section of page 1 (above Part I);

(ii) The signature section at the bottom of page 1;

(iii) Part I, line 1(a);

(iv) Part II, all lines except lines 11, 13, 14, 15, and 17;

(v) Part IV, lines 25 and 26; and

(vi) Schedule E, line 3.

(5) *No ruling on asset.* The consent granted under this revenue procedure for a change specified in section 6.31(3)(a) of this APPENDIX is not a determination by the Commissioner that the taxpayer is using the appropriate asset under § 1.168(i)–1T(e)(2)(viii) for determining what asset is disposed of by the taxpayer and does not create any presumption that the proposed asset is permissible under § 1.168(i)–1T(e)(2)(viii). Further, the consent granted under this revenue procedure for a change specified in section 6.31(3)(c) of this APPENDIX is not a determination by the Commissioner that the taxpayer is using the appropriate asset under Prop. Reg. § 1.168(i)–1(e)(2)(viii) for determining what asset is disposed of by the taxpayer and does not create any presumption that the proposed asset is permissible under Prop. Reg. § 1.168(i)–1(e)(2)(viii). The director will ascertain whether the taxpayer's determination of its asset under § 1.168(i)–1T(e)(2)(viii) or Prop. Reg. § 1.168(i)–1(e)(2)(viii), as applicable, is permissible.

(6) *Section 481(a) adjustment period.*

(a) If a taxpayer makes the change specified in section 6.31(3)(c) of this APPENDIX and if the taxpayer recognized a gain or loss under § 1.168(i)–1T or § 1.168(i)–8T, as applicable, on the disposition of a portion of the asset in a taxable year prior to the year of change, the taxpayer must take the entire amount of the § 481(a) adjustment into account in computing taxable income for the year of change.

(b) For a change not described in section 6.31(6)(a) of this APPENDIX, see section 5.04 of this revenue procedure for the § 481(a) adjustment period.

(c) *Example.* (i) X, a calendar year taxpayer, acquired and placed in service a building and its structural components in 2000. X depreciates this building and its structural components under § 168. The roof is a structural component of the building. X replaced the entire roof in 2010. On its federal tax return for the taxable year ended December 31, 2010, X did not recognize a loss on the retirement of the original roof and continues to depreciate the original roof. X also capitalized the cost of the replacement roof and has been depreciating this roof under § 168 since June 2010.

(ii) In accordance with § 1.168(i)–1T and section 6.32(1)(a) of the APPENDIX to Rev. Proc. 2011–14, as modified by Rev. Proc. 2012–20, 2012–14 I.R.B. 700, X filed with its federal tax return for the taxable year ended December 31, 2012, a Form 3115 to: (1) make a late general asset account election to include the building (including its structural components) placed in service in 2000 in one general asset account and the replacement roof in a separate general asset account; and (2) make a late qualifying disposition election for the retirement of the original roof in 2010. As a result, X removed the original roof from the general asset account and reported a net negative § 481(a) adjustment on this Form 3115 of $10,000, which is the loss recognized upon the retirement of the original roof.

(iii) X decides to apply Prop. Reg. § 1.168(i)–1 for its taxable year ending December 31, 2013. In accordance with section 6.31(3)(c) of this APPENDIX, X files a Form 3115 with its 2013 federal income tax return to change to treating the building (including its original roof and other original structural components) placed in service in 2000 as an asset and the replacement roof as a separate asset for disposition purposes. As a result, X must include the original roof that X retired in 2010 in the general asset account. Assume the depreciation for this original roof is $500 for the 2012 taxable year. Thus, the net positive § 481(a) adjustment for this change is $9,500 (loss of $10,000 claimed on the 2012 return for the retirement of the original roof less depreciation of $500 for the original roof for 2012) and is included in X's taxable income for 2013.

(7) *Concurrent automatic change.*

(a) A taxpayer that wants to make this change for more than one asset for the same year of change should file a single Form 3115 for all such assets and provide a single net § 481(a) adjustment for all the changes included in that Form 3115. If one or more of the changes in that single Form 3115 generate a negative § 481(a) adjustment and other changes in that same Form 3115 generate a positive § 481(a) adjustment, the taxpayer may provide a single negative § 481(a) adjustment for all the changes that are included in that Form 3115 generating such negative adjustment and a single positive § 481(a) adjustment for all the changes that are included in that Form 3115 generating such positive adjustment.

(b) A taxpayer that wants to make this change, a change under section 6.28(3)(b)(ii), (iii), (iv), (v), (vi), (vii), or (viii) of this APPENDIX, and/or a change under section 6.01 of this APPENDIX for the same year of change should file a single Form 3115 for all such changes and must enter the designated automatic accounting method change numbers for the changes on the appropriate line on the Form 3115. For guidance on filing a single application for two or more changes, see section 6.02(1)(b)(ii) of this revenue procedure.

(c) A taxpayer that wants to make this change, a change under section 6.32(1)(a)(ii), (iii), (iv), or (v) of this APPENDIX and/or a change under section 6.01 of this APPENDIX for the same year of change should file a single Form 3115 for all such changes and must enter the designated automatic accounting method change numbers for the changes on the appropriate line on the Form 3115. This section 6.31(8)(c) applies only if both changes are made for any taxable year beginning on or after January 1, 2012, and beginning before January 1, 2014. For guidance on filing a single application for two or more changes, see section 6.02(1)(b)(ii) of this revenue procedure.

(d) A taxpayer that wants to make this change, a change under section 6.28(3)(b)(ii), (iii), (iv), (v), (vi), (vii), or (viii) of this APPENDIX, a change under

section 6.32(1)(a)(ii), (iii), (iv), or (v) of this APPENDIX, and/or a change under section 6.01 of this APPENDIX for the same year of change should file a single Form 3115 for all such changes and must enter the designated automatic accounting method change numbers for the changes on the appropriate line on the Form 3115. This section 6.31(8)(d) applies only if all of these changes are made for any taxable year beginning on or after January 1, 2012, and beginning before January 1, 2014. For guidance on filing a single application for two or more changes, see section 6.02(1)(b)(ii) of this revenue procedure.

(e) A taxpayer that wants to make both this change and a change under section 6.01 of this APPENDIX for the same year of change should file a single Form 3115 for both changes and must enter the designated automatic accounting method change numbers for both changes on the appropriate line on the Form 3115. For guidance on filing a single application for two or more changes, see section 6.02(1)(b)(ii) of this revenue procedure.

(8) *Ogden copy of Form 3115 required in lieu of national office copy*. A taxpayer changing its method of accounting under this section 6.31 of the APPENDIX must file a signed copy of its completed Form 3115 with the IRS in Ogden, UT (Ogden copy), in lieu of filing the national office copy, no earlier than the first day of the year of change and no later than the date the taxpayer files the original Form 3115 with its federal income tax return for the year of change. *See* sections 6.02(3)(a)(ii)(B) (providing the general rules) and 6.02(7)(b) (providing the mailing address) of this revenue procedure.

(9) *Designated automatic accounting method change numbers*. The designated automatic accounting method change number for a change to the method of accounting under section 6.31 of this APPENDIX is "179." *See* section 6.02(4) of this revenue procedure.

(10) *Contact information*. For further information regarding a change under this section, contact Patrick Clinton at (202) 317-7005 (not a toll-free call).

(9) Section 6.32 of the APPENDIX of Rev. Proc. 2011–14 is modified to read as follows:

6.32 *General asset account elections (section 168(i)(4); § 1.168(i)–1T, and Prop. Reg. § 1.168(i)–1).*

(1) *Description of change*.

(a) *Applicability*. This change applies to a taxpayer that wants to make:

(i) A late general asset account election under §§ 168(i)(4), 1.168(i)–1T, or Prop. Reg. § 1.168(i)–1, for one or more items of MACRS property that is placed in service by the taxpayer in a taxable year beginning before January 1, 2012, and owned by the taxpayer at the beginning of the year of change. This change also may affect whether the taxpayer must capitalize amounts paid to restore a unit of property (as determined under § 1.263(a)–3T(e) or (f), or § 1.263(a)–3(e) or (f), as applicable) under §1.263(a)–3T(i) or § 1.263(a)–3(k), as applicable;

(ii) A late election to recognize gain or loss upon the disposition of all of the assets, or the last asset, in a general asset account in accordance with § 1.168(i)–1T(e)(3)(ii). This change also may affect whether the taxpayer must capitalize amounts paid to restore a unit of property (as determined under § 1.263(a)–3T(e) or (f), or § 1.263(a)–3(e) or (f), as applicable) under §1.263(a)–3T(i) or § 1.263(a)–3(k), as applicable;

(iii) A late election to recognize gain or loss upon the disposition of all of the assets, the last asset, or the last portion of the last asset, in a general asset account in accordance with Prop. Reg. § 1.168(i)–1(e)(3)(ii). This change also may affect whether the taxpayer must capitalize amounts paid to restore a unit of property (as determined under § 1.263(a)–3T(e) or (f), or § 1.263(a)–3(e) or (f), as applicable) under §1.263(a)–3T(i) or § 1.263(a)–3(k), as applicable;

(iv) For an item of MACRS property subject to a general asset account election, a late election to recognize gain or loss upon the disposition of that item in a qualifying disposition (as defined in § 1.168(i)–1T(e)(3)(iii)(B)) in accordance with § 1.168(i)–1T(e)(3)(iii). This change also may affect whether the taxpayer must capitalize amounts paid to restore a unit of property (as determined under § 1.263(a)–3T(e) or (f), or § 1.263(a)–3(e) or (f), as applicable) under § 1.263(a)–3T(i) or § 1.263(a)–3(k), as applicable; or

(v) For an item of MACRS property subject to a general asset account election, a late election to recognize gain or loss upon the disposition of that item in a qualifying disposition (as defined in Prop. Reg. § 1.168(i)–1(e)(3)(iii)(B)) in accordance with Prop. Reg. § 1.168(i)–1(e)(3)(iii). This change also may affect whether the taxpayer must capitalize amounts paid to restore a unit of property (as determined under § 1.263(a)–3T(e) or (f), or § 1.263(a)–3(e) or (f), as applicable) under § 1.263(a)–3T(i) or § 1.263(a)–3(k), as applicable.

(b) *Inapplicability*. Because of the changes made to the existing general asset account regulations by § 1.168(i)–1T and Prop. Reg. § 1.168(i)–1, the IRS will treat the making of the late elections specified in section 6.32(1)(a) of this APPENDIX as a change in method of accounting only for the time specified in section 6.32(2) of this APPENDIX. Accordingly, this treatment does not apply to a taxpayer that makes any late election specified in section 6.32(1)(a) of this APPENDIX after the time specified in section 6.32(2) of this APPENDIX, and any such late election is not a change in method of accounting pursuant to § 1.446–1(e)(2)(ii)(*d*)(*3*)(*iii*).

(2) *Time for making the change*. The change under section 6.32 of this APPENDIX must be made for any taxable year beginning on or after January 1, 2012, and beginning before January 1, 2014.

(3) *Scope limitations inapplicable*. The scope limitations in section 4.02 of this revenue procedure do not apply to this change.

(4) *Manner of making change*.

(a) The change specified in section 6.32(1)(a)(i) of this APPENDIX is made using a modified cut-off method under which the unadjusted depreciable basis and the depreciation reserve of the asset as of the beginning of the year of change are accounted for using the new method of accounting. This change requires the general asset account to include a beginning balance for both the unadjusted depreciable basis and the depreciation reserve. The beginning balance for the unadjusted depreciable basis of each general asset account is equal to the sum of the unadjusted depreciable bases as of the beginning of the year of change for all assets included in that general asset account. The begin-

ning balance of the depreciation reserve of each general asset account is equal to the sum of the greater of the depreciation allowed or allowable as of the beginning of the year of change for all assets included in that general asset account.

(b) The change specified in section 6.32(1)(a)(ii), (iii), (iv), or (v) of this APPENDIX is made with a § 481(a) adjustment.

(c) A taxpayer whose average annual gross receipts, as determined under § 1.263(a)–3(h)(3), for the three preceding taxable years is less than or equal to $10,000,000 ("qualifying taxpayer") is required to complete only the following information on Form 3115:

(i) The identification section of page 1 (above Part I);

(ii) The signature section at the bottom of page 1;

(iii) Part I, line 1(a);

(iv) Part II, all lines except lines 11, 13, 14, 15, and 17;

(v) Part IV, lines 24, 25, and 26; and

(vi) Schedule E, lines 3, 4a, 4b, and 4c.

(d) A taxpayer (including a qualifying taxpayer) making the change specified in section 6.32(1)(a)(i), (iv), or (v) of this APPENDIX must attach to its Form 3115 a statement with a description of the asset(s) to which this change applies (for example, all 5-year property placed in service in 2009 in Holmdel, New Jersey facility (for a change specified in section 6.32(1)(a)(i) of this APPENDIX); one desk costing $2,000 in 2007 General Asset Account #1 (for a change specified in section 6.32(1)(a)(iv) of this APPENDIX)).

(e) A taxpayer (including a qualifying taxpayer) making the change specified in section 6.32(1)(a)(ii) or (iii) of this APPENDIX must attach to its Form 3115 a statement with a description of the general asset account(s) to which this change applies (for example, General Asset Account #2 – all 2008 5-year property additions).

(f) A taxpayer (including a qualifying taxpayer) making the change specified in section 6.32(1)(a)(i) of this APPENDIX must attach to its Form 3115 a statement providing that the taxpayer agrees to the following additional terms and conditions:

(i) The taxpayer consents to, and agrees to apply, all of the provisions of § 1.168(i)–1 and [*Insert, as appropriate, either: § 1.168(i)–1T, or Prop. Reg. § 1.168(i)–1*] to the assets that are subject to the election specified in section 6.32(1)(a)(i) of this APPENDIX; and

(ii) Except as provided in [*Insert, as appropriate, either: § 1.168(i)–1T(c)(1)(ii)(A), (e)(3), (g), or (h), or Prop. Reg. § 1.168(i)–1(c)(1)(iii)(A), (e)(3), (g), or (h)*], the election made by the taxpayer under section 6.32(1)(a)(i) of this APPENDIX is irrevocable and will be binding on the taxpayer for computing taxable income for the year of change and for all subsequent taxable years with respect to the assets that are subject to this election.

(g) If any asset is public utility property within the meaning of § 168(i)(10), a taxpayer (including a qualifying taxpayer) making this change must attach to its Form 3115 a statement providing that the taxpayer agrees to the following additional terms and conditions:

(i) A normalization method of accounting (within the meaning of § 168(i)(9)) will be used for the public utility property subject to the application;

(ii) Within 30 calendar days of filing the federal income tax return for the year of change, the taxpayer will provide a copy of the completed application to any regulatory body having jurisdiction over the public utility property subject to the application; and

(iii) As of the beginning of the year of change, the taxpayer will adjust its deferred tax reserve account or similar account in the taxpayer's regulatory books of account by the amount of the deferral of federal income tax liability associated with the § 481(a) adjustment applicable to the public utility property subject to the application. This additional term and condition only has to be included in the statement by a taxpayer making the change specified in section 6.32(1)(a)(ii), (iii), (iv), or (v) of this APPENDIX.

(5) *Concurrent automatic change*.

(a) A taxpayer that wants to make this change for more than one asset for the same year of change should file a single Form 3115 for all such assets. If the change for more than one asset included in that Form 3115 is specified in section 6.32(1)(a) of this APPENDIX, the single Form 3115 should provide a single net § 481(a) adjustment for all such changes. If one or more of the changes specified in section 6.32(1)(a) of this APPENDIX in that single Form 3115 generate a negative § 481(a) adjustment and other changes specified in section 6.32(1)(a) of this APPENDIX in that same Form 3115 generate a positive § 481(a) adjustment, the taxpayer may provide a single negative § 481(a) adjustment for all such changes that are included in that Form 3115 generating such negative adjustment and a single positive § 481(a) adjustment for all such changes that are included in that Form 3115 generating such positive adjustment.

(b) A taxpayer that wants to make a change under section 6.32(1)(a)(ii), (iii), (iv), or (v) of this APPENDIX, a change under section 6.28(3)(b)(ii), (iii), (iv), (v), (vi), (vii), or (viii) of this APPENDIX, and/or a change under section 6.01 of this APPENDIX for the same year of change should file a single Form 3115 for all such changes and must enter the designated automatic accounting method change numbers for the changes on the appropriate line on the Form 3115. This section 6.32(5)(b) applies only if all of these changes are made for any taxable year beginning on or after January 1, 2012, and beginning before January 1, 2014. For guidance on filing a single application for two or more changes, see section 6.02(1)(b)(ii) of this revenue procedure.

(c) A taxpayer that wants to make a change under section 6.32(1)(a)(ii), (iii), (iv), or (v) of this APPENDIX, a change under section 6.31 of this APPENDIX, and/or a change under section 6.01 of this APPENDIX for the same year of change should file a single Form 3115 for all such changes and must enter the designated automatic accounting method change numbers for the changes on the appropriate line on the Form 3115. This section 6.32(5)(c) applies only if all of these changes are made for any taxable year beginning on or after January 1, 2012, and beginning before January 1, 2014. For guidance on filing a single application for two or more changes, see section 6.02(1)(b)(ii) of this revenue procedure.

(d) A taxpayer that wants to make a change under section 6.32(1)(a)(ii), (iii), (iv), or (v) of this APPENDIX, a change under section 6.28(3)(b)(ii), (iii), (iv), (v), (vi), (vii), or (viii) of this APPENDIX, a change under section 6.31 of this

APPENDIX, and/or a change under section 6.01 of this APPENDIX for the same year of change should file a single Form 3115 for all such changes and must enter the designated automatic accounting method change numbers for the changes on the appropriate line on the Form 3115. This section 6.32(5)(d) applies only if all of these changes are made for any taxable year beginning on or after January 1, 2012, and beginning before January 1, 2014. For guidance on filing a single application for two or more changes, see section 6.02(1)(b)(ii) of this revenue procedure.

(e) A taxpayer that wants to make both this change and a change under section 6.01 of this APPENDIX for the same year of change should file a single Form 3115 for both changes and must enter the designated automatic accounting method change numbers for both changes on the appropriate line on the Form 3115. This section 6.32(5)(e) applies only if both changes are made for any taxable year beginning on or after January 1, 2012, and beginning before January 1, 2014. For guidance on filing a single application for two or more changes, see section 6.02(1)(b)(ii) of this revenue procedure.

(6) *Ogden copy of Form 3115 required in lieu of national office copy*. A taxpayer changing its method of accounting under this section 6.32 of the APPENDIX must file a signed copy of its completed Form 3115 with the IRS in Ogden, UT (Ogden copy), in lieu of filing the national office copy, no earlier than the first day of the year of change and no later than the date the taxpayer files the original Form 3115 with its federal income tax return for the year of change. *See* sections 6.02(3)(a)(ii)(B) (providing the general rules) and 6.02(7)(b) (providing the mailing address) of this revenue procedure.

(7) *Designated automatic accounting method change numbers*. The designated automatic accounting method change number for a change to the method of accounting under section 6.32 of this APPENDIX is "180." *See* section 6.02(4) of this revenue procedure.

(8) *Contact information*. For further information regarding a change under this section, contact Patrick Clinton at (202) 317-7005 (not a toll-free call).

(10) Section 10.07(1)(b) of the APPENDIX of Rev. Proc. 2011–14 is modified to read as follows:

(b) *Inapplicability*. This change does not apply to:

(i) A taxpayer that is currently capitalizing and depreciating the cost of its repairable and reusable spare parts, or that is currently capitalizing the cost of its repairable and reusable spare parts and treating these parts as nondepreciable property (but see section 6.01 of this APPENDIX for making a change from an impermissible to a permissible method of accounting for depreciation);

(ii) A taxpayer that is using an impermissible method of accounting for depreciation for the related equipment for which the repairable and reusable spare parts are acquired, unless the taxpayer concurrently changes its method to use a permissible method of accounting for depreciation under section 6 of this APPENDIX;

(iii) A repairable and reusable spare part that meets the definition of rotable spare parts, temporary spare parts, or standby emergency spare parts in § 1.162–3(c)(2) or (3), for which the cost was paid or incurred by the taxpayer in a taxable year beginning on or after January 1, 2014 (or in a taxable year beginning on or after January 1, 2012, if the taxpayer chooses to apply § 1.162–3 to amounts paid or incurred in those taxable years), and for which the taxpayer did not make the election under § 1.162–3(d) to capitalize and depreciate such repairable and reusable spare part; or

(iv) a taxpayer that chooses to apply § 1.162–3T to a repairable and reusable spare part that meets the definition of rotable spare parts or temporary spare parts in § 1.162–3T(c)(2), for which the cost was paid or incurred by the taxpayer in a taxable year beginning on or after January 1, 2012, and before January 1, 2014, and for which the taxpayer did not make the election under § 1.162–3T(d) to capitalize and depreciate such repairable and reusable spare part.

.03 *New automatic changes*.

(1) Rev. Proc. 2011–14 is modified to add new section 6.33 to the APPENDIX to read as follows:

6.33 *Late partial disposition election (section 168; Prop. Reg. § 1.168(i)–8)*.

(1) *Description of change*.

(a) *Applicability*. This change applies to a taxpayer that wants to make a late partial disposition election under Prop. Reg. § 1.168(i)–8(d)(2)(i) for the disposition of a portion of an asset (as determined under Prop. Reg. § 1.168(i)–8(c)(4)) by the taxpayer. This change includes the late partial disposition election specified in Prop. Reg. § 1.168(i)–8(d)(2)(i) that is made pursuant to Prop. Reg. § 1.168(i)–8(d)(2)(iv)(B). This change also may affect whether the taxpayer must capitalize amounts paid to restore a unit of property (as determined under § 1.263(a)–3T(e) or (f), or § 1.263(a)–3(e) or (f), as applicable) under §1.263(a)–3T(i) or § 1.263(a)–3(k), as applicable.

(b) *Inapplicability*. This change does not apply to the following:

(i) A taxpayer that does not apply the provisions of Prop. Reg. § 1.168(i)–8;

(ii) Any asset of which the disposed portion was a part that is not owned by the taxpayer at the beginning of the year of change;

(iii) A taxpayer that makes any late election specified in section 6.33(1)(a) of this APPENDIX after the time specified in section 6.33(3) of this APPENDIX, and any such late election is not a change in method of accounting pursuant to § 1.446–1(e)(2)(ii)(*d*)(*3*)(*iii*); or

(iv) The partial disposition election specified in Prop. Reg. § 1.168(i)–8(d)(2)(i) that is made pursuant to Prop. Reg. § 1.168(i)–8(d)(2)(iii) (but see section 6.35 of this APPENDIX for making this change).

(2) *Change in method of accounting*. The IRS will treat the making of the late election specified in section 6.33(1)(a) of this APPENDIX as a change in method of accounting only for the time specified in section 6.33(3) of this APPENDIX.

(3) *Time for making the change*. The change under this section 6.33 of the APPENDIX must be made for any taxable year beginning on or after January 1, 2012, and beginning before January 1, 2014. However, if the change under this section 6.33 of the APPENDIX is made pursuant to Prop. Reg. § 1.168(i)–8(d)(2)(iv)(B), this change must be made

for the first or second taxable year succeeding the applicable taxable year (as defined in Prop. Reg. § 1.168(i)–8(d)(2)(iv)), pursuant to Prop. Reg. § 1.168(i)–8(d)(2)(iv)(B).

(4) *Scope limitations inapplicable*. The scope limitations in section 4.02 of this revenue procedure do not apply to this change.

(5) *Manner of making change*.

(a) A taxpayer whose average annual gross receipts, as determined under § 1.263(a)–3(h)(3), for the three preceding taxable years is less than or equal to $10,000,000 ("qualifying taxpayer") is required to complete only the following information on Form 3115:

(i) The identification section of page 1 (above Part I);

(ii) The signature section at the bottom of page 1;

(iii) Part I, line 1(a);

(iv) Part II, all lines except lines 11, 13, 14, 15, and 17;

(v) Part IV, lines 25 and 26; and

(vi) Schedule E, line 3.

(b) A taxpayer (including a qualifying taxpayer) making this change must:

(i) Apply Prop. Reg. § 1.168(i)–8(h)(1) and (3);

(ii) If the asset (as determined under Prop. Reg. § 1.168(i)–8(c)(4)) of which the disposed portion is a part is properly included in one of the asset classes 00.11 through 00.4 of Rev. Proc. 87–56, 198713–2 C.B. 674, classify the replacement portion of such asset under the same asset class as the disposed portion of the asset in the taxable year in which the replacement portion is placed in service by the taxpayer;

(iii) If the taxpayer's present method of accounting is not in accord with Prop. Reg. § 1.168(i)–8(c)(4) (determination of asset disposed of), change to the appropriate asset as determined under Prop. Reg. § 1.168(i)–8(c)(4);

(iv) If the taxpayer continues to deduct depreciation for the disposed portion of the asset (as determined under Prop. Reg. § 1.168(i)–8(c)(4)) under the taxpayer's present method of accounting, change from depreciating such disposed portion to recognizing gain or loss for the disposed portion;

(v) If the taxpayer recognized a gain or loss under § 1.168(i)–1T or § 1.168(i)–8T for the disposed portion of the asset in a taxable year prior to the year of change, recognize gain or loss for such disposed portion under Prop. Reg. § 1.168(i)–8; and

(vi) If any asset is public utility property within the meaning of § 168(i)(10), attach to its Form 3115 a statement providing that the taxpayer agrees to the following additional terms and conditions:

(A) A normalization method of accounting (within the meaning of § 168(i)(9)) will be used for the public utility property subject to the application;

(B) Within 30 calendar days of filing the federal income tax return for the year of change, the taxpayer will provide a copy of the completed application to any regulatory body having jurisdiction over the public utility property subject to the application; and

(C) As of the beginning of the year of change, the taxpayer will adjust its deferred tax reserve account or similar account in the taxpayer's regulatory books of account by the amount of the deferral of federal income tax liability associated with the § 481(a) adjustment applicable to the public utility property subject to the application.

(6) *Concurrent automatic change*.

(a) A taxpayer that wants to make this change for more than one asset for the same year of change should file a single Form 3115 for all such assets. If the change for more than one asset included in that Form 3115 is specified in section 6.33(1)(a) of this APPENDIX, the single Form 3115 should provide a single net § 481(a) adjustment for all such changes. If one or more of the changes specified in section 6.33(1)(a) of this APPENDIX in that single Form 3115 generate a negative § 481(a) adjustment and other changes specified in section 6.33(1)(a) of this APPENDIX in that same Form 3115 generate a positive § 481(a) adjustment, the taxpayer may provide a single negative § 481(a) adjustment for all such changes that are included in that Form 3115 generating such negative adjustment and a single positive § 481(a) adjustment for all such changes that are included in that Form 3115 generating such positive adjustment.

(b) A taxpayer that wants to make this change, a change under section 6.34 of this APPENDIX, and/or a change under section 6.01 of this APPENDIX for the same year of change should file a single Form 3115 for all such changes and must enter the designated automatic accounting method change numbers for the changes on the appropriate line on the Form 3115. This section 6.33(6)(b) applies only if all of these changes are made for any taxable year beginning on or after January 1, 2012, and beginning before January 1, 2014. For guidance on filing a single application for two or more changes, see section 6.02(1)(b)(ii) of this revenue procedure.

(c) A taxpayer that wants to make both this change and a change under section 6.01 of this APPENDIX for the same year of change should file a single Form 3115 for both changes and must enter the designated automatic accounting method change numbers for both changes on the appropriate line on the Form 3115. This section 6.33(6)(c) applies only if both changes are made for any taxable year beginning on or after January 1, 2012, and beginning before January 1, 2014. For guidance on filing a single application for two or more changes, see section 6.02(1)(b)(ii) of this revenue procedure.

(7) *Examples*. The following examples illustrate the changes that may made be under this section 6.33.

(a) *Example 1*. (i) X, a calendar year taxpayer, acquired and placed in service a truck in 2009. The truck is described in asset class 00.242 of Rev. Proc. 87–56. X depreciates the truck under § 168. X does not reasonably expect to replace the engine of the truck more than once during its class life of 6 years. The engine is a major component of the truck under § 1.263(a)–3T(i)(1)(vi).

(ii) In 2012, X replaced the engine of the truck. X applied § 1.168(i)–8T and § 1.263(a)–3T for its taxable year ended December 31, 2012. Because the truck is the asset for disposition purposes, X did not recognize a loss on the retirement of the engine under § 1.168(i)–8T and continues to depreciate the original engine. Further, X capitalized the new engine as an improvement, classified the new engine under asset class 00.242 of Rev. Proc. 87–56, and depreciates the new engine under § 168.

(iii) X decides to apply Prop. Reg. § 1.168(i)–8 for its taxable year ending December 31, 2013. X also decides to make the late partial disposition election under this section 6.33 for the truck's original engine that X retired in 2012. Although the truck is the asset for disposition purposes under Prop. Reg. § 1.168(i)–8(c)(4)(ii)(C), the partial disposition rule under Prop. Reg. § 1.168(i)–8(d)(2)(i) results in the retirement of the engine being a disposition under Prop. Reg. § 1.168(i)–8(b)(2). Thus, in accordance with section 6.33 of this APPENDIX, X may file a

Form 3115 with its 2013 federal income tax return to make the late disposition election for the engine thereby resulting in X changing from depreciating the original engine to recognizing a loss upon its retirement.

(b) *Example 2*. (i) Y, a calendar year taxpayer, acquired and placed in service a building and its structural components in 2000. Y depreciates this building and its structural components under § 168. The roof is a structural component of the building. Y replaced the entire roof in 2010. On its federal income tax return for the taxable year ended December 31, 2010, Y did not recognize a loss on the retirement of the original roof and continued to depreciate the original roof. Y also capitalized the cost of the replacement roof and has been depreciating this roof under § 168 since June 2010. In accordance with § 1.168(i)–8T(c)(4)(ii)(A) and (B) and section 6.29(3)(a) and (b) of the APPENDIX to Rev. Proc. 2011–14, as modified by Rev. Proc. 2012–20, 2012–14 I.R.B. 700, Y filed with its federal income tax return for the taxable year ended December 31, 2012, a Form 3115 to treat the building as an asset and each structural component of the building as a separate asset for disposition purposes and also to change from depreciating the original roof to recognizing a loss upon its retirement. The amount of the net negative § 481(a) adjustment on this Form 3115 is $10,000, which is the amount of the loss recognized upon the retirement of the original roof.

(ii) Y decides to apply Prop. Reg. § 1.168(i)–8 for its taxable year ending December 31, 2013. Y also decides to make the late partial disposition election under this section 6.33 for the building's original roof that Y retired in 2010. Although the original building (including its original roof and other original structural components) is the asset for disposition purposes under Prop. Reg. § 1.168(i)–8(c)(4)(ii)(A), the partial disposition rule under Prop. Reg. § 1.168(i)–8(d)(2)(i) results in the retirement of the original roof being a disposition under Prop. Reg. § 1.168(i)–8(b)(2). Thus, in accordance with section 6.33 of this APPENDIX, Y may file a Form 3115 with its 2013 federal income tax return to make a late partial disposition election for the original roof thereby resulting in Y treating the original building (including its original roof and other original structural components) as an asset and the replacement roof to the building as a separate asset for disposition purposes and recognizing a loss upon the retirement of the original roof under Prop. Reg. § 1.168(i)–8.

(iii) The computation of the net § 481 adjustment for this change is computed as follows:

Loss on retirement of original roof on 2012 return under § 1.168(i)–8T	$10,000
Loss on retirement of original roof under Prop. Reg. § 1.168(i)–8	(*10,000*)
Net § 481(a) adjustment for the roof	$0

(8) *Ogden copy of Form 3115 required in lieu of national office copy*. A taxpayer changing its method of accounting under this section 6.33 of the APPENDIX must file a signed copy of its completed Form 3115 with the IRS in Ogden, UT (Ogden copy), in lieu of filing the national office copy, no earlier than the first day of the year of change and no later than the date the taxpayer files the original Form 3115 with its federal income tax return for the year of change. *See* sections 6.02(3)(a)(ii)(B) (providing the general rules) and 6.02(7)(b) (providing the mailing address) of this revenue procedure.

(9) *Designated automatic accounting method change numbers*. The designated automatic accounting method change number for a change to the method of accounting under section 6.33 of this APPENDIX is "196." *See* section 6.02(4) of this revenue procedure.

(10) *Contact information*. For further information regarding a change under this section, contact Patrick Clinton at (202) 317-7005 (not a toll-free call).

(2) Rev. Proc. 2011–14 is modified to add new section 6.34 to the APPENDIX to read as follows:

6.34 *Revocation of a general asset account election (section 168; § 1.168(i)–1T and Prop. Reg. § 1.168(i)–1).*

(1) *Description of change*.

(a) *Applicability*. This change applies to a taxpayer that wants to revoke its general asset account election:

(i) Made under section 6.32(1)(a)(i) of this APPENDIX for one or more items of MACRS property included in the general asset account. This change also may affect whether the taxpayer must capitalize amounts paid to restore a unit of property (as determined under § 1.263(a)–3T(e) or (f), or § 1.263(a)–3(e) or (f), as applicable) under §1.263(a)–3T(i) or § 1.263(a)–3(k), as applicable; or

(ii) Made under § 1.168(i)–1T or Prop. Reg. § 1.168(i)–1 for one or more items of MACRS property placed in service by the taxpayer in a taxable year beginning on or after January 1, 2012, and before January 1, 2014. This change also may affect whether the taxpayer must capitalize amounts paid to restore a unit of property (as determined under § 1.263(a)–3T(e) or (f), or § 1.263(a)–3(e) or (f), as applicable) under §1.263(a)–3T(i) or § 1.263(a)–3(k), as applicable.

(b) *Inapplicability*. Because of the changes made to the existing general asset account regulations by Prop. Reg. § 1.168(i)–1, the IRS will treat the revocation of the elections specified in section 6.34(1)(a) of this APPENDIX as a change in method of accounting only for the time specified in section 6.34(2) of this APPENDIX. Accordingly, this treatment does not apply to a taxpayer that makes any revocation specified in section 6.34(1)(a) of this APPENDIX after the time specified in section 6.34(2) of this APPENDIX. Any revocation of such election is not a change in method of accounting pursuant to § 1.446–1(e)(2)(ii)(*d*)(*3*)(*iii*), and the elections specified in section 6.34(1)(a) of this APPENDIX are irrevocable except as provided in § 1.168(i)–1T(c)(1)(ii)(A), (e)(3), (g), or (h), or Prop. Reg. § 1.168(i)–1(c)(1)(ii)(A), (e)(3), (g), or (h), as applicable.

(2) *Time for making the change*. The change under section 6.34 of this APPENDIX must be made for any taxable year beginning on or after January 1, 2012, and beginning before January 1, 2015.

(3) *Scope limitations inapplicable*. The scope limitations in section 4.02 of this revenue procedure do not apply to this change.

(4) *Section 481(a) adjustment period*. A taxpayer making this change must take the entire amount of the § 481(a) adjustment into account in computing taxable income for the year of change.

(5) *Manner of making change.*

(a) A taxpayer whose average annual gross receipts, as determined under § 1.263(a)–3(h)(3), for the three preceding taxable years is less than or equal to $10,000,000 ("qualifying taxpayer") is required to complete only the following information on Form 3115:

(i) The identification section of page 1 (above Part I);

(ii) The signature section at the bottom of page 1;

(iii) Part I, line 1(a);

(iv) Part II, all lines except lines 11, 13, 14, 15, and 17;

(v) Part IV, lines 25 and 26; and

(vi) Schedule E, lines 3, 4a, 4b, and 4c.

(b) A taxpayer (including a qualifying taxpayer) making this change must:

(i) Attach to its Form 3115 a statement with a description of the asset(s) to which this change applies (for example, all general asset accounts established pursuant to a Form 3115 filed under section 6.32(1)(a)(i) of this APPENDIX for the year of change beginning January 1, 2012 (for a change specified in section 6.34(1)(a)(i) of this APPENDIX); one desk costing $2,000 in 2012 General Asset Account #1 (for a change specified in section 6.34(1)(a)(ii) of this APPENDIX));

(ii) Include the asset(s) that were in the general asset account(s) at the end of the taxable year immediately preceding the year of change in a single asset account or a multiple asset account in accordance with § 1.168(i)–7. If the asset is included in a single asset account, the account must include a beginning balance for both the unadjusted depreciable basis and the depreciation reserve of the asset included in that single asset account. If two or more assets are included in a multiple asset account, the account must include a beginning balance for both the unadjusted depreciable basis and the depreciation reserve. The beginning balance for the unadjusted depreciable basis of each multiple asset account is equal to the sum of the unadjusted depreciable bases as of the beginning of the year of change for all assets included in that multiple asset account. The beginning balance of the depreciation reserve of each multiple asset account is equal to the sum of the greater of the depreciation allowed or allowable as of the beginning of the year of change for all assets included in that multiple asset account; and

(iii) If any asset is public utility property within the meaning of § 168(i)(10), attach to its Form 3115 a statement providing that the taxpayer agrees to the following additional terms and conditions:

(A) A normalization method of accounting (within the meaning of § 168(i)(9)) will be used for the public utility property subject to the application;

(B) Within 30 calendar days of filing the federal income tax return for the year of change, the taxpayer will provide a copy of the completed application to any regulatory body having jurisdiction over the public utility property subject to the application; and

(C) As of the beginning of the year of change, the taxpayer will adjust its deferred tax reserve account or similar account in the taxpayer's regulatory books of account by the amount of the deferral of federal income tax liability associated with the § 481(a) adjustment applicable to the public utility property subject to the application.

(6) *Concurrent automatic change*.

(a) A taxpayer that wants to make this change for more than one asset for the same year of change should file a single Form 3115 for all such assets. If the change for more than one asset included in that Form 3115 is specified in section 6.34(1)(a) of this APPENDIX, the single Form 3115 must provide a single net § 481(a) adjustment for all such changes.

(b) A taxpayer that wants to make this change, a change under section 6.29(3)(e), (f), (g), (h), or (i) of this APPENDIX and/or under section 6.30(3)(e), (f), (g), (h), or (i) of this APPENDIX, a change under section 6.33 of this APPENDIX, and/or a change under section 6.01 of this APPENDIX for the same year of change should file a single Form 3115 for all such changes and must enter the designated automatic accounting method change numbers for the changes on the appropriate line on the Form 3115. This section 6.34(6)(b) applies only if all of these changes are made for any taxable year beginning on or after January 1, 2012, and beginning before January 1, 2014. For guidance on filing a single application for two or more changes, see section 6.02(1)(b)(ii) of this revenue procedure.

(c) A taxpayer that wants to make this change, a change under section 6.33 of this APPENDIX, and/or a change under section 6.01 of this APPENDIX for the same year of change should file a single Form 3115 for all such changes and must enter the designated automatic accounting method change numbers for the changes on the appropriate line on the Form 3115. This section 6.34(6)(c) applies only if all of these changes are made for any taxable year beginning on or after January 1, 2012, and beginning before January 1, 2014. For guidance on filing a single application for two or more changes, see section 6.02(1)(b)(ii) of this revenue procedure.

(d) A taxpayer that wants to make both this change and a change under section 6.01 of this APPENDIX for the same year of change should file a single Form 3115 for both changes and must enter the designated automatic accounting method change numbers for both changes on the appropriate line on the Form 3115. This section 6.34(6)(d) applies only if both changes are made for any taxable year beginning on or after January 1, 2012, and beginning before January 1, 2015. For guidance on filing a single application for two or more changes, see section 6.02(1)(b)(ii) of this revenue procedure.

(7) *Examples*. The following examples illustrate the changes that may made be under this section 6.34.

(a) *Example 1*. (i) On its federal tax return for the taxable year ended December 31, 2012, X made a general asset account election under § 1.168(i)–1T to apply § 1.168(i)–1T to all of its assets placed in service during 2012. No such assets were disposed of during 2012. X decides to apply Prop. Reg. §§ 1.168(i)–1 and 1.168(i)–8 for its taxable year ending December 31, 2013. Because of the change in the definition of a qualifying disposition under Prop. Reg. § 1.168(i)–1(e)(3)(iii), X does not want its assets placed in service during 2012 in general asset accounts. In accordance with this section 6.34, X files with its federal tax return for the taxable year ending December 31, 2013, a Form 3115 to revoke the general asset account election for all assets placed in service during 2012. Because the adjusted depreciable basis of the assets is not changed as a result of this change, a § 481(a) adjustment is neither required nor permitted.

(b) *Example 2*. (i) Y, a calendar year taxpayer, acquired and placed in service three used trucks in 2011. The trucks are described in asset class 00.242 of Rev. Proc. 87–56, 1987–2 C.B. 674. Of the three trucks, one truck costs $20,000 and the other two trucks cost a total of $30,000. Y depreciates the trucks under § 168. In 2012, Y sold the truck that cost $20,000 to an unrelated party for $12,000.

(ii) In accordance with § 1.168(i)–1T and section 6.32(1)(a)(i) of the APPENDIX to Rev. Proc. 2011–14, as modified by Rev. Proc. 2012–20, 2012–14 I.R.B. 700, Y filed with its federal tax return for the taxable year ended December 31, 2012, a Form 3115 to make a late general asset account election to include the three trucks in one general asset account. Because a sales transaction is a qualifying disposition under § 1.168(i)–1T(e)(3)(iii)(B), Y also elected to apply § 1.168(i)–1T(e)(3)(iii) for the sale of the truck in 2012. As a result, Y removed this truck from the general asset account and, on its 2012 federal tax return, recognized a loss of $800 under § 1.168(i)–8T (sales proceeds of $12,000 less the adjusted depreciable basis of $12,800 for the truck (cost of $20,000 less depreciation of $7,200 for 2011 and 2012)).

(iii) Y decides to apply Prop. Reg. §§ 1.168(i)–1 and 1.168(i)–8 for its taxable year ending December 31, 2013. Because a sales transaction is not a qualifying disposition under Prop. Reg. § 1.168(i)–1(e)(3)(iii)(B), Y should have recognized all of the sales proceeds of $12,000 from the sale of the truck in 2012 as ordinary income and continued to deduct depreciation for this truck in the general asset account. As a result and in accordance with sections 6.34 and 6.29(3)(i) of this APPENDIX, Y files with its 2013 federal tax return a Form 3115 to revoke the general asset account for the three trucks placed in service in 2011, include the two unsold trucks in one multiple asset account in accordance with § 1.168(i)–7, and recognize the loss of $800 upon the sale of the truck in 2012 under Prop. Reg. § 1.168(i)–8.

(iv) The computation of the § 481 adjustment for this change is computed as follows:

Loss on sale of truck on 2012 return under § 1.168(i)–8T	$ 800
Loss on sale of truck under Prop. Reg. § 1.168(i)–8	(*800*)
Net § 481(a) adjustment for the asset	$0

(c) *Example 3*. (i) Z, a calendar year taxpayer, acquired and placed in service a building and its structural components in 2000. Z depreciates this building and its structural components under § 168. The roof is a structural component of the building. Z replaced the entire roof in 2010. On its federal tax return for the taxable year ended December 31, 2010, Z did not recognize a loss on the retirement of the original roof and continued to depreciate the original roof. Z also capitalized the cost of the replacement roof and has been depreciating this roof under § 168 since June 2010.

(ii) In accordance with § 1.168(i)–1T and section 6.32(1)(a) of the APPENDIX to Rev. Proc. 2011–14, as modified by Rev. Proc. 2012–20, 2012–14 I.R.B. 700, Z filed with its federal tax return for the taxable year ended December 31, 2012, a Form 3115 to: (1) make a late general asset account election to include the building (including its structural components) placed in service in 2000 in one general asset account and the replacement roof in a separate general asset account; and (2) make a late qualifying disposition election for the retirement of the original roof in 2010. As a result, Z removed the original roof from the general asset account and reported a net negative § 481(a) adjustment on this Form 3115 of $10,000, which is the loss recognized upon the retirement of the original roof.

(iii) Z decides to apply Prop. Reg. §§ 1.168(i)–1 and 1.168(i)–8 for its taxable year ending December 31, 2013, but decides not to make any late partial disposition election under section 6.33 of this APPENDIX. In accordance with sections 6.34 and 6.29(3)(e) of this APPENDIX, Z files a Form 3115 with its 2013 federal income tax return to revoke the general asset account election for the building (including its structural components) placed in service in 2000 and for the replacement roof, and to change to treating the building (including its original roof and other original structural components) placed in service in 2000 as an asset and the replacement roof as a separate asset for disposition purposes. Assume the depreciation for the original roof is $500 for the 2012 taxable year. The net positive § 481(a) adjustment for this change is $9,500 (loss of $10,000 claimed on the 2012 return for the retirement of the original roof less depreciation of $500 for the original roof for 2012) and is included in Z's taxable income for 2013.

(8) *Ogden copy of Form 3115 required in lieu of national office copy*. A taxpayer changing its method of accounting under this section 6.34 of the APPENDIX must file a signed copy of its completed Form 3115 with the IRS in Ogden, UT (Ogden copy), in lieu of filing the national office copy, no earlier than the first day of the year of change and no later than the date the taxpayer files the original Form 3115 with its federal income tax return for the year of change. *See* sections 6.02(3)(a)(ii)(B) (providing the general rules) and 6.02(7)(b) (providing the mailing address) of this revenue procedure.

(9) *Designated automatic accounting method change numbers*. The designated automatic accounting method change number for a change to the method of accounting under section 6.34 of this APPENDIX is "197." *See* section 6.02(4) of this revenue procedure.

(10) *Contact information*. For further information regarding a change under this section, contact Patrick Clinton at (202) 317-7005 (not a toll-free call).

(3) Rev. Proc. 2011–14 is modified to add new section 6.35 to the APPENDIX to read as follows:

6.35 *Partial dispositions of tangible depreciable assets to which the IRS's adjustment pertains (section 168; Prop. Reg. § 1.168(i)–8).*

(1) *Description of change*.

(a) *Applicability*. This change applies to a taxpayer that is described in Prop. Reg. § 1.168(i)–8(d)(2)(iii) and, pursuant to Prop. Reg. § 1.168(i)–8(d)(2)(iii), that wants to make the partial disposition election specified in Prop. Reg. § 1.168(i)–8(d)(2)(i) to the disposition of a portion of an asset to which the IRS's adjustment (as described in Prop. Reg. § 1.168(i)–8(d)(2)(iii)) pertains.

(b) *Inapplicability*. This change does not apply to:

(i) Any asset of which the disposed portion was a part that is not owned by the taxpayer at the beginning of the year of change; or

(ii) The partial disposition election specified in Prop. Reg. § 1.168(i)–8(d)(2)(i) that is made pursuant to Prop. Reg. § 1.168(i)–8(d)(2)(iv) (but see section 6.33 of this APPENDIX for making this change).

(2) *Change in method of accounting*. The IRS will treat the making of the late election specified in section 6.35(1) of this APPENDIX as a change in method of accounting.

(3) *Scope limitations inapplicable*. The scope limitations in section 4.02 of this revenue procedure do not apply to this change.

(4) *Manner of making change*.

(a) A taxpayer whose average annual gross receipts, as determined under § 1.263(a)–3(h)(3), for the three preceding taxable years is less than or equal to $10,000,000 ("qualifying taxpayer") is required to complete only the following information on Form 3115:

(i) The identification section of page 1 (above Part I);

(ii) The signature section at the bottom of page 1;

(iii) Part I, line 1(a);

(iv) Part II, all lines except lines 11, 13, 14, 15, and 17;

(v) Part IV, lines 25 and 26; and

(vi) Schedule E, line 3.

(b) A taxpayer (including a qualifying taxpayer) making this change must:

(i) Apply Prop. Reg. § 1.168(i)–8(h)(1) and (3);

(ii) If the asset (as determined under Prop. Reg. § 1.168(i)–8(c)(4)) of which the disposed portion is a part is properly included in one of the asset classes 00.11 through 00.4 of Rev. Proc. 87–56, 1987–2 C.B. 674, classify the replacement portion of such asset under the same asset class as the disposed portion of the asset in the taxable year in which the replacement portion is placed in service by the taxpayer;

(iii) If the taxpayer's present method of accounting is not in accord with Prop. Reg. § 1.168(i)–8(c)(4) (determination of asset disposed of), change to the appropriate asset as determined under Prop. Reg. § 1.168(i)–8(c)(4);

(iv) If the taxpayer continues to deduct depreciation for the disposed portion of the asset (as determined under Prop. Reg. § 1.168(i)–8(c)(4)) under the taxpayer's

present method of accounting, change from depreciating such disposed portion to recognizing gain or loss for the disposed portion; and

(v) If any asset is public utility property within the meaning of § 168(i)(10), attach a statement to its Form 3115 providing that the taxpayer agrees to the following additional terms and conditions:

(A) A normalization method of accounting (within the meaning of § 168(i)(9)) will be used for the public utility property subject to the application;

(B) Within 30 calendar days of filing the federal income tax return for the year of change, the taxpayer will provide a copy of the completed application to any regulatory body having jurisdiction over the public utility property subject to the application; and

(C) As of the beginning of the year of change, the taxpayer will adjust its deferred tax reserve account or similar account in the taxpayer's regulatory books of account by the amount of the deferral of federal income tax liability associated with the § 481(a) adjustment applicable to the public utility property subject to the application.

(5) *Concurrent automatic change*. A taxpayer that wants to make this change for more than one asset for the same year of change should file a single Form 3115 for all such assets. If the change for more than one asset included in that Form 3115 is specified in section 6.35(1)(a) of this APPENDIX, the single Form 3115 should provide a single net § 481(a) adjustment for all such changes. If one or more of the changes specified in section 6.35(1)(a) of this APPENDIX in that single Form 3115 generate a negative § 481(a) adjustment and other changes specified in section 6.35(1)(a) of this APPENDIX in that same Form 3115 generate a positive § 481(a) adjustment, the taxpayer may provide a single negative § 481(a) adjustment for all such changes that are included in that Form 3115 generating such negative adjustment and a single positive § 481(a) adjustment for all such changes that are included in that Form 3115 generating such positive adjustment.

(6) *Ogden copy of Form 3115 required in lieu of national office copy*. A taxpayer changing its method of accounting under this section 6.34 of the APPENDIX must file a signed copy of its completed Form 3115 with the IRS in Ogden, UT (Ogden copy), in lieu of filing the national office copy, no earlier than the first day of the year of change and no later than the date the taxpayer files the original Form 3115 with its federal income tax return for the year of change. *See* sections 6.02(3)(a)(ii)(B) (providing the general rules) and 6.02(7)(b) (providing the mailing address) of this revenue procedure.

(7) *Designated automatic accounting method change numbers*. The designated automatic accounting method change number for a change to the method of accounting under section 6.35 of this APPENDIX is "198." *See* section 6.02(4) of this revenue procedure.

(8) *Contact information*. For further information regarding a change under this section, contact Patrick Clinton at (202) 317-7005 (not a toll-free call).

(4) Rev. Proc. 2011–14 is modified to add new section 6.36 to the APPENDIX to read as follows:

6.36 *Depreciation of leasehold improvements (sections 167, 168, and 197; § 1.167(a)–4)*.

(1) *Description of change*. This change applies to a taxpayer that wants to change its method of accounting to comply with § 1.167(a)–4 for leasehold improvements in which the taxpayer has a depreciable interest at the beginning of the year of change:

(a) From improperly depreciating the leasehold improvements to which § 168 applies over the term of the lease (including renewals, if applicable) to properly depreciating these improvements under § 168;

(b) From improperly amortizing leasehold improvements to which § 197 applies over the term of the lease (including renewals, if applicable) to properly amortizing these improvements under § 197; or

(c) From improperly amortizing leasehold improvements to which § 167(f)(1) applies over the term of the lease (including renewals, if applicable) to properly amortizing these improvements under § 167(f)(1).

(2) *Certain scope limitations inapplicable*.

(a) The scope limitations in section 4.02 of this revenue procedure do not apply to a taxpayer that makes this change for its first taxable year beginning after December 31, 2013, and beginning before January 1, 2015. In addition, if a taxpayer chooses to make this change for any taxable year beginning on or after January 1, 2012, and beginning before January 1, 2014, the scope limitations in section 4.02 of this revenue procedure do not apply.

(b) The scope limitation in section 4.02(5) of this revenue procedure does not apply to a taxpayer that makes this change.

(3) *Manner of making change*.

(a) A taxpayer whose average annual gross receipts, as determined under § 1.263(a)–3(h)(3), for the three preceding taxable years is less than or equal to $10,000,000 ("qualifying taxpayer") is required to complete only the following information on Form 3115:

(i) The identification section of page 1 (above Part I);

(ii) The signature section at the bottom of page 1;

(iii) Part I, line 1(a);

(iv) Part II, all lines except lines 11, 14, 15, and 17;

(v) Part IV, lines 25 and 26; and

(vi) Schedule E.

(b) If any leasehold improvement is public utility property within the meaning of § 168(i)(10) or former § 167(l)(3)(A), a taxpayer (including a qualifying taxpayer) making this change must attach to its Form 3115 a statement providing that the taxpayer agrees to the following additional terms and conditions:

(i) A normalization method of accounting (within the meaning of § 168(i)(9) or former § 167(l)(3)(G)) will be used for the public utility property subject to the change;

(ii) As of the beginning of the year of change, the taxpayer will adjust its deferred tax reserve account or similar account in the taxpayer's regulatory books of account by the amount of the deferral of federal income tax liability associated with the § 481(a) adjustment applicable to the public utility property subject to the change; and

(iii) Within 30 calendar days of filing the federal income tax return for the year of change, the taxpayer will provide a

copy of the completed Form 3115 to any regulatory body having jurisdiction over the public utility property subject to the change.

(4) *Concurrent automatic change*.

(a) A taxpayer that wants to make this change for more than one asset for the same year of change should file a single Form 3115 for all such assets and provide a single net § 481(a) adjustment for all the changes included in that Form 3115. If one or more of the changes in that single Form 3115 generate a negative § 481(a) adjustment and other changes in that same Form 3115 generate a positive § 481(a) adjustment, the taxpayer may provide a single negative § 481(a) adjustment for all the changes that are included in that Form 3115 generating such adjustment and a single positive § 481(a) adjustment for all the changes that are included in that Form 3115 generating such adjustment.

(b) A taxpayer that wants to make both this change and a change to a UNICAP method under section 11.01, 11.02, or 11.09 of this APPENDIX (as applicable) for the same year of change should file a single Form 3115 for all such changes and must enter the designated automatic accounting method change numbers for the changes on the appropriate line on the Form 3115. For guidance on filing a single application for two or more changes, see section 6.02(1)(b)(ii) of this revenue procedure.

(5) *Ogden copy of Form 3115 required in lieu of national office copy*. A taxpayer changing its method of accounting under this section 6.36 of the APPENDIX must file a signed copy of its completed Form 3115 with the IRS in Ogden, UT (Ogden copy), in lieu of filing the national office copy, no earlier than the first day of the year of change and no later than the date the taxpayer files the original Form 3115 with its federal income tax return for the year of change. If a taxpayer makes both this change and a change to a UNICAP method under section 11.01, 11.02, or 11.09 of this APPENDIX (as applicable) on a single Form 3115 for the same year of change in accordance with section 6.36(4)(b) of this APPENDIX, the taxpayer must file a signed copy of that completed Form 3115 with the IRS in Ogden, UT (Ogden copy), in lieu of filing the national office copy, no earlier than the first day of the year of change and no later than the date the taxpayer files the original Form 3115 with its federal income tax return for the year of change. *See* sections 6.02(3)(a)(ii)(B) (providing the general rules) and 6.02(7)(b) (providing the mailing address) of this revenue procedure.

(6) *Designated automatic accounting method change numbers*. The designated automatic accounting method change number for a change to a method of accounting under section 6.36 of this APPENDIX is "199." *See* section 6.02(4) of this revenue procedure.

(7) *Contact information*. For further information regarding a change under this section, contact Patrick Clinton at (202) 317-7005 (not a toll-free call).

(5) Rev. Proc. 2011–14 is modified to add new section 6.37 to the APPENDIX to read as follows:

6.37 *Permissible to permissible method of accounting for depreciation of MACRS property (section 168; § 1.168(i)–7).*

(1) *Description of change*.

(a) *Applicability*. This change applies to a taxpayer that wants to make a change in method of accounting for depreciation that is specified in section 6.37(3) of this APPENDIX for an asset:

(i) To which § 168 applies (MACRS property);

(ii) For which the present and proposed methods of accounting are permissible methods of accounting under § 1.168(i)–7; and

(iii) That is owned by the taxpayer at the beginning of the year of change.

(b) *Inapplicability*. This change does not apply to any property that is not depreciated under § 168 under the taxpayer's present and proposed methods of accounting.

(2) *Certain scope limitations inapplicable*.

(a) The scope limitations in section 4.02 of this revenue procedure do not apply to a taxpayer that makes this change for its first taxable year beginning after December 31, 2013, and beginning before January 1, 2015.

(b) If a taxpayer chooses to make this change for any taxable year beginning on or after January 1, 2012, and beginning before January 1, 2014, the scope limitations in section 4.02 of this revenue procedure do not apply.

(c) The scope limitation in section 4.02(5) of this revenue procedure does not apply to a taxpayer that makes this change.

(3) *Changes covered*. Section 6.37 of this APPENDIX only applies to the following changes in methods of accounting for depreciation of MACRS property for the items of MACRS property not subject to a general asset account election under § 168(i)(4) and the regulations thereunder—

(a) A change from single asset accounts (or item accounts) for specific items of MACRS property to multiple asset accounts (or pools) for the same assets, or vice versa, in accordance with § 1.168(i)–7; or

(b) A change from grouping specific items of MACRS property in multiple asset accounts to a different grouping of the same assets in multiple asset accounts in accordance with § 1.168(i)–7(c).

(4) *Manner of making change*.

(a) The changes in methods of accounting specified in section 6.37(3)(a) and (b) of this APPENDIX are made using a modified cut-off method under which the unadjusted depreciable basis and the depreciation reserve of the asset as of the beginning of the year of change are accounted for using the new method of accounting.

(b) If the change specified in section 6.37(3)(a) of this APPENDIX is a change to a single asset account, the new single asset account must include a beginning balance for both the unadjusted depreciable basis and the depreciation reserve of the asset included in that single asset account.

(c) If the change specified in section 6.37(3)(a) or (b) of this APPENDIX is a change to a multiple asset account (either a new one or a different grouping), the multiple asset account must include a beginning balance for both the unadjusted depreciable basis and the depreciation reserve. The beginning balance for the unadjusted depreciable basis of each multiple asset account is equal to the sum of the unadjusted depreciable bases as of the beginning of the year of change for all assets included in that multiple asset account.

The beginning balance of the depreciation reserve of each multiple asset account is equal to the sum of the greater of the depreciation allowed or allowable as of the beginning of the year of change for all assets included in that multiple asset account.

(d) A taxpayer whose average annual gross receipts, as determined under § 1.263(a)–3(h)(3), for the three preceding taxable years is less than or equal to $10,000,000 ("qualifying taxpayer") is required to complete only the following information on Form 3115:

(i) The identification section of page 1 (above Part I);

(ii) The signature section at the bottom of page 1;

(iii) Part I, line 1(a);

(iv) Part II, all lines except lines 11, 13, 14, 15, and 17;

(v) Part IV, lines 24, 25, and 26; and

(vi) Schedule E, lines 3, 4a, 4b, and 4c.

(e) If any asset subject to this change is public utility property within the meaning of § 168(i)(10), a taxpayer (including a qualifying taxpayer) making this change must attach to its Form 3115 a statement providing that the taxpayer agrees to the following additional terms and conditions:

(i) A normalization method of accounting (within the meaning of § 168(i)(9)) will be used for the public utility property subject to the change;

(ii) Within 30 calendar days of filing the federal income tax return for the year of change, the taxpayer will provide a copy of the completed application to any regulatory body having jurisdiction over the public utility property subject to the change.

(5) *Concurrent automatic change*.

(a) A taxpayer that wants to make this change for more than one asset for the same year of change should file a single Form 3115 for all such assets.

(b) A taxpayer that wants to make both this change and a change under section 6.01 of this APPENDIX for the same year of change should file a single Form 3115 for both changes and must enter the designated automatic accounting method change numbers for both changes on the appropriate line on the Form 3115. For guidance on filing a single application for two or more changes, see section 6.02(1)(b)(ii) of this revenue procedure.

(6) *Ogden copy of Form 3115 required in lieu of national office copy*. A taxpayer changing its method of accounting under this section 6.37 of the APPENDIX must file a signed copy of its completed Form 3115 with the IRS in Ogden, UT (Ogden copy), in lieu of filing the national office copy, no earlier than the first day of the year of change and no later than the date the taxpayer files the original Form 3115 with its federal income tax return for the year of change. *See* sections 6.02(3)(a)(ii)(B) (providing the general rules) and 6.02(7)(b) (providing the mailing address) of this revenue procedure.

(7) *Designated automatic accounting method change numbers*. The designated automatic accounting method change number for a change to a method of accounting under section 6.37 of this APPENDIX is "200." *See* section 6.02(4) of this revenue procedure.

(8) *Contact information*. For further information regarding a change under this section, contact Patrick Clinton at (202) 317-7005 (not a toll-free call).

SECTION 4. EFFECT ON OTHER DOCUMENTS

.01 Rev. Proc. 2011–14, 2011–4 I.R.B. 330, is modified and clarified.

.02 Rev. Proc. 2012–20, 2012–14 I.R.B. 700, is modified and superseded.

SECTION 5. EFFECTIVE DATE

This revenue procedure is effective February 28, 2014.

SECTION 6. PAPERWORK REDUCTION ACT

The collection of information contained in this revenue procedure has been reviewed and approved by the Office of Management and Budget in accordance with the Paperwork Reduction Act (44 U.S.C. 3507) under control number 1545-1551. An agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless the collection of information displays a valid OMB control number.

The collections of information in this revenue procedure are in section 3.03. This information is necessary and will be used to determine whether the taxpayer properly changed to a permitted method of accounting. The collections of information are required for a taxpayer to obtain consent to change its method of accounting. The likely respondents are the following: individuals, farms, business or other for-profit institutions, nonprofit institutions, and small businesses or organizations.

The estimated total annual reporting and/or recordkeeping burden is 1,200 hours.

The estimated annual burden per respondent/recordkeeper varies from ¼ hour to 1.5 hours, depending on individual circumstances, with an estimated average of ¾ hour. The estimated number of respondents is 1,600. The estimated annual frequency of responses is on occasion.

SECTION 7. DRAFTING INFORMATION

The principal author of this revenue procedure is Kathleen Reed of the Office of Associate Chief Counsel (Income Tax & Accounting). For further information regarding this revenue procedure, contact Patrick Clinton of the Office of Associate Chief Counsel (Income Tax & Accounting) at (202) 317-7005 (not a toll free number).

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26 CFR 601.601: *Rules and Regulations.*
(Also Part I, §§ 25, 103, 143; 1.25–4T, 1.103–1, 6a.103A–2.)

Rev. Proc. 2014–23

SECTION 1. PURPOSE

This revenue procedure provides guidance with respect to the United States and area median gross income figures that are to be used by issuers of qualified mortgage bonds, as defined in § 143(a) of the Internal Revenue Code, and issuers of mortgage credit certificates, as defined in § 25(c), in computing the income requirements described in § 143(f).

SECTION 2. BACKGROUND

.01 Section 103(a) provides that, except as provided in § 103(b), gross income does not include interest on any state or local bond. Section 103(b)(1) provides that § 103(a) shall not apply to any private activity bond that is not a qualified bond

(within the meaning of § 141). Section 141(e) provides that the term "qualified bond" includes any private activity bond that (1) is a qualified mortgage bond, (2) meets the applicable volume cap requirements under § 146, and (3) meets the applicable requirements under § 147.

.02 Section 143(a)(1) provides that the term "qualified mortgage bond" means a bond that is issued as part of a "qualified mortgage issue". Section 143(a)(2)(A) provides that the term "qualified mortgage issue" means an issue of one or more bonds by a state or political subdivision thereof, but only if (i) all proceeds of the issue (exclusive of issuance costs and a reasonably required reserve) are to be used to finance owner-occupied residences; (ii) the issue meets the requirements of subsections (c), (d), (e), (f), (g), (h), (i), and (m)(7) of § 143; (iii) the issue does not meet the private business tests of paragraphs (1) and (2) of § 141(b); and (iv) with respect to amounts received more than 10 years after the date of issuance, repayments of $250,000 or more of principal on financing provided by the issue are used not later than the close of the first semi-annual period beginning after the date the prepayment (or complete repayment) is received to redeem bonds that are part of the issue.

.03 Section 143(f) imposes eligibility requirements concerning the maximum income of mortgagors for whom financing may be provided by qualified mortgage bonds. Section 25(c)(2)(A)(iii)(IV) provides that recipients of mortgage credit certificates must meet the income requirements of § 143(f). Generally, under §§ 143(f)(1) and 25(c)(2)(A)(iii)(IV), these income requirements are met only if all owner-financing under a qualified mortgage bond and all certified indebtedness amounts under a mortgage credit certificate program are provided to mortgagors whose family income is 115 percent or less of the applicable median family income. Under § 143(f)(6), the income limitation is reduced to 100 percent of the applicable median family income if there are fewer than three individuals in the family of the mortgagor.

.04 Section 143(f)(4) provides that the term "applicable median family income" means the greater of (A) the area median gross income for the area in which the residence is located, or (B) the statewide median gross income for the state in which the residence is located.

.05 Section 143(f)(5) provides for an upward adjustment of the income limitations in certain high housing cost areas. Under § 143(f)(5)(C), a high housing cost area is a statistical area for which the housing cost/income ratio is greater than 1.2. The housing cost/income ratio is determined under § 143(f)(5)(D) by dividing (a) the applicable housing price ratio by (b) the ratio that the area median gross income bears to the median gross income for the United States. The applicable housing price ratio is the new housing price ratio (new housing average purchase price for the area divided by the new housing average purchase price for the United States) or the existing housing price ratio (existing housing average area purchase price divided by the existing housing average purchase price for the United States), whichever results in the housing cost/income ratio being closer to 1. This income adjustment applies only to bonds issued, and nonissued bond amounts elected, after December 31, 1988. *See* § 4005(h) of the Technical and Miscellaneous Revenue Act of 1988, 1988-3 C.B. 1, 311 (1988).

.06 The Department of Housing and Urban Development (HUD) has computed the median gross income for the United States, the states, and statistical areas within the states. The income information was released to the HUD regional offices on December 18, 2013, and may be obtained by calling the HUD reference service at 1-800-245-2691. The income information is also available at HUD's World Wide Web site, *http://www.huduser.org/portal/datasets/il.html*, which provides a menu from which you may select the year and type of data of interest.

.07 The most recent nationwide average purchase prices and average area purchase price safe harbor limitations were published on July 1, 2013, in Rev. Proc. 2013–28, 2013–27 I.R.B. 28.

SECTION 3. APPLICATION

.01 When computing the income requirements of § 143(f), issuers of qualified mortgage bonds and mortgage credit certificates must use either (1) the median gross income for the United States, the states, and statistical areas within the states, as released to the HUD regional offices on December 11, 2012, or (2) the median gross income for the United States, the states, and statistical areas within the states, as released to the HUD regional offices on December 18, 2013.

.02 If an issuer uses the median gross income for the United States, the states, and statistical areas within the states, as released to the HUD regional offices on December 11, 2012, to compute the housing cost/income ratio under § 143(f)(5), the issuer must use the median gross income for the United States, the states, and statistical areas within the states, as released to the HUD regional offices on December 11, 2012, for all purposes under § 143(f). Likewise, if an issuer uses the median gross income for the United States, the states, and statistical areas within the states, as released to the HUD regional offices on December 18, 2013, to compute the housing cost/income ratio under § 143(f)(5), the issuer must use the median gross income for the United States, the states, and statistical areas within the states, as released to the HUD regional offices on December 18, 2013, for all purposes under § 143(f).

SECTION 4. EFFECT ON OTHER REVENUE PROCEDURES

.01 Rev. Proc. 2013–27, 2013–24 I.R.B. 1243, is obsolete except as provided in §§ 3.01, 3.02, or 5.01 of this revenue procedure.

.02 This revenue procedure does not affect the effective date provisions of Rev. Rul. 86–124, 1986–2 C.B. 27. Those effective date provisions will remain operative at least until the Service publishes a new revenue ruling that conforms the approach to effective dates set forth in Rev. Rul. 86–124 to the general approach taken in this revenue procedure.

SECTION 5. EFFECTIVE DATES

.01 Issuers must use the United States and area median gross income figures specified in § 3.01 of this revenue procedure for commitments to provide financing that are made, or (if the purchase precedes the financing commitment) for residences that are purchased, in the period that begins on December 18, 2013,

and ends on the date when these United States and area median gross income figures are rendered obsolete by a new revenue procedure.

DRAFTING INFORMATION

The principal authors of this revenue procedure are David White and James Polfer of the Office of Associate Chief Counsel (Financial Institutions & Products). For further information regarding this revenue procedure contact Mr. White or Mr. Polfer at (202) 317-6980 (not a toll-free number).

Definition of Terms

Revenue rulings and revenue procedures (hereinafter referred to as "rulings") that have an effect on previous rulings use the following defined terms to describe the effect:

Amplified describes a situation where no change is being made in a prior published position, but the prior position is being extended to apply to a variation of the fact situation set forth therein. Thus, if an earlier ruling held that a principle applied to A, and the new ruling holds that the same principle also applies to B, the earlier ruling is amplified. (Compare with modified, below).

Clarified is used in those instances where the language in a prior ruling is being made clear because the language has caused, or may cause, some confusion. It is not used where a position in a prior ruling is being changed.

Distinguished describes a situation where a ruling mentions a previously published ruling and points out an essential difference between them.

Modified is used where the substance of a previously published position is being changed. Thus, if a prior ruling held that a principle applied to A but not to B, and the new ruling holds that it applies to both A and B, the prior ruling is modified because it corrects a published position. (Compare with amplified and *clarified*, above).

Obsoleted describes a previously published ruling that is not considered determinative with respect to future transactions. This term is most commonly used in a ruling that lists previously published rulings that are obsoleted because of changes in laws or regulations. A ruling may also be obsoleted because the substance has been included in regulations subsequently adopted.

Revoked describes situations where the position in the previously published ruling is not correct and the correct position is being stated in a new ruling.

Superseded describes a situation where the new ruling does nothing more than restate the substance and situation of a previously published ruling (or rulings). Thus, the term is used to republish under the 1986 Code and regulations the same position published under the 1939 Code and regulations. The term is also used when it is desired to republish in a single ruling a series of situations, names, etc., that were previously published over a period of time in separate rulings. If the new ruling does more than restate the substance of a prior ruling, a combination of terms is used. For example, modified and *superseded* describes a situation where the substance of a previously published ruling is being changed in part and is continued without change in part and it is desired to restate the valid portion of the previously published ruling in a new ruling that is self contained. In this case, the previously published ruling is first modified and then, as modified, is superseded.

Supplemented is used in situations in which a list, such as a list of the names of countries, is published in a ruling and that list is expanded by adding further names in subsequent rulings. After the original ruling has been supplemented several times, a new ruling may be published that includes the list in the original ruling and the additions, and supersedes all prior rulings in the series.

Suspended is used in rare situations to show that the previous published rulings will not be applied pending some future action such as the issuance of new or amended regulations, the outcome of cases in litigation, or the outcome of a Service study.

Abbreviations

The following abbreviations in current use and formerly used will appear in material published in the Bulletin.

A—Individual.
Acq.—Acquiescence.
B—Individual.
BE—Beneficiary.
BK—Bank.
B.T.A.—Board of Tax Appeals.
C—Individual.
C.B.—Cumulative Bulletin.
CFR—Code of Federal Regulations.
CI—City.
COOP—Cooperative.
Ct.D.—Court Decision.
CY—County.
D—Decedent.
DC—Dummy Corporation.
DE—Donee.
Del. Order—Delegation Order.
DISC—Domestic International Sales Corporation.
DR—Donor.
E—Estate.
EE—Employee.
E.O.—Executive Order.
ER—Employer.
ERISA—Employee Retirement Income Security Act.
EX—Executor.
F—Fiduciary.
FC—Foreign Country.
FICA—Federal Insurance Contributions Act.
FISC—Foreign International Sales Company.
FPH—Foreign Personal Holding Company.
F.R.—Federal Register.
FUTA—Federal Unemployment Tax Act.
FX—Foreign corporation.
G.C.M.—Chief Counsel's Memorandum.
GE—Grantee.
GP—General Partner.
GR—Grantor.
IC—Insurance Company.
I.R.B.—Internal Revenue Bulletin.
LE—Lessee.
LP—Limited Partner.
LR—Lessor.
M—Minor.
Nonacq.—Nonacquiescence.
O—Organization.
P—Parent Corporation.
PHC—Personal Holding Company.
PO—Possession of the U.S.
PR—Partner.
PRS—Partnership.
PTE—Prohibited Transaction Exemption.
Pub. L.—Public Law.
REIT—Real Estate Investment Trust.
Rev. Proc.—Revenue Procedure.
Rev. Rul.—Revenue Ruling.
S—Subsidiary.
S.P.R.—Statement of Procedural Rules.
Stat.—Statutes at Large.
T—Target Corporation.
T.C.—Tax Court.
T.D.—Treasury Decision.
TFE—Transferee.
TFR—Transferor.
T.I.R.—Technical Information Release.
TP—Taxpayer.
TR—Trust.
TT—Trustee.
U.S.C.—United States Code.
X—Corporation.
Y—Corporation.
Z—Corporation.

Numerical Finding List[1]

Bulletins 2014–1 through 2014–12

Announcements

2014-1, 2014-2 I.R.B. *393*
2014-2, 2014-4 I.R.B. *448*
2014-4, 2014-7 I.R.B. *523*
2014-05, 2014-6 I.R.B. *507*
2014-06, 2014-6 I.R.B. *508*
2014-07, 2014-6 I.R.B. *508*
2014-08, 2014-6 I.R.B. *508*
2014-09, 2014-6 I.R.B. *508*
2014-10, 2014-6 I.R.B. *508*
2014-11, 2014-6 I.R.B. *508*
2014-12, 2014-6 I.R.B. *509*
2014-13, 2014-10 I.R.B. *620*

Notices

2014-1, 2014-2 I.R.B. *270*
2014-2, 2014-3 I.R.B. *407*
2014-3, 2014-3 I.R.B. *408*
2014-4, 2014-2 I.R.B. *274*
2014-5, 2014-2 I.R.B. *276*
2014-6, 2014-2 I.R.B. *279*
2014-7, 2014-4 I.R.B. *445*
2014-8, 2014-5 I.R.B. *452*
2014-9, 2014-5 I.R.B. *455*
2014-10, 2014-9 I.R.B. *605*
2014-12, 2014-9 I.R.B. *606*
2014-13, 2014-10 I.R.B. *616*
2014-15, 2014-12 I.R.B. *661*

Proposed Regulations

REG-154890-03, 2014-6 I.R.B. *504*
REG-159420-04, 2014-2 I.R.B. *374*
REG-144468-05, 2014-6 I.R.B. *474*
REG-119305-11, 2014-8 I.R.B. *524*
REG-140974-11, 2014-3 I.R.B. *438*
REG-121534-12, 2014-6 I.R.B. *473*
REG-122706-12, 2014-11 I.R.B. *647*
REG-136984-12, 2014-2 I.R.B. *378*
REG-113350-13, 2014-3 I.R.B. *440*
REG-141036-13, 2014-7 I.R.B. *516*
REG-143172-13, 2014-2 I.R.B. *383*

Revenue Procedures

2014-1, 2014-1 I.R.B. *1*
2014-2, 2014-1 I.R.B. *90*
2014-3, 2014-1 I.R.B. *111*
2014-4, 2014-1 I.R.B. *125*
2014-5, 2014-1 I.R.B. *169*
2014-6, 2014-1 I.R.B. *198*
2014-7, 2014-1 I.R.B. *238*
2014-8, 2014-1 I.R.B. *242*
2014-9, 2014-2 I.R.B. *281*
2014-10, 2014-2 I.R.B. *293*

Revenue Procedures—Continued

2014-11, 2014-3 I.R.B. *411*
2014-12, 2014-3 I.R.B. *415*
2014-13, 2014-3 I.R.B. *419*
2014-14, 2014-2 I.R.B. *295*
2014-15, 2014-5 I.R.B. *456*
2014-16, 2014-9 I.R.B. *606*
2014-17, 2014-12 I.R.B. *661*
2014-18, 2014-7 I.R.B. *513*
2014-19, 2014-10 I.R.B. *619*
2014-20, 2014-9 I.R.B. *614*
2014-21, 2014-11 I.R.B. *641*
2014-22, 2014-11 I.R.B. *646*
2014-23, 2014-12 I.R.B. *684*

Revenue Rulings

2014-1, 2014-2 I.R.B. *263*
2014-2, 2014-2 I.R.B. *255*
2014-3, 2014-2 I.R.B. *259*
2014-4, 2014-5 I.R.B. *449*
2014-6, 2014-7 I.R.B. *510*
2014-8, 2014-11 I.R.B. *624*

Treasury Decisions

9649, 2014-2 I.R.B. *265*
9650, 2014-3 I.R.B. *394*
9651, 2014-4 I.R.B. *441*
9652, 2014-12 I.R.B. *655*
9653, 2014-6 I.R.B. *460*
9654, 2014-6 I.R.B. *461*
9655, 2014-9 I.R.B. *541*
9656, 2014-11 I.R.B. *626*
9659, 2014-12 I.R.B. *653*

[1]A cumulative list of all revenue rulings, revenue procedures, Treasury decisions, etc., published in Internal Revenue Bulletins 2013–27 through 2013–52 is in Internal Revenue Bulletin 2013–52, dated December 23, 2013.

Finding List of Current Actions on Previously Published Items[1]

Bulletins 2014–1 through 2014–12

Announcements:

2007-44
Modified by
Ann. 2014-4, 2014-7 I.R.B. *523*

2011-49
Modified by
Ann. 2014-4, 2014-7 I.R.B. *523*

Notices:

2006-109
Modified by
Notice 2014-4, 2014-2 I.R.B. *274*

2009-78
Superseded by
T.D. 9654 2014-6 I.R.B. *461*

2012-18
Amplified by
Notice 2014-15, 2014-12 I.R.B. *661*

2013-17
Amplified by
Notice 2014-1, 2014-2 I.R.B. *270*

Revenue Procedures:

2003-49
Modified and superseded by
Rev. Proc. 2014-14, 2014-2 I.R.B. *295*

2011-4
Modified by
Rev. Proc. 2014-17, 2014-12 I.R.B. *661*

2011-14
Modified by
Rev. Proc. 2014-16, 2014-9 I.R.B. *606*

2011-14
Clarified by
Rev. Proc. 2014-16, 2014-9 I.R.B. *606*

2011-14
Modified by
Rev. Proc. 2014-17, 2014-12 I.R.B. *661*

2011-44
Modified and Superseded by
Rev. Proc. 2014-11, 2014-3 I.R.B. *411*

2011-49
Modified by
Rev. Proc. 2014-6, 2014-1 I.R.B. *198*

Revenue Procedures—Continued:

2012-14
Modified by
Rev. Proc. 2014-17, 2014-12 I.R.B. *661*

2012-19
Modified by
Rev. Proc. 2014-16, 2014-9 I.R.B. *606*

2012-19
Superseded by
Rev. Proc. 2014-16, 2014-9 I.R.B. *606*

2012-20
Modified by
Rev. Proc. 2014-17, 2014-12 I.R.B. *661*

2012-20
Superseded by
Rev. Proc. 2014-17, 2014-12 I.R.B. *661*

2013-1
Superseded by
Rev. Proc. 2014-1, 2014-1 I.R.B. *1*

2013-2
Superseded by
Rev. Proc. 2014-2, 2014-1 I.R.B. *90*

2013-3
Superseded by
Rev. Proc. 2014-3, 2014-1 I.R.B. *111*

2013-4
Superseded by
Rev. Proc. 2014-4, 2014-1 I.R.B. *125*

2013-5
Superseded by
Rev. Proc. 2014-5, 2014-1 I.R.B. *169*

2013-6
Superseded by
Rev. Proc. 2014-6, 2014-1 I.R.B. *198*

2013-7
Superseded by
Rev. Proc. 2014-7, 2014-1 I.R.B. *238*

2013-8
Superseded by
Rev. Proc. 2014-8, 2014-1 I.R.B. *242*

2013-9
Superseded by
Rev. Proc. 2014-9, 2014-2 I.R.B. *281*

2013-10
Superseded by
Rev. Proc. 2014-10, 2014-2 I.R.B. *293*

Revenue Procedures—Continued:

2013-24
Obsoleted by
Rev. Proc. 2014-23, 2014-12 I.R.B. *684*

2013-27
Obsoleted by
Rev. Proc. 2014-23, 2014-12 I.R.B. *684*

2013-32
Superseded in part by
Rev. Proc. 2014-1, 2014-1 I.R.B. *1*, and
Rev. Proc. 2014-3, 2014-1 I.R.B. *111*

2014-1
Amplified by
Rev. Proc. 2014-18, 2014-7 I.R.B. *513*

2014-3
Amplified by
Rev. Proc. 2014-18, 2014-7 I.R.B. *513*

2014-4
Modified by
Rev. Proc. 2014-19, 2014-10 I.R.B. *619*

Proposed Regulations:

209054-87
A portion withdrawn by
REG-113350-13 2014-3 I.R.B. *440*

Revenue Rulings:

2005-48 (2005-2 CB 259)
Obsoleted by
T.D. 9659 2014-12 I.R.B. *653*

[1]A cumulative list of current actions on previously published items in Internal Revenue Bulletins 2013–27 through 2013–52 is in Internal Revenue Bulletin 2013–52, dated December 23, 2013.

INDEX

Internal Revenue Bulletins 2014–1 through 2014–12

The abbreviation and number in parenthesis following the index entry refer to the specific item; numbers in roman and italic type following the parentheses refer to the Internal Revenue Bulletin in which the item may be found and the page number on which it appears.

Key to Abbreviations:

Ann	Announcement
CD	Court Decision
DO	Delegation Order
EO	Executive Order
PL	Public Law
PTE	Prohibited Transaction Exemption
RP	Revenue Procedure
RR	Revenue Ruling
SPR	Statement of Procedural Rules
TC	Tax Convention
TD	Treasury Decision
TDO	Treasury Department Order

ADMINISTRATIVE

EMPLOYEE PLANS

EMPLOYEE PLANS—Cont.

EMPLOYMENT TAX

ESTATE TAX

EXCISE TAX

EXEMPT ORGANIZATIONS

INCOME TAX

INCOME TAX—Cont.

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