

AN ALERT FROM THE BDO FEDERAL TAX PRACTICE

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►SUBJECT

IRS ISSUES MODIFIED AND NEW ACCOUNTING METHOD CHANGE PROCEDURES FOR DISPOSITIONS OF TANGIBLE DEPRECIABLE PROPERTY

►SUMMARY

On February 28, 2014, the Internal Revenue Service released Revenue Procedure 2014-17, which will appear in the Internal Revenue Bulletin dated March 17, 2014, and supersedes Rev. Proc. 2012-20. Rev. Proc. 2014-17 provides procedures for taxpayers to obtain automatic consent to change certain methods of accounting for dispositions of tangible depreciable property.

►PUBLISHED GUIDANCE

In September of 2013, the Treasury Department and the Service issued final regulations (T.D. 9636) regarding, in part, the depreciation or amortization of leasehold improvements as well as proposed disposition regulations (REG-110732-13) on general asset accounts, partial dispositions of property subject to the modified accelerated cost recovery system ("MACRS property"), and dispositions of MACRS property. Rev. Proc. 2014-17 provides accounting method change guidance specific to these regulations.

Rev. Proc. 2014-17 modifies existing accounting method change guidance in Rev. Procs. 2011-14 and 2012-20 and introduces several new automatic accounting method changes. Taxpayers are permitted to combine certain accounting method change requests on a single Form 3115, Application for Change in Accounting Method. The new guidance also specifies how the section 481(a) adjustment is to be computed, including instructions on combining the section 481(a) adjustments of multiple accounting method changes filed on the same Form 3115.

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Rev. Proc. 2014-17 also waives the automatic accounting method change scope limitations of Rev. Proc. 2011-14, Appendix section 6.01 in certain circumstances.

Under the temporary regulations (T.D. 9564) issued in December 2011, taxpayers that filed accounting method changes to dispose of property or to make late general asset account (“GAA”) elections to recognize a gain or loss on dispositions of property are advised to review this guidance carefully. Taxpayers may wish to unwind a prior GAA accounting method change. Rev. Proc. 2014-17 introduces an accounting method change to reverse a prior GAA election accounting method change. In the case of a taxpayer that made an accounting method change under the temporary regulations to dispose of property and recognize a gain or loss, an additional accounting method change is necessary to make a late election to claim a partial disposition of property under the proposed disposition regulations. Several examples are included in the revenue procedure to illustrate these scenarios.

Many of the changes in accounting method require filing a copy of Form 3115 with the Service in Ogden, Utah. Certain method changes also require additional disclosures. The Service also provides simplified accounting method change procedures for small taxpayers with average annual gross receipts not exceeding \$10 million.

Summary of Accounting Method Changes

The table below summarizes the changes in method of accounting addressed in Rev. Proc. 2014-17:

Description of Change	Change Number	Sec. 481(a) Adjustment
<i>Modifications to Existing Automatic Changes:</i>		
Depreciation of leasehold improvements	175	Yes
Permissible-to-permissible method of accounting for depreciation of MACRS property	176	Varies: cut-off, modified cut-off, 481(a)
Disposition of a building or structural component	177	Yes
Dispositions of tangible depreciable assets (other than a building and its structural components)	178	Yes
Dispositions of tangible depreciable assets in a general asset account	179	Yes
General asset account elections	180	Yes
<i>New Automatic Changes:</i>		
Late partial disposition election	196	Yes
Revocation of general asset account election	197	Yes
Partial dispositions of tangible depreciable assets to which the IRS adjustment pertains	198	Yes
Depreciation of leasehold improvements	199	Yes
Permissible to permissible method of accounting for depreciation of MACRS property	200	Modified cut-off

The accounting method changes in the table above are limited to taxable years that begin on or after January 1, 2012, and before January 1, 2014. The Treasury Department and the Service are expected to finalize the proposed disposition regulations by late April or early May 2014. When finalized, the final regulations are expected to apply to taxable years beginning on or after January 1, 2014, and will permit a taxpayer to adopt for prior taxable years beginning as early as January 1, 2012. The Service intends to issue another revenue procedure with revised accounting method change guidance after the proposed disposition regulations are finalized.

▶ NEXT STEPS

Taxpayers should:

- Consider whether previously-filed accounting method changes require revisions, especially late GAA elections and disposition of property method changes under the temporary regulations and Rev. Proc. 2012-20;
- Determine whether opportunities exist under these new procedures to recognize a gain or loss upon disposition of property by filing an application for change in accounting method;
- Consider whether prompt action may be warranted for accounting method change requests required to be filed with 2013 tax returns (inasmuch as method changes filed under Rev. Proc. 2014-17 are limited to 2012 and 2013 taxable years);
- Anticipate final disposition regulations and related method-change guidance later this year; and
- Contact a BDO tax professional for further discussion.

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