# Instructions for Form 3115

(Rev. December 2018)

Department of the Treasury
**Internal Revenue Service**

## Application for Change in Accounting Method

Section references are to the Internal Revenue Code unless otherwise noted.

*All references to Rev. Proc. 2015-13 are to Rev. Proc. 2015-13, 2015-5 I.R.B. 419 (as clarified and modified by Rev. Proc. 2015-33, 2015-24 I.R.B. 1067, and as modified by Rev. Proc. 2017-59, 2017-48 I.R.B. 543, and by section 17.02 of Rev. Proc. 2016-1, 2016-1 I.R.B. 1), or any successor.*

*All references to Rev. Proc. 2018-31 and the List of Automatic Changes are to Rev. Proc. 2018-31, 2018-22 I.R.B. 637 (as modified by Rev. Proc. 2018-60, 2018-51 I.R.B. 1045, Rev. Proc. 2018-56, 2018-50 I.R.B. 985, Rev. Proc. 2018-49, 2018-41 I.R.B. 548, Rev. Proc. 2018-44, 2018-37 I.R.B. 426, Rev. Proc. 2018-40, 2018–34 I.R.B. 320, Rev. Proc. 2018-35, 2018-28 I.R.B. 204, and Rev. Proc. 2018-29, 2018-22 I.R.B. 634), or any successor.*

*All references to Rev. Proc. 2019-1 are to Rev. Proc. 2019-1, 2019-1 I.R.B. 1, or any successor (updated annually).*

## Future Developments

For the latest information about developments related to Form 3115 and its instructions, such as legislation enacted after they were published, go to *IRS.gov/Form3115*.

## What's New

**Small business taxpayers.** Effective for tax years beginning after 2017, the Tax Cuts and Jobs Act (P.L. 115-97) expanded the eligibility of small business taxpayers to use the cash method of accounting. The cash method is available for taxpayers that had average annual gross receipts for the 3 preceding tax years of $25 million or less. See the instructions for Schedule A, later. Qualifying small business taxpayers are also exempt from the following accounting rules.

- The requirement to keep inventories. See section 471(c) and the instructions for Schedule A.
- The uniform capitalization rules. See section 263A(i) and the instructions for Schedule D.
- The requirement to use the percentage-of-completion method for construction contracts, expected to be completed within two years. See section 460(e) and the instructions for Schedule D.

**Advance payments.** See the instructions for Schedule B for changes to the election to defer advance payments.

**Terminating S corporations.** Special rules apply for eligible terminated S corporations (as defined in section 481(d)(2)) that change their method of accounting from cash to accrual. See the instructions for Part IV.

# General Instructions

## Purpose of Form

File Form 3115 to request a change in either an overall method of accounting or the accounting treatment of any item.

## Method Change Procedures

*When filing Form 3115, you must determine if the IRS has issued any new published guidance which includes revenue procedures, revenue rulings, notices, regulations, or other relevant guidance in the Internal Revenue Bulletin. For the latest information, visit* IRS.gov.

For general application procedures on requesting accounting method changes, see Rev. Proc. 2015-13. Rev. Proc. 2015-13 provides procedures for both automatic and non-automatic changes in method of accounting.

**Automatic change procedures.** Unless otherwise provided in published guidance, you **must** file under the automatic change procedures if you are eligible to request consent to make a change in your method of accounting under the automatic change procedures for the requested year of change. See the instructions for Part I later, and the List of Automatic Changes in Rev. Proc. 2018-31.

A Form 3115 filed under these procedures may be reviewed by the IRS. If it is, you will be notified if information in addition to that requested on Form 3115 is required or if your request is denied. No user fee is required. An applicant that timely files and complies with the automatic change procedures is granted consent to change its accounting method, subject to review by the IRS National Office and operating division director.

Ordinarily, you are required to file a separate Form 3115 for each change in method of accounting. However, in some cases you are required or permitted to file a single Form 3115 for particular concurrent changes in method of accounting. See section 6.03(1)(b) of Rev. Proc. 2015-13 for more information.

**Note.** The List of DCNs (Designated automatic accounting method change number) at the end of these instructions is a list of many accounting method changes and is presented for informational purposes only and subject to the most recently issued Revenue Procedures.

**Reduced Form 3115 filing requirement.** A qualified small taxpayer qualifies for a reduced Form 3115 filing requirement for the following DCNs: 7, 8, 21, 87, 88, 89, 107, 121, 145, 157, 184–193, 198, 199, 200, 205, 206, 207, and 222. A qualified small taxpayer is a taxpayer with average annual gross receipts of less than or equal to $10 million for the 3 tax years preceding the year of change. See *Year of Change*, later. A reduced Form 3115 filing requirement involves completing only certain lines and schedules of the Form 3115. For qualifying changes and filing requirements, see the List of Automatic Changes.

**Non-automatic change procedures.** If you do not qualify to file under the automatic change procedures for the requested change in method of accounting for the requested year of change, you may be able to file under the non-automatic change procedures. See *Non-automatic change—scope and eligibility rules*, in Part III, later. If the requested change is approved by the IRS National Office, the filer will receive a letter ruling on the requested change. File a separate Form 3115 for each unrelated item or submethod. A user fee is required. See the instructions for Part III, later, for more information.

## Who Must File

The **filer** is the entity or person required to file Form 3115, whether on its own behalf or on behalf of another entity. An **applicant** is an entity, a person, or a separate and distinct trade or business of an entity or a person (for purposes of Regulations section 1.446-1(d)), whose method of accounting is being changed.

For a consolidated group of corporations, the common parent corporation must file Form 3115 for a change in method of accounting for itself and for any member of the consolidated group. For example, the common parent corporation of a consolidated group is the filer when requesting a change in method of accounting for another member of that consolidated group (or a separate and distinct trade or business of that member), and the other member (or trade or business) on whose behalf Form 3115 is filed is the applicant.

For information on the difference between a filer and an applicant, see the *Name(s) and Signature(s)* section, later.

For a controlled foreign corporation (CFC) or 10/50 corporation without a U.S. trade or business, see section 6.02(6) of Rev. Proc. 2015-13.

Generally, a filer must file a separate Form 3115 for each applicant seeking consent to change a method of accounting. A separate Form 3115 and user fee (for non-automatic change requests) must be submitted for each applicant and each separate trade or business of an applicant, including a qualified subchapter S subsidiary (QSub) or a single-member limited liability company (LLC), requesting a change in method of accounting. See section 9.02 of Rev. Proc. 2019-1.

However, identical changes in methods of accounting for two or more of the following in any combination may be included in a single Form 3115.

1. Members of a consolidated group;

2. Separate and distinct trades or businesses (for purposes of Regulations section 1.446-1(d)) of that entity or member(s) of a consolidated group. Separate and distinct trades or businesses include QSubs and single-member LLCs;

3. Partnerships that are wholly owned within a consolidated group; and

4. CFCs and 10/50 corporations that do not engage in a trade or business within the United States where (i) all controlling domestic shareholders (as provided in Regulations section 1.964-1(c)(5)) of the CFCs and of the 10/50 corporations, as applicable, are members of the consolidated group; or (ii) the taxpayer is the sole controlling domestic shareholder of the CFCs or of the 10/50 corporations.

For information on what is an identical change in method of accounting, see section 15.07(4) of Rev. Proc. 2019-1.

## When and Where To File

**Automatic change requests.** Except if instructed differently, you must file Form 3115 under the automatic change procedures in duplicate as follows.

- Attach the **original** Form 3115 to the filer's timely filed (including extensions) federal income tax return for the year of change. The original Form 3115 attachment does not need to be signed.
- File a **copy** of the **signed** Form 3115 to the address provided in the address chart on this page, no earlier than the first day of the year of change and no later than the date the original is filed with the federal income tax return for the year of change. This signed Form 3115 may be a photocopy. For more on the signature requirement, see the *Name(s) and Signature(s)* section, later.

The IRS does not send acknowledgements of receipt for automatic change requests.

TIP *For filing procedures relating to automatic change requests for certain foreign corporations and foreign partnerships, see section 6.03(1)(a)(ii) and (iii) of Rev. Proc. 2015-13.*

**Non-automatic change requests.** You must file Form 3115 under the non-automatic change procedures during the tax year for which the change is requested, unless otherwise provided by published guidance. See section 6.03(2) of Rev. Proc. 2015-13. File Form 3115 with the IRS National Office at the address listed in the Address Chart. File Form 3115 as early as possible during the year of change to provide adequate time for the IRS to respond prior to the due date of the filer's return for the year of change.

The IRS normally sends an acknowledgment of receipt within 60 days after receiving a Form 3115 filed under the non-automatic change procedures. If the filer does not receive an acknowledgment of receipt for a non-automatic change request within 60 days, the filer can inquire to:

Internal Revenue Service
Control Clerk
CC:IT&A, Room 4512
1111 Constitution Ave. NW
Washington, DC 20224

CAUTION *In specified circumstances, you are required to send **additional copies** of Form 3115 to another IRS address. For example, another copy of Form 3115 would be sent, when an applicant is under examination, before an Appeals office, before a federal court, or is a certain foreign corporation or certain foreign partnership. See section 6.03(3) of Rev. Proc. 2015-13 for more information. Also see Part II, lines 6 and 8, later.*

### Address Chart for Form 3115

File Form 3115 at the applicable IRS address listed below.

| | **A non-automatic change request** | **An automatic change request (Form 3115 copy)** |
|---|---|---|
| Delivery by mail | Internal Revenue Service<br>Attn: CC:PA:LPD:DRU<br>P.O. Box 7604<br>Benjamin Franklin Station<br>Washington, DC 20044 | Internal Revenue Service<br>Ogden, UT 84201<br>M/S 6111 |
| Delivery by private delivery service | Internal Revenue Service<br>Attn: CC:PA:LPD:DRU<br>Room 5336<br>1111 Constitution Ave. NW<br>Washington, DC 20224 | Internal Revenue Service<br>1973 N. Rulon White Blvd.<br>Ogden, UT 84201<br>Attn: M/S 6111 |

### Late Application

In general, a filer that fails to timely file a Form 3115 will not be granted an extension of time to file except in unusual and compelling circumstances. See section 6.03(4)(b) of Rev. Proc. 2015-13 and Regulations section 301.9100-3 for the standards that must be met. For information on the period of limitations, see section 5.03(2) of Rev. Proc. 2019-1.

However, an automatic 6-month extension from the due date (excluding any extension) of the federal income tax return to file Form 3115 may be available for automatic change requests. For details, see section 6.03(4)(a) of Rev. Proc. 2015-13 and Regulations section 301.9100-2.

An applicant submitting a ruling request for an extension of time to file Form 3115 must pay a user fee for its extension

request and, in the case of a non-automatic change request, a separate user fee for its accounting method change request. For the schedule of user fees, see (A)(3)(b), (A)(4), and (A)(5)(d) in Appendix A of Rev. Proc. 2019-1.

## Useful Items

You can refer to these items for more informationn changing a method of accounting.

### Revenue Procedures (Rev. Proc.)

**Rev. Proc. 2019-1.** See *Rev. Proc. 2019-1*. This Rev. Proc. provides specific and additional procedures for requesting a change in method of accounting.

**Rev. Proc. 2015-13.** See *Rev. Proc. 2015-13*. This Rev. Proc. provides the automatic and non-automatic method change procedures to obtain consent of the Commissioner to change a method of accounting.

**Rev. Proc. 2018-31.** See *Rev. Proc. 2018-31*. This Rev. Proc. contains a list of accounting method changes that may be eligible to file under the automatic method change procedures.

### Other Item

**Pub. 538, Accounting Periods and Methods.** This publication provides general information on accounting methods.

# Specific Instructions

## Name(s) and Signature(s)

Enter the name of the filer on the first line of page 1 of Form 3115.

In general, the filer of Form 3115 is the applicant. However, in circumstances where Form 3115 is filed on behalf of the applicant, enter the filer's name and identification number on the first line of Form 3115 and enter the applicant's name and identification number on the fourth line. Receivers, trustees, or assignees must sign any Form 3115 they are required to file.

If Form 3115 is filed for multiple (i) applicants in a consolidated group of corporations, (ii) CFCs, (iii) wholly owned partnerships within a consolidated group, and/or (iv) separate and distinct trades or businesses (including QSubs or single-member LLCs), attach a schedule listing each applicant and its identification number (where applicable). This schedule may be combined with the information requested for Part III, line 24a (regarding the user fee), and Part IV (section 481(a) adjustment). If multiple names and signatures are required (for example, in the case of CFCs—see instructions below), attach a schedule labeled “SIGNATURE ATTACHMENT” to Form 3115, signed under penalties of perjury using the same language as in the declaration on page 1 of Form 3115.

**Individuals.** If Form 3115 is filed for a couple who file a joint income tax return, enter the names of both spouses on the first line and the signatures of both spouses on the signature line.

**Partnerships.** Enter the name of the partnership on the first line of Form 3115. In the signature section, include the signature of one of the general partners or limited liability company members who has personal knowledge of the facts and who is authorized to sign. Enter that person's name and official title in the space provided. If the authorized partner is a member of a consolidated group, then an authorized officer of the common parent corporation with personal knowledge of the facts must sign.

**Non-consolidated corporations, personal service corporations, S corporations, cooperatives, and insurance companies.** Enter the name of the filer on the first line of Form 3115. In the signature section, enter the signature of the officer who has personal knowledge of the facts and authority to bind the filer in the matter. Enter that officer's name and official title in the space provided.

**Consolidated group of corporations.** Enter the name of the common parent corporation on the first line of Form 3115. Also enter the name(s) of the applicant(s) on the fourth line if a member of the consolidated group other than, or in addition to, the parent corporation is requesting a change in method of accounting. In the signature section, enter the signature of the officer of the common parent corporation who has personal knowledge of the facts and authority to bind the common parent corporation in the matter, and that officer's name and official title in the space provided.

**Separate and distinct trade or business of an entity.** Enter the name of the entity (or common parent corporation if the entity is a member of a consolidated group) on the first line of Form 3115. Also enter the name of the separate and distinct trade or business requesting a change in method of accounting on the fourth line. In the signature section, enter the signature of the individual who has personal knowledge of the facts and authority to bind the separate and distinct trade or business of the entity in the matter, and that person's name and official title in the space provided.

**CFC or 10/50 corporation.** For a CFC or 10/50 corporation with a U.S. trade or business, follow the same rules as for other corporations. For a CFC or 10/50 corporation that does not have a U.S. trade or business, Form 3115 filed on behalf of its controlling domestic shareholder(s) (or common parent) must be signed by an authorized officer of the designated (controlling domestic) shareholder that retains the jointly executed consent as provided for in Regulations section 1.964-1(c)(3)(ii). If there is more than one shareholder, the statement described in Regulations section 1.964-1(c)(3)(ii) must be attached to the application. Also, the controlling domestic shareholder(s) must provide the written notice required by Regulations section 1.964-1(c)(3)(iii). If the designated (controlling domestic) shareholder is a member of a consolidated group, then an authorized officer of the common parent corporation must sign.

**Estates or trusts.** Enter the name of the estate or trust on the first line of Form 3115. In the signature section, enter the signature of the fiduciary, personal representative, executor, administrator, etc., who has personal knowledge of the facts and legal authority to bind the estate or trust in the matter, and that person's official title in the space provided.

**Exempt organizations.** Enter the name of the organization on the first line of Form 3115. In the signature section, enter the signature of a principal officer or other person who has personal knowledge of the facts and authority to bind the exempt organization in the matter, and that person's name and official title in the space provided.

**Preparer (other than filer/applicant).** If the individual preparing Form 3115 is not the filer or applicant, the preparer also must sign, and include the firm's name, where applicable. Generally, for both automatic and non-automatic changes, the preparer (if not the filer or applicant) must sign the original and copies of Form 3115. If Form 3115 is *e-filed*, the preparer need not sign the original *e-filed* Form 3115 but must still complete the preparer information and, if applicable, must sign the duplicate automatic Form 3115 copy.

## Identification Number

Enter the filer's taxpayer identification number on the first line of Form 3115 as follows.

- Individuals enter their social security number (SSN). For a resident or non-resident alien, enter an individual taxpayer

identification number (ITIN). If Form 3115 is for a couple who file a joint return, enter the identification numbers of both spouses.

- All others, enter the employer identification number (EIN).
- If the filer is the common parent corporation of a consolidated group of corporations, enter the EIN of the common parent on the first line of Form 3115. Enter the EIN of the applicant on the fourth line if a member of the consolidated group other than, or in addition to, the common parent is requesting the change in method of accounting.
- If the common parent is filing Form 3115 on behalf of multiple applicants in a consolidated group of corporations, multiple CFCs or 10/50 corporations, or multiple and distinct trades or businesses of a member (including QSubs or single-member LLCs), attach a schedule listing each applicant and its identification number (if applicable).
- If the applicant is a foreign entity that is not otherwise required to have or obtain an EIN, enter “Not applicable” in the space provided for the identifying number.

## Principal Business Activity Code

If the filer is a business, enter the 6-digit principal business activity (PBA) code of the filer. The principal business activity of the filer is the activity generating the largest percentage of its total receipts. See the instructions for the filer's income tax return for the filer's PBA code and definition of total receipts.

**Note.** An applicant requesting to change its accounting method under DCN 33 (change to overall cash method for a qualifying small business taxpayer for a tax year beginning before January 1, 2018) and/or DCN 51 (small taxpayer exception from requirement to account for inventories under section 471 for a tax year beginning before January 1, 2018) in the List of DCNs must also attach to Form 3115 the North American Industry Classification System (NAICS) code for the applicant's principal business activity. See Rev. Proc. 2002-28, 2002-1 C.B. 815, for further guidance. This paragraph does not apply to tax years beginning after December 31, 2017.

## Address

Include the suite, room, or other unit number after the street address. If the post office does not deliver mail to the street address and the filer has a P.O. box, show the box number instead of the street address.

## Year of Change

The year of change is the first tax year the applicant uses the proposed method of accounting, even if no affected items are taken into account for that year.

***Example.*** A calendar year taxpayer that has consistently capitalized certain building repair costs from 2012 to 2017 files a Form 3115 in 2018 to deduct these repair costs. The year of change is calendar year 2018.

## Contact Person

The contact person must be an individual authorized to sign Form 3115, or the filer's authorized representative. If this person is someone other than an individual authorized to sign Form 3115, you must attach Form 2848, Power of Attorney and Declaration of Representative.

### Form 2848, Power of Attorney and Declaration of Representative

Authorization to (1) represent the filer before the IRS, (2) receive a copy of the requested letter ruling, or (3) perform any other act(s) must be properly reflected on Form 2848. For further details for an authorized representative and a power of attorney, see sections 9.03(8) and (9) of Rev. Proc. 2019-1.

A Form 2848 must be attached to Form 3115 in order for the IRS to discuss a Form 3115 with the filer's representative, even if the filer's representative prepared and/or signed the Form 3115.

CAUTION *If the filer intends to have the authorized representative receive copies of correspondences regarding its Form 3115, it must check the appropriate box on Form 2848.*

### Option To Receive Correspondence by Fax

A filer that wants to receive, or wants its authorized representative to receive, correspondence regarding its Form 3115 (for example, additional information letters or the letter ruling) by fax must attach to Form 3115 a statement requesting this service. The attachment also must list the authorized name(s) and fax number(s) of the person(s) who is to receive the fax. The listed person(s) must be either authorized to sign Form 3115 or an authorized representative of the filer that is included on Form 2848. For further details on the fax procedures, see section 9.04(3) of Rev. Proc. 2019-1.

## Type of Accounting Method Change Requested

Check the appropriate box on Form 3115 to indicate the type of change being requested.

- **Depreciation or amortization.** Check this box for a change in (1) depreciation or amortization (for example, the depreciation method or recovery period), (2) the treatment of salvage proceeds or costs of removal, (3) the method of accounting for dispositions of depreciable property, or (4) the treatment of depreciable property from a single asset account to a multiple asset account (pooling), or vice versa.
- **Financial products and/or financial activities of financial institutions.** Check this box for a change in the treatment of a financial product (for example, accounting for debt instruments, derivatives, mark-to-market accounting), or in the financial activities of a financial institution (for example, a lending institution, a regulated investment company, a real estate investment trust, or a real estate mortgage investment conduit).
- **Other.** For non-automatic change requests, check this box if neither of the above boxes applies to the requested change. In the space provided, enter a short description of the change and the most specific applicable Code section(s) for the requested change (for example, change within section 263A costs; deduction of warranty expenses, section 461; or change to the completed contract method for long-term contracts, section 460).

For automatic change requests, this informational requirement is satisfied by properly completing Part I, line 1, of Form 3115.

As noted on Form 3115, the filer must provide all information relevant to the requested change in method of accounting. All relevant information includes all information requested on Form 3115, these instructions, and any other relevant information, even if not specifically identified on Form 3115 or in these instructions. Table A illustrates, for automatic and non-automatic changes, the Parts of Form 3115 that must be completed. Table B illustrates the Schedule(s) to be completed for common method changes.

**Table A: Parts To Complete on Form 3115 for Accounting Method Changes**

Information to be completed for automatic and non-automatic change requests

| | Part I | Part II | Part III | Part IV |
|---|---|---|---|---|
| Automatic Change | X | X | | X |
| Non-Automatic Change | | X | X | X |

# Part I—Information for Automatic Change Request

## Automatic Changes—Scope and Eligibility Rules

**Line 1a.** Enter the DCN on line 1(a). These numbers may be found in the List of DCNs at the end of the instructions, the List of Automatic Changes, or in subsequently published guidance. In general, enter a number for only one change. However, the numbers for two or more changes may be entered on line 1(a) if specifically permitted in applicable published guidance to file a single Form 3115 for particular concurrent changes in method of accounting. See section 6.03(1)(b) of Rev. Proc. 2015-13. For example, an applicant requesting both a change to deduct repair and maintenance costs for tangible property (DCN 184) and a change to capitalize acquisition or production costs (DCN 192) may file a single Form 3115 for both changes by including both DCNs 184 and 192 on line 1(a) of Form 3115.

**Line 1b.** If the accounting method change is not included in the List of Automatic Changes or assigned a number in the published guidance providing the automatic accounting method change, check the box for "Other" on line 1(b) and identify the revenue procedure or other published guidance under which the automatic accounting method change is being requested.

**Line 2.** If "Yes," provide an explanation as to why the applicant(s) qualifies to file under the automatic change procedures. If other published guidance provides for an automatic change in method of accounting not listed in the List of Automatic Changes, attach a statement citing the guidance. An example of this would be a change from the cash method under Regulations section 1.448-1(h)(2).

Generally, an applicant is only eligible to use the automatic change procedures of Rev. Proc. 2015-13 if it satisfies the following requirements (see section 5.01(1) of Rev. Proc. 2015-13).

1. On the date the applicant files a Form 3115, the change is described in the List of Automatic Changes;

2. On the date the applicant files a Form 3115, the applicant meets all requirements for the change provided in the applicable section of the List of Automatic Changes;

3. The requested change is not to the principal method under Regulations sections 1.381(c)(4)-1(d)(1) or

**Table B: Schedules To Complete on Form 3115 for Common Accounting Method Changes**

Information to be completed for common method change requests

| Common Method Changes | Schedule A | | Schedule B | Schedule C | | Schedule D | | | Schedule E |
|---|---|---|---|---|---|---|---|---|---|
| | Part I | Part II | | Part I | Part II | Part I | Part II | Part III | |
| Accrual to Cash | X | X | | | | | | | |
| Cash to Accrual | X | | | | | | | | |
| Capitalize to Expense | | | | | | | | | |
| Expense to Capitalize | | | | | | | | X* | X* |
| Depreciation | | | | | | | | | X |
| Long-Term Contracts | | | | | | X | | X | |
| Inventory Valuation Change | | | | | | | X | X* | |
| LIFO Change–Including Pooling | | | | X | X | | | | |
| Change to Deferral Method for Advanced Payments | | | X | | | | | | |

X Must fully complete section

Section need not be completed

X* To be completed if applicable—See instructions regarding Schedules D and E, later

1.381(c)(5)-1(d)(1);

4. The requested year of change is not the final year of the trade or business (but see the instructions for line 4);

5. For an overall method of accounting change, the applicant has not made or requested an overall method change during any of the 5 tax years ending with the year of change; and

6. The applicant has not made or requested a change for the same item during any of the 5 tax years ending with the year of change.

**Note.** Some automatic changes in methods of accounting waive some of the above requirements. These changes may be found in the List of Automatic Changes or the published guidance providing the automatic accounting method change.

**Line 3.** The filer must complete Form 3115, including any required statements or attachments. See *Table A* for the Form 3115 Part(s) required to be completed for all automatic and non-automatic change requests. See *Table B* for a sample of common method changes and the Form 3115 Schedule(s) to be completed for each. Additionally, see published guidance for any additional required information or statements. For example, a method change to use the mark-to-market method of accounting under section 475(e) or (f) (DCN 64) requires an applicant to file an additional statement to satisfy the requirement in section 5.04 of Rev. Proc. 99-17.

## Part II—Information for All Requests

**Line 4.** If no, check "No." If yes, check "Yes" and attach a statement explaining why the applicant is eligible to change its method of accounting. For example, specific guidance may permit an applicant to change its method of accounting in its final tax year. See section 5.03(2) of Rev. Proc. 2015-13 and sections 6.01 (DCN 7) and 6.07 (DCN 107) of Rev. Proc. 2018-31.

Ordinarily, the IRS will not consent to a request for a change in method of accounting when an applicant ceases to engage in the trade or business or terminates its existence. Generally, an applicant is considered to cease to engage in a trade or business if the applicant terminates its existence for federal income tax purposes, ceases operation of the trade or business, or transfers substantially all the assets of the trade to another taxpayer. For example, a cessation of a trade or business occurs when a trade or business is incorporated or the assets of the trade or business are contributed to a partnership. See sections 3.04, 5.01, and 5.03 of Rev. Proc. 2015-13.

**Line 5.** When an acquiring corporation operates the trades or businesses of the parties as separate and distinct trades or businesses after the date of distribution or transfer, the acquiring corporation must use a carryover method. See Regulations sections 1.381(c)(4)-1(a)(2) and 1.381(c)(5)-1(a)(2). On the other hand, when the acquiring corporation does not operate the trades or businesses of the parties as separate and distinct trades or businesses after the date of distribution or transfer, the acquiring corporation generally will use the principal method. The applicant does not need to secure the Commissioner's consent to use the principal method. See Regulations sections 1.381(c)(4)-1(d)(1) and 1.381(c)(5)-1(d)(1).

**Line 6a.** Generally, the applicant is under examination with respect to a federal income tax return as of the date the applicant (or filer) is contacted in any manner by a representative of the IRS for the purpose of scheduling or conducting any type of examination of the return. See section 3.18 of Rev. Proc. 2015-13.

**Line 6b.** Generally, the applicant's method of accounting is an issue under consideration if the examining agent has given the applicant (or filer) written notification specifically citing the treatment of the item as an issue under consideration. If an examining agent does not propose an adjustment for the item that is an issue under consideration during the examination, the item continues to be an issue under consideration after the examination ends only if the issue is placed in suspense. The applicant's method of accounting is an issue placed in suspense if the examining agent has given the applicant (or filer) written notification of the IRS's intent to examine the issue during the examination of the subsequent tax year(s) to be examined. See section 3.08 of Rev. Proc. 2015-13. A partnership or an S corporation has an issue under consideration before examination if the same item is an issue under consideration in an examination of a partner, member, or shareholder's federal income tax return. For consolidated groups, see section 3.08 of Rev. Proc. 2015-13 for issue under consideration rules.

CAUTION *For CFCs and 10/50 corporations, the issue under consideration rules are different. See section 3.08(4) of Rev. Proc. 2015-13.*

**Lines 6c and 6d.** If you answered "Yes" for line 6a, include the name and telephone number of the examining agent, and the tax year(s) under examination in the designated places on line 6c. For any present or former consolidated groups, if there is a tax year under examination, complete the information on line 6c. Provide a copy of Form 3115 to the examining agent, no later than the date the filer timely files Form 3115. See section 6.03(3)(a) of Rev. Proc. 2015-13.

**Line 7a.** In general, audit protection applies when an application for change in accounting method is granted. See section 8.01 of Rev. Proc. 2015-13. For exceptions where audit protection is not provided, see section 8.02 of Rev. Proc. 2015-13. For example, a change made under DCN 10 in the List of Automatic Changes for an applicant's sale, lease, or financing transactions does not receive audit protection. See the List of Automatic Changes for additional method changes not subject to audit protection.

If no audit protection is given for the requested change, check "No" and attach an explanation. For example, if you are making a change under DCN 10, your explanation is DCN 10. If you are making a change under DCN 7, your explanation could be that none of the items on line 7b applies. If multiple items are being changed on one Form 3115 and at least one item has audit protection and another item does not have audit protection, check both "Yes" and "No."

**Line 7b.** Generally, the applicant receives audit protection for tax years prior to the year of change if they fall into one of the following categories listed below. If Form 3115 is being filed on behalf of multiple applicants or if multiple items are being changed on one Form 3115, check all that apply and attach a statement identifying which category applies to which applicant or item. Except for "Not under exam" and "Other," the following only apply to applicants under examination.

- **Not under exam.** Check this box if: (A) the applicant is not under exam, and (B) audit protection applies to the item(s) being changed.
- **3-month window.** The 3-month window is the period beginning on the 15th day of the 7th month following the close of the applicant's tax year and ending on the 15th day of the 10th month following the close of the applicant's tax year. For 52-53 week applicants, the tax year begins on the 1st day of the calendar month nearest to the 1st day of the 52-53 week tax year. See Rev. Proc. 2015-33. For applicants with a short tax year ending before the 15th day of the 10th month after the short tax year begins, the 3-month window is the period beginning on the 1st day of the 2nd month preceding the month in which the short tax year ends and ending on the last day of the short tax year. An applicant qualifies under the 3-month window period when (A) it has been under examination for at least 12 consecutive months as of the 1st day of the 3-month window,

and (B) the method of accounting for the same item the applicant is requesting to change is not an issue under consideration. See section 8.02(1)(a) of Rev. Proc. 2015-13. Checking this box satisfies the statement requirement of section 8.02(1)(a)(iv) of Rev. Proc. 2015-13.

- **120-day window period.** The 120-day window is the 120-day period following the date an examination of the applicant ends, regardless of whether a subsequent examination has commenced. An applicant qualifies under the 120-day window period if Form 3115 is filed in a 120-day window and the method of accounting for the same item the applicant is requesting to change is not an issue under consideration. See section 8.02(1)(b) of Rev. Proc. 2015-13. If the applicant checks this box, also include the date the examination ended in the designated space on line 7b.
- **Method not before director.** The present method is not before the director when it is (A) a change from a clearly permissible method of accounting or (B) a change from an impermissible method of accounting and the impermissible method was adopted subsequent to the tax year(s) under examination on the date the applicant files Form 3115. Checking this box satisfies the statement requirement of section 8.02(1)(c)(ii) of Rev. Proc. 2015-13.
- **Change resulting in a negative adjustment.** Check this box if the change results in a negative adjustment. A negative adjustment occurs where an item (A) results in a negative section 481(a) adjustment for that item for the year of change, and (B) would have resulted in a negative section 481(a) adjustment in each tax year under examination if the change in method of accounting for that item had been made in the tax year(s) under examination. Checking this box satisfies the statement requirement in section 8.02(1)(e)(iii) of Rev. Proc. 2015-13.
- **CAP.** This box applies only to consolidated group members participating in the compliance assurance process (CAP). In general, audit protection applies to a new member if the new member is under audit solely by joining a consolidated group that participates in CAP. See section 8.02(1)(d) of Rev. Proc. 2015-13. Checking this box satisfies the statement requirement of section 8.02(1)(d)(ii) of Rev. Proc. 2015-13. If the applicant checks this box, include the date the member joined the consolidated group in the designated space on line 7b.
- **Other.** The List of Automatic Changes or other guidance published in the I.R.B. may provide applicants with audit protection. For example, specific guidance may provide a filer under exam with audit protection. If this box is checked, attach a statement citing the guidance providing audit protection.
- **Audit protection at end of exam.** If the applicant does not fall into one of the categories listed above for line 7b, this box generally should be checked. The applicant may receive audit protection at the end of the examination, provided the examining agent does not propose an adjustment for the same item and the method of accounting for that same item is not an issue under consideration. For certain foreign corporations, the applicant must satisfy additional requirements in order to receive audit protection at the end of the examination. See section 8.02(1)(f) of Rev. Proc. 2015-13.

CAUTION *For CFCs and 10/50 corporations, the rules for audit protection are different. See section 8.02 of Rev. Proc. 2015-13 (different rules for the 3-month window, 120-day window, and audit protection at end of exam).*

**Line 8a.** If you answered "Yes," complete lines 8b–d.

**Line 8b.** To determine if the applicant's method of accounting is an issue under consideration by Appeals and/or a federal court, see sections 3.08(2) and 3.08(3) of Rev. Proc. 2015-13.

**Line 8c.** If you answered "Yes" for line 8a, include the name and telephone number of the Appeals officer(s) and/or counsel to the government, as well as the tax year(s) before Appeals and/or federal court in the designated places.

**Line 8d.** If you answered "Yes" for line 8a, provide a copy of the signed Form 3115 to the Appeals officer(s) and/or all counsel to the government, as applicable, no later than the date the filer timely files Form 3115. See section 6.03(3)(a) of Rev. Proc. 2015-13.

**Line 9.** If you answered "Yes" to line 6a or 8a, complete line 9. The information requested on line 9 should be included on a separate attachment.

**Line 10.** If you answered "Yes," attach an explanation. Unless otherwise provided, the applicant does not receive audit protection for the requested change if it is an issue under consideration. See sections 3.08 and 8.02(7) of Rev. Proc. 2015-13.

**Line 11a–c.** Unless otherwise provided, an applicant is not eligible to file under the automatic change procedures if the applicant made or requested a prior overall method change or a prior item change (for the same item) within the 5 tax years ending with the requested year of change. For additional details, see section 9.03(6)(a) of Rev. Proc. 2019-1 and section 11.02(2) of Rev. Proc. 2015-13.

**Line 12.** For further details, see section 9.03(6)(b) of Rev. Proc. 2019-1.

**Line 13.** If you answered "Yes," complete Schedule A of Form 3115. For example, an overall method of accounting change includes a change from an accrual method to the cash receipts and disbursements method or vice versa. See section 446(c).

**Line 14.** Provide the information requested on lines 14a–d if the applicant answered "No" to question 13 or if the applicant answered "Yes" to question 13 and also is changing to a special method of accounting for one or more items. With the information requested on line 14b, the applicant also is required to provide a statement of whether or not the applicant has claimed any federal tax credit relating to the item(s) being changed. A special method of accounting for an item is a method of accounting (other than the cash method or an accrual method) expressly permitted by the Code, regulations, or guidance published in the I.R.B. that deviates from the rules of sections 446, 451, and 461 (and the related regulations) that is applicable to the applicant's overall method of accounting (proposed overall method if being changed). For example, the installment method of accounting under section 453, the mark-to-market method under section 475, and the long-term contract method under section 460 are special methods of accounting. See section 15.01(3)(d) of Rev. Proc. 2018-31. If the applicant prepared a Schedule M-3 with its last filed tax return or expects to file a Schedule M-3 with its next tax return, please state whether the applicant's proposed change in method of accounting for federal income tax purposes is related to the applicant's adoption of the International Financial Reporting Standards (IFRS) for financial statement purposes.

**Lines 15a and 15b.** Provide the requested information for each applicant. For guidance on using different methods of accounting for each trade or business, see section 446(d).

An applicant may include each member of a consolidated group, each wholly owned partnership within a consolidated group, each separate and distinct trade or business of each member of a consolidated group or other entity (even if the change is for all of a member's or other entity's trades or businesses), and each eligible CFC or 10/50 corporation filing a single Form 3115 requesting the identical accounting method change. Also see *Who Must File*, earlier.

**Lines 16a–c.** For non-automatic changes, the applicant is required to provide a full explanation of the legal basis to support

the proposed method, including all authorities supporting the proposed method, and a discussion of all contrary authorities. For further details on what is to be included, see Rev. Proc. 2019-1, sections 7.01(9) (statement of supporting authorities), 9.03(1) (facts and other information), 9.03(2) (statement of contrary authorities), 9.03(4) (analysis of material facts), and 9.03(7) (statement identifying pending legislation).

For the following automatic method changes, the applicant is only required to complete lines 16a–b, unless the information on lines 16a–b is otherwise provided in the applicable Form 3115 Schedules A–E: DCNs 6, 7, 28, 51, 54, 55, 64, 65, 82, 94, 108, 111, 114, 127, 194, 200 (only for changes listed in sections 6.12(3)(a)(ix), 6.12(3)(a)(x), and 6.12(3)(b)(viii) in the List of Automatic Changes), 205 (only for changes listed in sections 6.13(3)(h) and 6.13(3)(j) in the List of Automatic Changes), 206 (only for changes listed in sections 6.14(3)(a), 6.14(3)(h), and 6.14(3)(j) in the List of Automatic Changes), 207 (only for changes listed in sections 6.15(3)(a) and 6.15(3)(d) in the List of Automatic Changes), 211, and 218. Line 16c does not need to be completed for applicants filing automatic method changes. For further details on what is to be included, see Rev. Proc. 2019-1, sections 7.01(9) (statement of supporting authorities), 9.03(1) (facts and other information), and 9.03(4) (analysis of material facts).

**TIP** *If the automatic DCN is not specifically listed in the paragraph above, skip* lines 16a–c.

**Line 17.** Insurance companies also must attach a statement indicating whether the proposed method of accounting will be used for annual statement accounting purposes.

**Line 18.** For details on requesting and scheduling a conference, see sections 9.04(4) and 10 of Rev. Proc. 2019-1.

**Lines 19a and 19b.** For the calculation of gross receipts for an overall accounting method change request, whether an applicant qualifies as a small business taxpayer for purposes of applying sections 263A and 471, or whether an applicant qualifies as an eligible small business under section 474(c), see section 448(c) and Regulations section 1.448-1T(f)(2)(iv). For tax years beginning before January 1, 2018, the section 448(c) gross receipts test is $5 million or less, and the calculation of gross receipts in determining whether the applicant is a small reseller for purposes of section 263A is described in Regulations section 1.263A-3(b).

For the calculation of gross receipts for determining whether the applicant has an exempt construction contract under Regulations section 1.460-3(b), for contracts entered into after December 31, 2017, in tax years ending after December 31, 2017, see section 448(c) and Temporary Regulations section 1.448-1T(f)(2)(iv). For the calculation of gross receipts in determining whether the applicant has an exempt construction contract, for contracts entered into before January 1, 2018, see Regulations section 1.460-3(b)(3).

## Part III—Information for Non-Automatic Change Request

**Non-automatic change—scope and eligibility rules.** An applicant may not use the non-automatic change procedures if any of the following eligibility limitations apply at the time Form 3115 is filed with the IRS National Office.

1. The change in accounting method is required to be made according to a published automatic change procedure, such as Rev. Proc. 2018-31.

2. The requested year of change is the final year of the trade or business, unless (A) the change is a result of a transaction to which section 381(a) applies, or (B) the applicant demonstrates to the satisfaction of the IRS National Office compelling circumstances, or that it is in the interest of sound tax administration for the applicant to change in its final year.

**Line 20.** If you answered "Yes," attach an explanation describing why the applicant is not eligible to file a request under the automatic change procedures.

**Line 21.** Attach true copies of all contracts, agreements, and other documents directly related to the proposed change in method of accounting. See section 9.03(3) of Rev. Proc. 2019-1.

**Line 22.** Include a statement explaining the reason for the proposed change. See section 7.01(1)(d) and 9.03(1) of Rev. Proc. 2019-1.

**Line 23.** If you answered "No" to line 23, a common parent requesting a change in method of accounting on behalf of a member of the consolidated group must attach a statement explaining the method of accounting used by each member of the consolidated group for the particular item that is the subject of the method change request. See section 6.02(5) of Rev. Proc. 2015-13.

**Lines 24a and 24b.** For non-automatic change requests, you must pay a user fee for each applicant. Where the filer is not an applicant, a fee is not required for the filer. See section 15 and Appendix A of Rev. Proc. 2019-1 for information regarding user fees, including reduced user fees and user fees for additional applicants filing identical changes in methods of accounting.

Pay the user fees through www.pay.gov.

**Note.** Filers filing under the automatic change procedures do not pay a user fee.

***Example 1.*** Filer is the common parent of a consolidated group of corporations. Filer files a single Form 3115 on behalf of itself and two other members of the consolidated group for an identical change in method of accounting. There are three applicants (Filer and the two other members of the consolidated group). Therefore, for a non-automatic change request, all three applicants are required to pay a user fee. The filer applicant must submit the regular user fee under section (A)(3)(b)(i) of Appendix A of Rev. Proc. 2019-1 (or a reduced fee per section (A)(4) of Appendix A of Rev. Proc. 2019-1, if applicable), and the two other applicants qualify for the reduced user fee under section (A)(5)(b) of Appendix A of Rev. Proc. 2019-1.

***Example 2.*** Filer is the common parent of a consolidated group of corporations. Filer is filing a single Form 3115 on behalf of two other members of the consolidated group for an identical change in method of accounting. There are two applicants on Form 3115 (the two members of the consolidated group). Filer is not changing its method of accounting and, therefore, does not pay a fee on account of itself. For a non-automatic change request, both applicants are required to pay a user fee. One applicant must submit the regular user fee under section (A)(3)(b)(i) of Appendix A of Rev. Proc. 2019-1 (or a reduced fee per section (A)(4) of Appendix A of Rev. Proc. 2019-1, if applicable), and the other applicant qualifies for the reduced user fee under section (A)(5)(b) of Appendix A of Rev. Proc. 2019-1.

***Example 3.*** Filer, a single taxpayer, files Form 3115 on behalf of its three separate and distinct trades or businesses. The request is for an identical change in method of accounting. Notwithstanding that Filer is a single taxpayer, there are three applicants on Form 3115. For a non-automatic change request, all three applicants are required to pay a user fee. One applicant must submit the regular user fee under section (A)(3)(b)(i) of Appendix A of Rev. Proc. 2019-1 (or a reduced fee per section (A)(4) of Appendix A of Rev. Proc. 2019-1, if applicable), and the other two applicants qualify for the reduced user fee under section (A)(5)(b) of Appendix A of Rev. Proc. 2019-1.

## Part IV—Section 481(a) Adjustment

**Line 25.** Ordinarily, an adjustment under section 481(a) is required for changes in method of accounting. The section 481(a) adjustment period generally is 1 tax year (year of change) for a negative section 481(a) adjustment and 4 tax years (year of change and next 3 tax years) for a positive section 481(a) adjustment. However, when an applicant is under examination, the section 481(a) adjustment period is 2 tax years (year of change and next tax year) for a positive section 481(a) adjustment for a change in method of accounting requested unless one of the following categories described in line 7b applies: 3-month window, 120-day window period, method not before the director, or CAP.

Also, for certain changes in method of accounting, the applicant must make the change on a cut-off basis or modified cut-off basis. See, for example, Regulations section 1.446-1(e)(2)(ii)*(d)(5)(iii)*. In those cases, there is no section 481(a) adjustment. Under a cut-off basis, only the items arising on or after the beginning of the year of change are accounted for under the new method of accounting. Any items arising before the year of change continue to be accounted for under the applicant's former method of accounting.

If multiple items are being changed on one Form 3115 and at least one item is changed on a cut-off basis or modified cut-off basis and another item is changed with a section 481(a) adjustment, check both "Yes" and "No" and attach a statement identifying which item(s) are being made on a cut-off basis or modified cut-off basis.

An eligible terminated S corporation (as defined in section 481(d)(2)) that is required to change an accounting method as a result of a revocation of its S corporation election must take into account the resulting positive or negative section 481(a) adjustment ratably during the 6-year period beginning with the year of change. In addition, an eligible terminated S corporation that is permitted to continue to use the cash method after the revocation of its S corporation election and that changes to an overall accrual method for the C corporation's first tax year after such revocation may take into account the resulting positive or negative adjustment required by section 481(a)(2) ratably during the 6-year period beginning with the year of change. See Rev. Proc. 2018-44, 2018-37 I.R.B. 426. Section 481(d)(2) defines an eligible terminated S corporation as any C corporation that: (1) was an S corporation on December 21, 2017; (2) revokes its S corporation election after December 21, 2017, but before December 22, 2019; and (3) has the same owners of stock in identical proportions on December 22, 2017, and the revocation date.

If the accounting method change is an automatic change in functional currency under section 985 (see section 29.01 of Rev. Proc. 2018-31), the adjustments required under Regulations section 1.985-5 must be made on the last day of the tax year ending before the year of change. Any gain or loss that must be recognized under Regulations section 1.985-5 is included in income or earning and profits on the last day of the tax year ending before the year of change, and is not subject to section 481. Attach a statement showing the adjustment required under Regulations section 1.985-5. The statement should include the amount of the adjustment required pursuant to Regulations section 1.985-5, a summary of the computation of such adjustment, and an explanation of any other adjustments required by Regulations section 1.985-5.

**Line 26.** In computing the net section 481(a) adjustment, an applicant must take into account all relevant accounts. For some changes (for example, a change that affects multiple accounts), the section 481(a) adjustment is a net section 481(a) adjustment. See *Example 2*, below, and the example in Schedule A, Part I, line 2h, later.

Attach a statement showing the (net) section 481(a) adjustment for each change in method of accounting for each applicant included in Form 3115. Include a summary of how the (net) section 481(a) adjustment was computed and an explanation of the methodology used to determine it. The summary of computation and explanation must be sufficient to demonstrate that the (net) section 481(a) adjustment is computed correctly. If the applicant is a CFC or 10/50 corporation, or a trade or business of a CFC or 10/50 corporation, and if its functional currency is not the U.S. dollar, state the (net) section 481(a) adjustment in that functional currency. This statement may be combined with the information requested on the fourth line on page 1 (list of applicants and their identification numbers) and on line 24 (user fee).

***Example 1.*** Under its present method, XYZ Corporation is deducting certain costs that are required to be capitalized into inventory under section 263A. XYZ Corporation is proposing to change its method of accounting to properly capitalize such costs. The computation of the section 481(a) adjustment with respect to the change in method of accounting is demonstrated as follows.

| | |
|---|---|
| Beginning inventory for year of change under proposed method | $120,000 |
| Beginning inventory for year of change under present method | $100,000 |
| **Section 481(a) adjustment** | **+$20,000** |

***Example 2.*** WXY Corporation, a calendar year taxpayer, is a producer and capitalizes costs that are required to be capitalized into inventory under section 263A. Each February, WXY Corporation pays a salary bonus to each employee who remains in its employment as of January 31 for the employee's services provided in the prior calendar year. Under its present method, WXY Corporation treats these salary bonuses as incurred in the tax year the employee provides the related services. For 2019, WXY Corporation proposes to change its method of accounting to treat salary bonuses as incurred in the tax year in which all events have occurred that establish the fact of the liability to pay the salary bonuses and the amount of the liability can be determined with reasonable accuracy, pursuant to section 20.01(2) of Rev. Proc. 2018-31. The computation of WXY Corporation's net section 481(a) adjustment for the change in method of accounting for salary bonuses is demonstrated as follows.

| | | |
|---|---|---|
| Salary bonuses treated as incurred under the present method, but not incurred under the proposed method | | $40,000 |
| Beginning inventory as of Jan. 1, 2019, with capitalized salary bonuses computed under the present method | $100,000 | |
| Beginning inventory as of Jan. 1, 2019, with capitalized salary bonuses, computed under the proposed method | $92,000 | |
| Decrease in beginning inventory as of Jan. 1, 2019 | | ($8,000) |
| **Net section 481(a) adjustment** | | **+$32,000** |

**Line 27.** An applicant may elect a 1-year section 481(a) adjustment period for a positive section 481(a) adjustment that is less than $50,000. See section 7.03(3)(c) of Rev. Proc. 2015-13. An applicant also may elect a 1-year section 481(a) adjustment period for all positive section 481(a) adjustments for the year of

change if an eligible acquisition transaction occurs during the year of change or in the subsequent tax year on or before the due date for filing the applicant's federal tax return for the year of change. For more details about the eligible acquisition transaction election, see section 7.03(3)(d) of Rev. Proc. 2015-13.

**Line 28.** If "Yes," explain the nature and amount of the section 481 adjustment attributable to the intercompany transaction(s).

# Schedule A—Change in Overall Method of Accounting

## Part I—Change in Overall Method

All applicants filing to change their overall method of accounting must complete Schedule A, Part I, including applicants filing under DCNs 32, 33, 34, 122, 123, 126, 127, 128 and 233 in the List of Automatic Changes.

**Lines 2a–g.** Enter the amounts requested on lines 2a through 2g, even though the calculation of some amounts may not have been required in determining taxable income due to the applicant's present method of accounting.

**Note.** Do not include amounts that are not attributable to the change in method of accounting, such as amounts that correct a math or posting error or errors in calculating tax liability. In addition, for a bank changing to an overall cash/hybrid method of accounting, do not include any amounts attributable to a special method of accounting. See DCN 127.

**Line 2b.** Enter amounts received or reported as income in a prior year that were not earned as of the beginning of the year of change. For example, an advance payment received in a prior year for goods that were not delivered by the beginning of the year of change may be reported in the subsequent year if the applicant qualifies under Rev. Proc. 2004-34, 2004-1 C.B. 991. If any amounts entered on line 2b are for advance payments, complete Schedule B. See Notice 2018-35, 2018-18 I.R.B. 520.

**Line 2h.** Enter the net amount, which is the net section 481(a) adjustment, on line 2h. Also, enter the net section 481(a) adjustment on Part IV, line 26. See the instructions for Part IV, line 26, earlier.

The following example illustrates how an applicant calculates the section 481(a) adjustment when changing to an accrual method, a nonaccrual-experience method, and the recurring item exception.

***Example.*** ABC Corporation, a calendar year taxpayer using the cash method of accounting, has the following items of unreported income and expense on December 31, 2018.

| | |
|---|---|
| Accrued income | $250,000 |
| Uncollectible amounts based on the nonaccrual-experience method | 50,000 |
| Accrued amounts properly deductible (economic performance has occurred) | 75,000 |
| Expenses eligible for recurring item exception | 5,000 |

ABC Corporation changes to an overall accrual method, a nonaccrual-experience method, and the recurring item exception for calendar year 2019. The section 481(a) adjustment is calculated as of January 1, 2019, as follows.

| | | |
|---|---|---|
| Accrued income (line 2a) | $250,000 | |
| **Less:** | | |
| Uncollectible amount | (50,000) | |
| Net income accrued but not received | | $200,000 |
| **Less:** | | |
| Accrued expenses (line 2c) | (75,000) | |
| Expenses deducted as recurring item (line 2g) | (5,000) | |
| Total expenses accrued but not paid | | (80,000) |
| **Section 481(a) adjustment** | | **+$120,000** |

**Line 3.** Check "Yes" if the applicant is requesting to use the recurring item exception (section 461(h)(3)). The section 481(a) adjustment must include the amount of the additional deduction that results from using the recurring item exception.

**Line 5.** This question applies to an applicant requesting a change to the overall cash method under section 15.18 of Rev. Proc. 2018-31 (DCN 233) for a tax year beginning after December 31, 2017. See section 15.18(5)(a) of Rev. Proc. 2018-31 to determine whether an applicant qualifies as a small business taxpayer. See also Rev. Proc. 2018-40, 2018-34 I.R.B. 320.

## Part II—Change to the Cash Method For Non-Automatic Request

**Limits on cash method use.** Except as provided below, C corporations and partnerships with a C corporation as a partner may not use the cash method of accounting. Tax shelters, also, are precluded from using the cash method. For this purpose, a trust subject to tax on unrelated business income under section 511(b) is treated as a C corporation with respect to its unrelated trade or business activities.

The limit on the use of the cash method under section 448 does not apply to:

1. Farming businesses as defined in section 448(d)(1).

2. Qualified personal service corporations as defined in section 448(d)(2).

3. For tax years beginning before January 1, 2018, C corporations and partnerships with a C corporation as a partner when the corporation or the partnership has gross receipts of $5 million or less. For tax years beginning after December 31, 2017, C corporations and partnerships with a C corporation as a partner when the corporation or the partnership has gross receipts of $25 million or less (adjusted for inflation). See section 448(c) to determine if the applicant qualifies for this exception.

For farming corporations and partnerships with a C corporation as a partner, see section 447 for limits on the use of the cash method.

Use of the cash method is also limited for a taxpayer that is required to maintain an inventory because the production, purchase, or sale of merchandise is an income-producing factor. However, for tax years beginning after December 31, 2017, see sections 448(c) and 471(c) and sections 15.18 (DCN 233) and 22.19 of Rev. Proc. 2018-31 (DCN 235) for an exception to this requirement for small business taxpayers with average annual gross receipts of $25 million or less (adjusted for inflation).

# Schedule B—Change to the Deferral Method for Advance Payments

In general, advance payments must be included in gross income in the tax year of receipt for federal income tax purposes. However, an applicant may defer the inclusion in income of certain advance payments, as defined in section 4.01 of Rev. Proc. 2004-34, 2004-1 C.B. 991, as modified and clarified by Rev. Proc. 2011-18, 2011-5 I.R.B. 443, and Rev. Proc. 2013-29, 2013-33 I.R.B. 141.

**Line 1.** Rev. Proc. 2004-34 allows applicants using an accrual method to defer the inclusion in income of certain advance payments to the next tax year. See Notice 2018-35, 2018-18 I.R.B. 520. Applicants requesting to change to the Deferral Method for allocable payments described in section 5.02(4)(a) of Rev. Proc. 2004-34 (other than allocable payments described in section 5.02(4)(c) of Rev. Proc. 2004-34) or for payments for which a method under section 5.02(3)(b)(i) or (iii) of Rev. Proc. 2004-34 applies, must file under the non-automatic change procedures of Rev. Proc. 2015-13. All other applicants generally must file under the automatic change procedures of Rev. Proc. 2015-13.

# Schedule C—Changes Within the LIFO Inventory Method

Use this schedule to request a change from one LIFO inventory method or submethod to another LIFO inventory method or submethod. All applicants changing within the LIFO inventory method or submethods must complete Part I. Complete Part II only if applicable.

## Part I—General LIFO Information

**Line 6.** Applicants changing to the IPIC method must use this method for all LIFO inventories. This requirement includes applicants requesting designated automatic accounting method change numbers 61 or 62 in the List of DCNs.

# Schedule D—Change in the Treatment of Long-Term Contracts Under Section 460, Inventories, or Other Section 263A Assets

## Part I—Change in Reporting Income From Long-Term Contracts

**Line 2a.** Under section 460(f), the term "long-term contract" means any contract for the manufacture, building, installation, or construction of property that is not completed in the tax year in which it is entered into. However, a manufacturing contract will not qualify as long-term unless the contract involves the manufacture of (a) a unique item not normally included in finished goods inventory or (b) any item that normally requires more than 12 calendar months to complete.

Long-term contracts that do not meet the exceptions under section 460(e) must be accounted for using the percentage of completion method. See section 460 and the related regulations.

**Line 2b.** To qualify for the contract exceptions under section 460(e), the contract must be:

1. A home construction contract as defined in section 460(e)(5)(A), or

2. Any other construction contract entered into by the applicant if, at the time the contract is entered into, it is expected to be completed within 2 years and the applicant's average annual gross receipts for the 3-year period preceding the tax year the contract was entered into do not exceed the $25 million threshold, adjusted for inflation, set forth in section 448(c).

In the case of contracts entered into before January 1, 2018, a $10 million threshold applies.

**Line 2d.** Under the simplified cost-to-cost method, only certain costs are used in determining both (a) costs allocated to the contract and incurred before the close of the tax year and (b) estimated contract costs. These costs are: (1) direct material costs; (2) direct labor costs; and (3) allowable deductions for depreciation, amortization, and cost recovery allowances on equipment and facilities directly used to construct or produce the subject matter of the long-term contract. See Regulations section 1.460-5(c).

## Part II—Change in Valuing Inventories Including Cost Allocation Changes

If the applicant is currently using a LIFO inventory method or submethod and is changing to another LIFO inventory method or submethod, Schedule D, Part II, is not applicable. Use Schedule C, Changes Within the LIFO Inventory Method.

**Line 3.** If an applicant is subject to, but not in compliance with, section 263A, generally on the same Form 3115 the applicant must first comply with section 263A before changing an inventory valuation method. The applicant must complete Schedule D, Part III, Method of Cost Allocation. For exceptions, see Regulations section 1.263A-7(b)(2).

**Line 5a.** If the applicant properly elected the LIFO inventory method but is unable to furnish a copy of Form(s) 970, Application to Use a LIFO Inventory Method, attach the following statement to Form 3115.

"I certify that to the best of my knowledge and belief [name of applicant] properly elected the LIFO inventory method by filing Form 970 with its return for the tax year(s) ended [insert date(s)] and otherwise complied with the provisions of section 472(d) and Regulations section 1.472-3."

**Line 5c.** Attach the two statements required by section 23.01(5) of Rev. Proc. 2018-31.

## Part III—Method of Cost Allocation

Applicants requesting to change their method of accounting for any property (produced or acquired for resale) subject to section 263A or any long-term contracts as described in section 460 must complete this schedule.

If the change is for noninventory property that is subject to section 263A, attach a detailed description of the types of property involved.

There are several methods available for allocating and capitalizing costs under section 263A, and for allocating costs to long-term contracts. A change to or from any of these methods is a change in accounting method that requires IRS consent. Using the applicable regulations and notice listed below, the applicant should verify which methods are presently being used and the proposed methods that will be used before completing Schedule D, Part III. These methods are as follows.

### 1. Allocating Direct and Indirect Costs

- Specific identification method—Regulations sections 1.263A-1(f)(2) and 1.460-5.
- Burden rate method—Regulations sections 1.263A-1(f)(3)(i) and 1.460-5.
- Standard cost method—Regulations sections 1.263A-1(f)(3)(ii) and 1.460-5.
- Any other reasonable allocation method—Regulations sections 1.263A-1(f)(4) and 1.460-5.

### 2. Allocating Mixed Service Costs

- Direct reallocation method—Regulations section 1.263A-1(g)(4)(iii)(A).
- Step-allocation method—Regulations section 1.263A-1(g)(4)(iii)(B).
- Simplified service cost method:
  - —Using the labor-based allocation ratio—Regulations section 1.263A-1(h)(4).
  - —Using the production cost allocation ratio—Regulations section 1.263A-1(h)(5).
- Any other reasonable allocation method—Regulations section 1.263A-1(f)(4).

### 3. Capitalizing Additional Section 263A Costs

- Simplified production method:
  - —Without historic absorption ratio election—Regulations section 1.263A-2(b)(3).
  - —With historic absorption ratio election—Regulations section 1.263A-2(b)(4).
- Simplified resale method:
  - —Without historic absorption ratio election—Regulations section 1.263A-3(d)(3).
  - —With historic absorption ratio election—Regulations section 1.263A-3(d)(4).
- U.S. ratio method—Notice 88-104, 1988-2 C.B. 443.
- Any other reasonable allocation method—Regulations section 1.263A-1(f)(4) (including the methods listed above under *Allocating Direct and Indirect Costs*).

## Schedule E—Change in Depreciation or Amortization

All applicants requesting to change their method of accounting for depreciation or amortization must complete Schedule E of Form 3115. Applicants changing their method of accounting for depreciation or amortization under the automatic change procedures should see the depreciation changes in the List of DCNs below.

**Do not** file Form 3115:

1. To make an election under section 167, 168, 179, 197, or 1400I;
2. To revoke an election made under one of those sections;
3. To make or revoke an election under section 13261(g)(2) or (3) of the Revenue Reconciliation Act of 1993 (relating to section 197 intangibles);
4. To change the placed-in-service date;
5. To change the salvage value (except for a change in salvage value to zero when the salvage value is expressly treated as zero by the Code, the regulations, or other published guidance); or
6. To change a useful life under section 167 (except for a change to or from a useful life, recovery period, or amortization period that is specifically assigned by the Code, the regulations, or other published guidance).

## List of DCNs

### Summary of Automatic Accounting Method Changes

This list includes regulatory automatic changes, changes provided for in Rev. Proc. 2018-31, and automatic changes provided for in other guidance. These automatic changes may be modified or supplemented with additional automatic changes by subsequently published guidance.

The list provides a brief description of the automatic changes in method of accounting made using Form 3115. A filer/applicant may not rely on the list or the descriptions of accounting method changes in the list as authority for making an accounting method change. A filer/applicant that is within the scope of, and complies with, all the applicable provisions of the published guidance that authorizes each listed change may rely on the applicable published guidance as authority for its automatic accounting method change. If any information in the list conflicts with published guidance, the published guidance applies. Each automatic method change described in Rev. Proc. 2018-31, as modified, contains a contact person you may call if you need additional information concerning the change (not a toll-free number).

Each item in the list below:

- Designates an automatic accounting method change number for each change for entry on line 1a of Form 3115.
- Briefly describes the accounting method change and its primary Code section(s).
- Indicates in some cases which schedules of Form 3115 to complete.
- Provides a reference to the basic published guidance (for example, revenue procedure) that provides for the automatic change, which filers should review prior to completing Part I, Information for Automatic Change Request, on page 1 of Form 3115.

**Note.** Certain retired or obsolete numbers in the List of DCNs have not been replaced in order to maintain continuity for the active DCNs.

CAUTION *In the event the underlying authority for any of the DCNs becomes obsolete or is superseded, then a change can no longer be made under such DCN.*

| List of DCNs | |
|---|---|
| **No.** | **Change** |
| 1 | **Commodity Credit Corporation loans (section 77)**—for loans received from the Commodity Credit Corporation, **from** including the loan amount in gross income for the tax year in which the loan is received **to** treating the loan amount as a loan. See section 2.01 of Rev. Proc. 2018-31. **Note.** This change is implemented on a cut-off basis. |
| 2 | **Advances made by a lawyer on behalf of clients (section 162)—from** treating advances of money to or on behalf of their clients for litigation or other client expenses as deductible expenses **to** treating those advances as a loan. See section 3.01 of Rev. Proc. 2018-31. |
| 3 | **ISO 9000 costs (section 162)—to** treating the costs as deductible, except to the extent they result in the creation or acquisition of an asset having a useful life substantially beyond the tax year. See section 3.02 of Rev. Proc. 2018-31. |
| 4 | **Restaurant smallwares costs (section 162)—to** the smallwares method described in Rev. Proc. 2002-12, 2002-1 C.B. 374 (that is, as materials and supplies that are not incidental under Regulations section 1.162-3). See section 3.03 of Rev. Proc. 2018-31. |
| 5 | **Bad debts (section 166)**—for an applicant other than a bank, **from** accounting for bad debts using a reserve or other improper method **to** a specific charge-off method that complies with section 166. See section 4.01 of Rev. Proc. 2018-31. |
| 6 | **Bad debt conformity for banks (section 166)**—for banks other than new banks, **to** the method that conforms to Regulations section 1.166-2(d)(3) for the first time the bank makes this change, or **to** involuntarily revoke this method. This change does not fall under the procedures of Rev. Proc. 2018-31. Instead, see Regulations section 1.166-2(d)(3). **Note**. This change is implemented on a cut-off basis and generally with audit protection, but with some conditions or limitations. |
| 7 | **Depreciation or amortization (impermissible to permissible) (sections 56, 167, 168, 197, 280F, 1400I, 1400L, 1400N, and former section 168)—from** an impermissible method **to** a permissible method for changes allowed under Regulations section 1.446-1(e)(2)(ii)*(d)*, and for depreciable property owned at the beginning of the year of change. Complete Schedule E of Form 3115. An applicant changing its method of accounting for depreciation because of a change described in designated automatic accounting method change number 10 (sale or lease transactions) must file Form 3115 according to the designated change number 10. Additionally, a qualified small taxpayer qualifies for a reduced Form 3115 filing requirement. See section 6.01 of Rev. Proc. 2018-31. |
| 8 | **Depreciation (permissible to permissible) (sections 56 and 167)—from** a permissible method **to** another permissible method listed in section 6.02 of Rev. Proc. 2018-31. Complete Schedule E of Form 3115. Change is implemented on a modified cut-off basis. An applicant making a change from a permissible to another permissible method of depreciating MACRS property must file Form 3115 according to designated change number 200. Additionally, a qualified small taxpayer qualifies for a reduced Form 3115 filing requirement. See section 6.02 of Rev. Proc. 2018-31. |
| 10 | **Sale, lease, or financing transactions (sections 61, 162, 167, 168, and 1012)—from** improperly treating property as sold, leased, or financed **to** a permissible method as described in section 6.03 of Rev. Proc. 2018-31. See section 6.03 of Rev. Proc. 2018-31. **Note**. This change is implemented on a cut-off basis and does not receive audit protection. |
| 11 | **Obsolete**. See change number 7. |
| 12 | **Obsolete**. See change number 7. |
| 13 | **Obsolete**. See change number 7. |
| 14 | **Obsolete**. See change number 7. |
| 15 | **Obsolete**. See change number 210. |
| 16 | **Amortizable bond premium (section 171)—from** amortizing bond premium **to** not amortizing the premium (revoking the section 171(c) election). See section 5.01 of Rev. Proc. 2018-31. **Note**. This change is implemented on a cut-off basis and generally also is made with audit protection, but with conditions or limitations. |
| 17 | **Research and experimental expenditures (section 174)—from** the capitalization method **to** another permissible method, **from** the expense method **to** another permissible method, **from** the deferred expense method **to** another permissible method, **from** the current period of amortization **to** a different period of amortization under the deferred expense method, or **from** treating research and experimental expenditures under any provision of the Internal Revenue Code other than section 174 **to** treating such expenditures under section 174. See section 7.01 of Rev. Proc. 2018-31. **Note**. This change is implemented on a cut-off basis and does not receive audit protection. |
| 18 | **Computer software expenditures (sections 162 and 167)**—for costs of developed, acquired, leased, or licensed computer software, **to** deductible expenses or capital expenditures and amortization (for developed software), **to** capital expenditures and depreciation or amortization (for acquired computer software), or **to** deductible expenses under Regulations section 1.162-11 (for leased or licensed computer software). Complete Schedule E of Form 3115 for changes relating to acquired computer software or developed computer software if the change is to capital expenditures and amortization. See section 9.01 of Rev. Proc. 2018-31. |

| List of DCNs | |
|---|---|
| **No.** | **Change** |
| 19 | **Package design costs (section 263)—to** the capitalization method, **to** the design-by-design capitalization and 60-month amortization method, or **to** the pool-of-cost capitalization and 48-month amortization method. See section 11.01 of Rev. Proc. 2018-31. |
| 20 | **Line pack gas or cushion gas costs (section 263)—to** treating the costs as capital expenditures, the costs of recoverable amounts as not depreciable, and the costs of unrecoverable amounts as depreciable. A taxpayer that changes its method for the costs of unrecoverable amounts also must change to a permissible method of depreciation for those costs. Complete Schedule E of Form 3115 for changes relating to the costs of unrecoverable amounts. See section 11.02 of Rev. Proc. 2018-31. |
| 21 | **Removal costs (section 263)**—for certain costs incurred in the retirement and removal of depreciable assets, **to** a method that conforms with Rev. Rul. 2000-7, 2000-1 C.B. 712 or for removal costs in disposal of a depreciable asset, including a partial disposition, as described under Regulations section 1.263(a)-3(g)(2)(i). Additionally, a qualified small taxpayer qualifies for a reduced Form 3115 filing requirement. See section 11.03 of Rev. Proc. 2018-31. |
| 22 | **Certain uniform capitalization methods used by resellers and reseller-producers (section 263A)**—for qualifying applicants, **to** a qualifying method or methods. Complete Schedule D, Parts II and III, of Form 3115. See section 12.01 of Rev. Proc. 2018-31, as modified by Rev. Proc. 2018-40 and Rev. Proc. 2018-56. |
| 23 | **Certain uniform capitalization methods used by producers and reseller-producers (section 263A)**—for qualifying applicants, **to** a qualifying method or methods. Complete Schedule D, Parts II and III, of Form 3115. See section 12.02 of Rev. Proc. 2018-31, as modified by Rev. Proc. 2018-56. |
| 24 | **Obsolete**. See change number 17. |
| 25 | **Impact fees (section 263A)**—for impact fees incurred in connection with the new construction or expansion of a residential building, **to** treating the costs as capital expenditures allocable to the building. Complete Schedule E of Form 3115 if the building is depreciable. See section 12.03 of Rev. Proc. 2018-31. |
| 26 | **Related party transactions (section 267)**—for losses, expenses, and qualified stated interest incurred in transactions between related parties, **to** disallowing or deferring certain deductions attributable to such transactions in accordance with section 267. See section 13.01 of Rev. Proc. 2018-31. |
| 28 | **Bonus or vacation pay deferred compensation (section 404)**—for bonuses that are deferred compensation, **from** treating as deductible or capitalizable when accrued, **to** treating as deductible or capitalizable in the year in which includible in the employee's income, and for vacation pay that is deferred compensation, **from** treating as deductible or capitalizable when accrued **to** treating as deductible or capitalizable in the year in which paid to the employee. See section 14.01 of Rev. Proc. 2018-31. |
| 29 | **Grace period contributions (section 404)**—for contributions made to a section 401(k) qualified cash or deferred arrangement or matching contributions under section 401(m), **from** treating contributions made after the end of the tax year but before the due date of the tax return as being on account of the tax year without regard to when the underlying compensation is earned **to** treating such contributions as not being on account of the tax year if they are attributable to compensation earned after the end of that tax year. See section 14.02 of Rev. Proc. 2018-31. |
| 31 | **Multi-year insurance policies for multi-year service warranty contracts (section 446)**—for a manufacturer, wholesaler, or retailer of motor vehicles or other durable consumer goods accounting for multi-year insurance policies for multi-year service warranty contracts, **to** capitalizing and amortizing the costs. See section 15.02 of Rev. Proc. 2018-31. |
| 32 | **Overall cash method ($1 million) (section 446)**—for qualifying applicants changing **to** the overall cash method. Complete Schedule A, Part I, of Form 3115. Also, complete Schedule D, Parts II and III, as applicable. See section 15.03 of Rev. Proc. 2018-31. **Note**. This change does not apply for any tax year beginning after December 31, 2017. |
| 33 | **Overall cash method ($10 million) (section 446)**—for qualifying applicants changing to the overall cash method. Complete Schedule A, Part I, of Form 3115. Also, complete Schedule D, Parts II and III, as applicable. See section 15.03 of Rev. Proc. 2018-31. **Note**. This change does not apply for any tax year beginning after December 31, 2017. |
| 34 | **First section 448 year (section 448)**—for an applicant changing **from** the cash method for its first section 448 year that makes the change using the regulation provision in lieu of Rev. Proc. 2015-13. Complete Schedule A, Part I, of Form 3115. Also, complete Schedule D, Parts II and III, as applicable, of Form 3115. This change does not fall under the procedures of Rev. Proc. 2015-13. Instead, see Regulations section 1.448-1. (See automatic method change 123 for taxpayers making the change under Rev. Proc. 2015-13). |

| List of DCNs | |
|---|---|
| **No.** | **Change** |
| 35 | **Nonaccrual-experience method (section 448)**—for an applicant changing: **to** a safe harbor method provided in Regulations section 1.448-2(f)(1) (the revenue-based moving average method), (f)(2) (the actual experience method), (f)(3) (the modified Black Motor method), (f)(4) (the modified moving average method), or (f)(5) (the alternative nonaccrual-experience method); **to** a periodic system; **from** an NAE method to a specific charge-off method; **from** a sub-method of its current NAE method provided in Regulations section 1.448-2 regarding applicable periods to another sub-method regarding applicable periods that is permitted under Regulations section 1.448-2, other than a change to exclude tax years from an applicable period under Regulations section 1.448-2(d)(6); **from** a sub-method of its current NAE method provided in Regulations section 1.448-2 regarding tracing of recoveries **to** another sub-method regarding tracing of recoveries permitted under Regulations section 1.448-2(f)(2)(iii); or, **to** the NAE book safe harbor method described in section 5.01 of Rev. Proc. 2011-46, 2011-42 I.R.B. 518. **Note**. An applicant using the NAE book safe harbor method that wants to make certain changes within the NAE book safe harbor method (as described in sections 5.02 and 5.03 of Rev. Proc. 2011-46) must attach a statement to its federal income tax return in lieu of filing a Form 3115. See Rev. Proc. 2011-46, section 15.04 of Rev. Proc. 2018-31, and Rev. Proc. 2006-56, 2006-2 C.B. 1169. **Note**. Certain changes are made on a cut-off basis. |
| 36 | **Interest accrual on non-performing loans (section 451)**—for an accrual method bank accounting for qualified stated interest on non-performing loans, **to** the method whereby interest is accrued until either the loan is worthless under section 166 and is charged off as a bad debt or the interest is determined to be uncollectible. See section 16.01 of Rev. Proc. 2018-31. |
| 37 | **Advance rentals (section 451)**—for advance rentals other than advance rentals subject to section 467, **to** inclusion in gross income in the tax year received. See section 16.02 of Rev. Proc. 2018-31. |
| 38 | **State or local income or franchise tax refunds (section 451)**—for an accrual method applicant with state or local income or franchise tax refunds, **to** accrue these items in the tax year the applicant receives payments or notice of approval of its refund claim (whichever is earlier), according to Rev. Rul. 2003-3, 2003-1 C.B. 252. See section 16.03 of Rev. Proc. 2018-31. |
| 39 | **Capital cost reduction (CCR) payments (section 451)**—for CCR payments (as defined in Rev. Proc. 2002-36, 2002-1 C.B. 993) made by vehicle lessees, **to** the method that excludes these payments from the applicant's gross income and from the applicant's bases in the purchased vehicles. See section 16.04 of Rev. Proc. 2018-31. |
| 41 | **Obsolete**. |
| 42 | **Timing of incurring employee medical benefits liabilities (section 461)**—for an applicant with an obligation to pay an employee's medical expenses (including medical expenses for retirees and employees who filed claims under a workers' compensation act) that is neither insured nor paid from a welfare benefit fund, **to** treatment as a liability incurred in the tax year in which the applicant's employee files the claim with the applicant; or, if the applicant has a liability to pay a third party for medical services to its employees, **to** treatment as a liability as incurred in the tax year in which the services are provided. See section 20.01(1) of Rev. Proc. 2018-31. |
| 43 | **Timing of incurring real property taxes, personal property taxes, state income taxes, and state franchise taxes (section 461)**—for a qualifying applicant, **to** treating these taxes as incurred in the tax year in which the taxes are paid, or **to** account for these taxes under the recurring item exception to the economic performance rules, or **to** revoke the ratable accrual election under section 461(c). See section 20.02 of Rev. Proc. 2018-31. |
| 44 | **Timing of incurring workers' compensation act, tort, breach of contract, or violation of law liabilities (section 461)**—for a qualifying applicant accounting for self-insured liabilities arising under any workers' compensation act or out of any tort, breach of contract, or violation of law, **to** treating the liability as incurred in the tax year in which (a) all the events have occurred establishing the fact of the liability, (b) the amount of the liability can be determined with reasonable accuracy, and (c) payment is made to the person to which the liability is owed. See section 20.03 of Rev. Proc. 2018-31. |
| 45 | **Timing of incurring certain payroll tax liabilities (section 461)**—for FICA and FUTA taxes, state unemployment taxes, and railroad retirement taxes, to the method under which the applicant may deduct in Year 1 its otherwise deductible FICA and FUTA taxes, state unemployment taxes, and railroad retirement taxes imposed with respect to year-end wages properly accrued in Year 1, but paid in Year 2, if the requirements of the recurring item exception are met; or, for state unemployment taxes and railroad retirement taxes, **to** the method stated above where the applicant already uses that method of accounting for FICA and FUTA taxes. See section 20.04 of Rev. Proc. 2018-31. |
| 46 | **Cooperative advertising (section 461)**—**to** incurring a liability in the tax year in which these services are performed, provided the manufacturer is able to reasonably estimate this liability even though the retailer does not submit the required claim form until the following year. See section 20.05 of Rev. Proc. 2018-31. |
| 47 | **Distributor commissions (section 263)**—**from** deducting distributor commissions **to** capitalizing and amortizing distributor commissions using the distribution fee period method, the 5-year method, or the useful life method. This change is implemented on a cut-off basis and applies only to distributor commissions paid or incurred on or after the beginning of the year of change. See section 11.04 of Rev. Proc. 2018-31. Complete Schedule E of Form 3115. |

| List of DCNs | |
|---|---|
| **No.** | **Change** |
| 48 | **Cash discounts (section 471)**—for cash discounts granted for timely payment, when such discounts approximate a fair interest rate, **from** a method of consistently including the price of the goods before discount in the cost of the goods and including in gross income any discounts taken **to** a method of reducing the cost of the goods by the cash discounts and deducting as an expense any discounts not taken, or vice versa. Complete Schedule D, Parts II and III, of Form 3115, as applicable. See section 22.01 of Rev. Proc. 2018-31. |
| 49 | **Estimating inventory shrinkage (section 471)—from** the present method of estimating inventory shrinkage in computing ending inventory **to** the retail safe harbor method in section 4 of Rev. Proc. 98-29, 1998-1 C.B. 857, or **to** a method other than the retail safe harbor method, provided (a) the applicant's present method of accounting does not estimate inventory shrinkage and (b) the applicant's new method of accounting (that estimates inventory shrinkage) clearly reflects income under section 446(b). Complete Schedule D, Parts II and III, of Form 3115, as applicable. See section 22.02 of Rev. Proc. 2018-31. |
| 50 | **Small taxpayer ($1 million) inventory exception (section 471)**—for a qualifying applicant with average annual gross receipts of $1,000,000 or less (see Rev. Proc. 2001-10, 2001-1 C.B. 272), **from** the present method of accounting for inventoriable items (including, if applicable, the method of capitalizing costs under section 263A) **to** treating inventoriable items in the same manner as materials and supplies that are not incidental under Regulations section 1.162-3. Complete Schedule A, Part I, and Schedule D, Parts II and III, of Form 3115, as applicable. See section 22.03 of Rev. Proc. 2018-31. **Note.** This change does not apply for any tax year beginning after December 31, 2017. |
| 51 | **Small taxpayer ($10 million) inventory exception (section 471)**—for a qualifying applicant with average annual gross receipts of $10,000,000 or less (see Rev. Proc. 2002-28, 2002-1 C.B. 815), **from** the present method of accounting for inventoriable items (including, if applicable, the method of capitalizing costs under section 263A) **to** treating inventoriable items in the same manner as materials and supplies that are not incidental under Regulations section 1.162-3. Complete Schedule D, Parts II and III, of Form 3115, as applicable. See section 22.03 of Rev. Proc. 2018-31. **Note**. This change does not apply for any tax year beginning after December 31, 2017. |
| 53 | **Qualifying volume-related trade discounts (section 471)—to** treating qualifying volume-related trade discounts as a reduction in the cost of merchandise purchased at the time the discount is recognized in accordance with Regulations section 1.471-3(b). Complete Schedule D, Parts II and III, of Form 3115, as applicable. See section 22.04 of Rev. Proc. 2018-31. |
| 54 | **Impermissible methods of identification and valuation of inventories (section 471)**—for an applicant changing **from** an impermissible method of identifying or valuing inventories **to** a permissible method of identifying or valuing inventories. Complete Schedule D, Parts II and III, of Form 3115, as applicable. See section 22.05 of Rev. Proc. 2018-31. |
| 55 | **Core alternative valuation method for remanufactured and rebuilt motor vehicle parts (section 471)**—for remanufacturers and rebuilders of motor vehicle parts and resellers of remanufactured and rebuilt motor vehicle parts that use the lower of cost or market method to value their inventory of cores, **to** the safe harbor method of accounting (the Core alternative valuation method) to value inventories of cores as provided for in Rev. Proc. 2003-20, 2003-1 C.B. 445. Complete Schedule D, Parts II and III, of Form 3115, as applicable. See section 22.06 of Rev. Proc. 2018-31. |
| 56 | **Change from LIFO inventory method (section 472)**—for an applicant changing from the LIFO inventory method for its entire LIFO inventory, or for one or more dollar-value pools within its LIFO inventory, **to** the permitted method as described in section 23.01(1)(b) of Rev. Proc. 2018-31. Complete Schedule D, Parts II and III, of Form 3115, as applicable. See section 23.01 of Rev. Proc. 2018-31. |
| 57 | **Determining current-year cost under the LIFO inventory method (section 472)**—for an applicant changing its method of determining current-year cost **to**: (a) the actual cost of the goods most recently purchased or produced (most-recent acquisitions method); (b) the actual cost of the goods purchased or produced during the tax year in the order of acquisition (earliest-acquisitions method); (c) the average unit cost equal to the aggregate actual cost of all the goods purchased or produced throughout the tax year divided by the total number of units so purchased or produced; (d) the specific identification method; or (e) a rolling-average method if the applicant uses that rolling-average method in accordance with Rev. Proc. 2008-43, 2008-30 I.R.B. 186, as modified by Rev. Proc. 2008-52, 2008-2 C.B. 587. Complete Schedule C, Part I, of Form 3115. See section 23.02 of Rev. Proc. 2018-31. **Note**. This change is implemented on a cut-off basis. |
| 58 | **Alternative LIFO inventory method (section 472)**—for a qualifying applicant that sells new automobiles or new light-duty trucks, **to** the Alternative LIFO method described in Rev. Proc. 97-36, 1997-2 C.B. 450, as modified by Rev. Proc. 2008-23, 2008-1 C.B. 664. Complete Schedule C of Form 3115, as applicable. See section 23.03 of Rev. Proc. 2018-31. **Note**. This change is implemented on a cut-off basis. |

| List of DCNs | |
|---|---|
| **No.** | **Change** |
| 59 | **Used vehicle alternative LIFO method (section 472)**—for a qualifying applicant that sells used automobiles and used light-duty trucks, **to** the Used vehicle alternative LIFO method, as described in Rev. Proc. 2001-23, 2001-1 C.B. 784, as modified by Announcement 2004-16, 2004-1 C.B. 668 and Rev. Proc. 2008-23, 2008-1 C.B. 664. Complete Schedule C, Part I, of Form 3115. See section 23.04 of Rev. Proc. 2018-31. **Note**. This change is implemented on a cut-off basis. |
| 60 | **Determining the cost of used vehicles purchased or taken as a trade-in (section 472)**—for a qualifying applicant, **to** a method of (a) determining the cost of used vehicles acquired by trade-in using the average wholesale price listed by a consistently used official used car guide on the date of the trade-in; (b) using a different official used vehicle guide for determining the cost of used vehicles acquired by trade-in; (c) determining the cost of used vehicles purchased for cash using the actual purchase price of the vehicle; or (d) reconstructing the beginning-of-the-year cost of used vehicles purchased for cash using values computed by national auto auction companies based on vehicles purchased for cash, where the national auto auction company selected is consistently used. Complete Schedule C, Part I, of Form 3115. See section 23.05 of Rev. Proc. 2018-31. **Note**. This change is implemented on a cut-off basis. |
| 61 | **Change to IPIC inventory method (section 472)**—for a qualifying applicant, **from** a non-inventory price index computation (IPIC) LIFO inventory method **to** the IPIC method in accordance with all relevant provisions of Regulations section 1.472-8(e)(3); or, **from** the IPIC method as described in T.D. 7814, 1982-1 C.B. 84 (the old IPIC method) **to** the IPIC method as described in T.D. 8976, 2002-1 C.B. 421 (the new IPIC method), which includes the following required changes (if applicable): **from** using 80% of the inventory price index (IPI) **to** using 100% of the IPI to determine the base-year cost and dollar-value of a LIFO pool(s); **from** using a weighted arithmetic mean **to** using a weighted harmonic mean to compute an IPI for a dollar-value pool(s); and **from** using a components-of-cost method to define inventory items **to** using a total-product-cost method to define inventory items. Complete Schedule C of Form 3115, as applicable. See section 23.06 of Rev. Proc. 2018-31. **Note**. This change is implemented on a cut-off basis. |
| 62 | **Changes within IPIC inventory method (section 472)**—for one or more of the following changes within IPIC: (a) **from** the double-extension IPIC method **to** the link-chain IPIC method, or vice versa; (b) **to** or **from** the 10% method; (c) **to** a pooling method described in Regulations section 1.472-8(b)(4) or Regulations section 1.472-8(c)(2), including a change to begin or discontinue applying one or both of the 5% pooling rules; (d) combine or separate pools as a result of the application of a 5% pooling rule described in Regulations section 1.472-8(b)(4) or Regulations section 1.472-8(c)(2); (e) change the selection of BLS tables **from** Table 3 (Consumer Price Index for All Urban Consumers (CPI-U): U.S. city average, detailed expenditure categories) of the monthly CPI Detailed Report **to** Table 9 (Producer price indexes and percent changes for commodity groupings and individual items, not seasonally adjusted) of the monthly PPI Detailed Report, or vice versa; (f) change the assignment of one or more inventory items to BLS categories under either Table 3 of the monthly CPI Detailed Report or Table 9 of the monthly PPI Detailed Report; (g) change the representative month when necessitated because of a change in tax year or a change in method of determining current-year cost made pursuant to section 23.02 of Rev. Proc. 2018-31; or (h) change from using preliminary BLS price indexes to using final BLS price indexes to compute an inventory price index, or vice versa. Complete Schedule C of Form 3115, as applicable. See section 23.07 of Rev. Proc. 2018-31. **Note**. This change is implemented on a cut-off basis. |
| 63 | **Replacement cost method for automobile dealers' parts inventory (sections 471 and 472)—to** the replacement cost method for automobile dealers' parts inventory described in Rev. Proc. 2002-17, 2002-1 C.B. 676. Complete Schedule D, Parts II and III, of Form 3115, as applicable. See section 22.07 of Rev. Proc. 2018-31. **Note**. This change is implemented on a cut-off basis. |
| 64 | **Mark-to-market (section 475)**—for accounting for securities or commodities by commodities dealers, securities traders, and commodities traders, **to** the mark-to-market method under section 475(e) or (f). An election statement must be filed earlier than the due date of Form 3115. See Rev. Proc. 99-17, 1999-1 C.B. 503, for rules relating to this statement. See section 24.01 of Rev. Proc. 2018-31. |
| 65 | **Dealer status changes (section 475)**—for an applicant electing out of certain exemptions from securities dealer status, **to** the mark-to-market method. This change does not fall under the automatic change procedures of Rev. Proc. 2015-13. Instead, see Rev. Proc. 97-43, 1997-2 C.B. 494. **Note**. This change is implemented on a cut-off basis. |
| 66 | **Bank reserves for bad debts (section 585)**—for a bank (as defined in section 581, including a bank for which a qualified subchapter S subsidiary (QSub) election is filed) to change **from** the section 585 reserve method **to** the section 166 specific charge-off method. See section 25.01 of Rev. Proc. 2018-31. |
| 67 | **Insurance company premium acquisition expenses (section 832)**—for certain insurance companies, **to** a safe harbor method of accounting for premium acquisition expenses set forth in Rev. Proc. 2002-46, 2002-2 C.B. 105. See section 26.01 of Rev. Proc. 2018-31. |
| 68 | **Discounted unpaid losses (section 846)**—for insurance companies other than life insurance companies computing discounted unpaid losses, **to** the composite method or **to** alternative methods set forth in Notice 88-100, 1988-2 C.B. 439, and Rev. Proc. 2002-74, 2002-2 C.B. 980. See section 27.01 of Rev. Proc. 2018-31. |
| 70 | **Functional currency (section 985)—to** the use of another functional currency for the applicant or its qualified business unit (QBU), other than a QBU described in Regulations section 1.985-1(b)(1)(iii). See section 29.01 of Rev. Proc. 2018-31. |

| List of DCNs | |
|---|---|
| **No.** | **Change** |
| 71 | **Rule of 78s (section 1272)**—for stated interest on certain short-term consumer loans, **from** the Rule of 78s method **to** the constant yield method. See section 15.05 of Rev. Proc. 2018-31. |
| 72 | **Original issue discount (sections 1272 and 1273)—to** the principal-reduction method for de minimis original issue discount (OID). See section 30.01 of Rev. Proc. 2018-31. **Note**. This change is implemented on a cut-off basis and does not receive audit protection. |
| 73 | **Market discount bonds (section 1278)—from** including market discount currently in income for the tax year to which the discount is attributable **to** including market discount in income for the tax year of disposition or partial principal payment (revoking the section 1278(b) election). **Note**. This change is implemented on a cut-off basis and also generally is made with audit protection, but with conditions or limitations. See section 31.01 of Rev. Proc. 2018-31. |
| 74 | **Interest income on short-term obligations (section 1281)—to** currently including accrued interest and discount in income (to comply with section 1281). See section 32.01 of Rev. Proc. 2018-31. |
| 75 | **Stated interest on short-term loans (section 1281)**—for a bank using the cash method of accounting, **from** accruing stated interest on short-term loans made in the ordinary course of business **to** using the cash method to report such interest. See section 32.02 of Rev. Proc. 2018-31. |
| 76 | **Sales of mortgage loans (section 1286)**—for accounting for certain sales of mortgage loans in which the seller also enters into a contract to service the mortgages in consideration for amounts received from interest payments, **from** a method that is inconsistent with Rev. Rul. 91-46, 1991-2 C.B. 358, **to** a method that is consistent with Rev. Rul. 91-46. However, the change is only an automatic accounting method change for certain taxpayers who are under examination. This change does not fall under the automatic change procedures of Rev. Proc. 2015-13. Instead, see Rev. Proc. 91-51, 1991-2 C.B. 779. |
| 77 | **Environmental remediation costs (section 263A)**—for costs incurred to clean up land that a taxpayer contaminated with hazardous waste from the taxpayer's manufacturing operations, **to** capitalizing such costs in inventory costs under section 263A. See section 12.04 of Rev. Proc. 2018-31. |
| 78 | **Costs of intangibles and certain transactions (section 263(a))**—for amounts paid or incurred to acquire or create intangibles, or to facilitate an acquisition of a trade or business, a change in the capital structure of a business entity, and certain other transactions, **to** a method of accounting provided in Regulations sections 1.263(a)-4, 1.263(a)-5, and 1.167(a)-3(b). Complete Schedule E of Form 3115 for changes to a method of accounting provided in Regulations section 1.167(a)-3(b). See section 11.05 of Rev. Proc. 2018-31. |
| 79 | **REMIC inducement fees (sections 860A–860G)**—for an inducement fee received in connection with becoming the holder of a noneconomic residual interest in a REMIC, **to** a safe harbor method provided under Regulations section 1.446-6(e)(1) or (e)(2). See Rev. Proc. 2004-30, 2004-1 C.B. 950, and section 28.01 of Rev. Proc. 2018-31. |
| 80 | **All events test method for credit card annual fees (section 451)—to** a method that satisfies the all events test in accordance with Rev. Rul. 2004-52, 2004-1 C.B. 973. See section 16.05 of Rev. Proc. 2018-31. |
| 81 | **Ratable inclusion method for credit card annual fees (section 446)—to** the ratable inclusion method for credit card annual fees. See section 16.05 of Rev. Proc. 2018-31. |
| 82 | **Credit card late fees (section 451)—to** a method that treats credit card late fees as interest income that creates or increases OID on the pool of credit card loans to which the fees relate. **Note**. This change is generally made with audit protection, but has conditions or limitations. See section 16.06 of Rev. Proc. 2018-31. |
| 83 | **Full inclusion method for certain advance payments (section 451)—to** the full inclusion method as described in section 5.01 of Rev. Proc. 2004-34, 2004-1 C.B. 991. The applicant must be using, or changing to, an overall accrual method of accounting. See section 16.07 of Rev. Proc. 2018-31. |
| 84 | **Deferral method for certain advance payments (section 451)—to** the deferral method as described in section 5.02 of Rev. Proc. 2004-34, 2004-1 C.B. 991 (except as provided in section 8.03 and 8.04(2) of Rev. Proc. 2004-34). The applicant must be using, or changing to, an overall accrual method of accounting. See section 16.07 of Rev. Proc. 2018-31 and Notice 2018-35. |
| 85 | **Film producer's treatment of certain creative property costs (section 446)—to** account for creative property costs under the safe harbor method provided in Rev. Proc. 2004-36, 2004-1 C.B. 1063. See section 15.06 of Rev. Proc. 2018-31. |
| 86 | **Timber fertilization costs (section 162)**—for costs incurred by a timber grower for the post-establishment fertilization of an established timber stand, **to** treat such costs as ordinary and necessary business expenses deductible under section 162. See section 3.04 of Rev. Proc. 2018-31. |
| 87 | **Change in general asset account treatment due to a change in the use of MACRS property (section 168)—to** the method of accounting provided in Regulations sections 1.168(i)-1(c)(2)(ii)(E) and 1.168(i)-1(h)(2) (as in effect before January 1, 2012). Complete Schedule E of Form 3115. Change is implemented on a modified cut-off basis. Additionally, a qualified small taxpayer qualifies for a reduced Form 3115 filing requirement. See Regulations section 1.168(i)-1(l)(2)(ii) and section 6.04 of Rev. Proc. 2018-31. |

| List of DCNs | |
|---|---|
| **No.** | **Change** |
| 88 | **Change in method of accounting for depreciation due to a change in the use of MACRS property (section 168)—to** the method of accounting provided in Regulations section 1.168(i)-4 or to revoke the election provided in Regulations section 1.168(i)-4(d)(3)(ii) to disregard a change in use of MACRS property. Complete Schedule E of Form 3115. Additionally, a qualified small taxpayer qualifies for a reduced Form 3115 filing requirement. See Regulations section 1.168(i)-4(g)(2) and section 6.05 of Rev. Proc. 2018-31. |
| 89 | **Depreciation of qualified non-personal use vans and light trucks (section 280F)**—for certain vehicles placed in service before July 7, 2003, **to** a method of accounting in accordance with Regulations section 1.280F-6(f)(2)(iv). Complete Schedule E of Form 3115. Additionally, a qualified small taxpayer qualifies for a reduced Form 3115 filing requirement. See Regulations section 1.280F-6(f)(2)(iv) and section 6.06 of Rev. Proc. 2018-31. |
| 90 | **Insurance companies' incentive payments to health care providers (section 446)**—for deducting provider incentive payments, **to** the method of including those payments in discounted unpaid losses without regard to section 404. See section 15.07 of Rev. Proc. 2018-31. |
| 91 | **Up-front network upgrade payments received by utilities (section 61)—to** a safe harbor method provided in Rev. Proc. 2005-35, 2005-2 C.B. 76. See section 1.01 of Rev. Proc. 2018-31. |
| 92 | **Allocation of environmental remediation costs to production (section 263A)—to** a method that allocates under section 263A environmental remediation costs to the inventory produced during the tax year such costs are incurred. See Rev. Rul. 2005-42, 2005-2 C.B. 67, and section 12.05 of Rev. Proc. 2018-31. |
| 94 | **Credit card cash advance fees (section 451)—to** a method that treats credit card cash advance fees as creating or increasing original issue discount (OID) on a pool of credit card loans that includes the cash advances that give rise to the fees. **Note**. This change is generally made with audit protection, but has conditions or limitations. See section 16.08 of Rev. Proc. 2018-31. |
| 96 | **Replacement cost method for heavy equipment dealers' parts inventory (sections 471 and 472)—to** the replacement cost method for heavy equipment dealers' parts inventory described in Rev. Proc. 2006-14, 2006-1 C.B. 350. Complete Schedule D, Parts II and III, of Form 3115, as applicable. See section 22.08 of Rev. Proc. 2018-31. **Note**. This change is implemented on a cut-off basis. |
| 106 | **Timing of incurring certain liabilities for services or insurance (section 461)**—for an applicant that is currently treating the mere execution of a contract for services or insurance as establishing the fact of the liability under section 461 and wants to change **from** that method for liabilities for services or insurance to comply with Rev. Rul. 2007-3, 2007-1 C.B. 350. See section 20.06 of Rev. Proc. 2018-31. |
| 107 | **Impermissible to permissible method of accounting for depreciation or amortization for disposed depreciable or amortizable property (sections 167, 168, 197, 1400I, 1400L(b), 1400L(c), or 1400N(d), or former 168)**—for an item of certain depreciable or amortizable property that has been disposed of by the applicant and for which the applicant did not take into account any depreciation allowance or did take into account some depreciation but less than the depreciation allowable, **from** using an impermissible method of accounting for depreciation **to** using a permissible method of accounting for depreciation. Complete Schedule E of Form 3115. Additionally, a qualified small taxpayer qualifies for a reduced Form 3115 filing requirement. See section 6.07 of Rev. Proc. 2018-31. |
| 108 | **Change by bank for uncollected interest (section 446)**—for a bank (as defined in Regulations section 1.166-2(d)(4)(i)) that uses an accrual method of accounting; is subject to supervision by federal authorities, or by state authorities maintaining substantially equivalent standards; and has 6 or more years of collection experience to change **to** the safe harbor method of accounting for uncollected interest (other than interest described in Regulations section 1.446-2(a)(2)) set forth in section 4 of Rev. Proc. 2007-33, 2007-1 C.B. 1289. See section 15.08 of Rev. Proc. 2018-31. |
| 109 | **Rotable spare parts (section 263(a))**—for an applicant that maintains a pool or pools of rotable spare parts that are primarily used to repair customer-owned (or customer-leased) equipment under warranty or maintenance agreements **to** the safe harbor method provided in Rev. Proc. 2007-48, 2007-2 C.B. 110. Complete Schedule E of Form 3115. See section 11.06 of Rev. Proc. 2018-31. |
| 110 | **Rotable spare parts (section 471)—from** the safe harbor method (or a similar method) of treating rotable spare parts as depreciable assets, in accordance with Rev. Proc. 2007-48, 2007-2 C.B. 110, **to** treating rotable spare parts as inventoriable items. See section 22.09 of Rev. Proc. 2018-31. |
| 111 | **Advance trade discount method (section 471)**—for an accrual method applicant required to use an inventory method of accounting and maintaining inventories, as provided in section 471, that receives advance trade discounts **to** the Advance trade discount method described in Rev. Proc. 2007-53, 2007-2 C.B. 233. See section 22.10 of Rev. Proc. 2018-31. |

| List of DCNs | |
|---|---|
| **No.** | **Change** |
| 112 | **Changes to the Vehicle-Pool Method (section 472)**—for a retail dealer or wholesaler distributor (reseller) of cars and light-duty trucks to the Vehicle-Pool Method as described in Rev. Proc. 2008-23, 2008-1 C.B. 664. See section 23.08 of Rev. Proc. 2018-31. **Note**. This change is implemented on a cut-off basis. |
| 113 | **Payroll tax liabilities (section 461)**—for an accrual method applicant that wants to change its method for FICA and FUTA taxes **to** the safe harbor method provided in Rev. Proc. 2008-25, 2008-1 C.B. 686, which provides that, solely for the purposes of the recurring item exception, an applicant will be treated as satisfying the requirement in Regulations section 1.461-5(b)(1)(i) for its payroll tax liability in the same tax year in which all events have occurred that establish the fact of the related compensation liability and the amount of the related compensation liability can be determined with reasonable accuracy. See section 20.04 of Rev. Proc. 2018-31. |
| 114 | **Rolling-average method of accounting for inventories (sections 471 and 472)**—for an applicant required to account for inventories under section 471 and that uses a rolling-average method to value inventories for financial accounting purposes **to** the same rolling-average method to value inventories for federal income tax purposes, in accordance with Rev. Proc. 2008-43, 2008-30 I.R.B.186. See section 22.14 of Rev. Proc. 2018-31. **Note**. This change must be implemented on a cut-off basis unless the applicant's books and records contain sufficient information to compute a section 481(a) adjustment, in which case the applicant may choose to implement the change with a section 481(a) adjustment. |
| 116 | **Obsolete.** See change number 7. |
| 117 | **Obsolete.** See change number 205 or 206, as applicable. |
| 119 | **Obsolete.** See change number 7. |
| 121 | **Repairable and reusable spare parts (section 263(a))—to** treat certain repairable and reusable spare parts as depreciable property in accordance with the holding in Rev. Rul. 69-200, 1969-1 C.B. 60, or Rev. Rul. 69-201, 1969-1 C.B. 60. Complete Schedule E of Form 3115. Additionally, a qualified small taxpayer qualifies for a reduced Form 3115 filing requirement. See section 11.07 of Rev. Proc. 2018-31. |
| 122 | **Overall accrual method other than for the first section 448 year (section 446)**—for a qualifying applicant for other than its first section 448 year, **from** the overall cash method **to** an overall accrual method. Complete Schedule A, Part I, of Form 3115. Also complete Schedule D, Parts II and III, as applicable. See section 15.01 of Rev. Proc. 2018-31, as modified by Rev. Proc. 2018-44 and Rev. Proc. 2018-60. |
| 123 | **Change in overall method from the cash method to an accrual method for the first section 448 year (section 446)**—for an applicant that is required by section 448 to change **from** the overall cash method **to** an overall accrual method and the applicant qualifies to make the change under the automatic consent procedures of Regulations sections 1.448-1(g) and (h)(2) as well as Rev. Proc. 2015-13 for a year of change that is the applicant's first section 448 year. See Regulations sections 1.448-1(g) and (h)(2), and section 15.01 of Rev. Proc. 2018-31, as modified by Rev. Proc. 2018-44 and Rev. 2018-60. |
| 124 | **Change from the cash method to an accrual method for specific items (section 446)**—for a qualifying applicant using an overall accrual method and accounting for one or more identified specific items of income and expense on the cash method **to** an accrual method of accounting for the identified specific item or items. See section 15.09 of Rev. Proc. 2018-31. |
| 125 | **Multi-year service warranty contracts (section 446)**—for an eligible accrual method manufacturer, wholesaler, or retailer of motor vehicles or other durable consumer goods that wants to change **to** the service warranty income method described in section 5 of Rev. Proc. 97-38, 1997-2 C.B. 479. See Rev. Proc. 97-38 and section 15.10 of Rev. Proc. 2018-31. **Note**. This change is implemented on a cut-off basis and also has a reduced Form 3115 filing requirement. |
| 126 | **Overall cash method for specified transportation industry taxpayers (section 446)**—for "specified transportation industry taxpayers," as defined in section 15.11(2) of Rev. Proc. 2018-31, with average annual gross receipts of more than $10,000,000 and not in excess of $50,000,000 **to** the overall cash method. See section 15.11 of Rev. Proc. 2018-31. |
| 127 | **Change to overall cash/hybrid method for certain banks (section 446)**—for an eligible bank, as defined in section 15.12(2)(a) of Rev. Proc. 2018-31, **to** an overall cash/hybrid method described in section 15.12(2)(b) of Rev. Proc. 2018-31. See section 15.12 of Rev. Proc. 2018-31. |
| 128 | **Change to overall cash method for farmers (section 446)**—for a qualifying applicant engaged in the trade or business of farming to the overall cash method. See section 15.13 of Rev. Proc. 2018-31, as modified by Rev. Proc. 2018-40. **Note**. For applicants changing from the crop method, that portion of the change is implemented using a cut-off method. |

| List of DCNs | |
|---|---|
| **No.** | **Change** |
| 129 | **Nonshareholder contributions to capital under section 118 (section 446)—from** excluding from gross income under section 61 certain payments or the fair market value of property received (including customer connection fees received by a regulated public utility described in section 118(c)), by characterizing the payments or the fair market value of property as nontaxable contributions to capital under section 118(a), **to** including the payments or the fair market value of property in gross income under section 61. This change also applies to a regulated public utility described in section 118(c) that changes **from** including in gross income under section 61 payments or fair market value of property received that are contributions in aid of construction under section 118(c) and Regulations section 1.118-2 and that meet the requirements of sections 118(c)(1)(B) and 118(c)(1)(C) **to** excluding from income the payments or the fair market value of the property as nontaxable contributions to capital under section 118(a). See section 15.14 of Rev. Proc. 2018-31. **Note**. The change described in section 15.14(1)(a)(ii) of Rev. Proc. 2018-31 does not apply to contributions made after December 22, 2017. |
| 130 | **Retainages not received under long-term contracts (section 451)**—for an accrual method applicant's retainages under section 451 **to** a method consistent with the holding in Rev. Rul. 69-314, 1969-1 C.B. 139. This change does not apply to retainages under long-term contracts as defined in section 460(f). An applicant changing its method of accounting under this section must treat all retainages (receivables and payables) in the same manner. See section 16.09 of Rev. Proc. 2018-31. |
| 131 | **Series E, EE, or I U.S. savings bonds (section 454)**—for a cash method taxpayer changing the taxpayer's method of accounting for interest income on Series E, EE, or I U.S. savings bonds **from** reporting as interest income the increase in redemption price on a bond occurring in a tax year **to** reporting this income in the tax year in which the bond is redeemed, disposed of, or finally matures, whichever is earliest. A statement in lieu of a Form 3115 is authorized for this change. See section 17.01 of Rev. Proc. 2018-31. **Note**. This change is implemented on a cut-off basis. |
| 132 | **Prepaid subscription income (section 455)**—for an accrual method applicant changing its method of accounting for prepaid subscription income **to** the method described in section 455 and the related regulations, including an eligible applicant that wants to make the "within 12 months" election under Regulations section 1.455-2. A statement in lieu of a Form 3115 is authorized for this change. See section 18.01 of Rev. Proc. 2018-31. **Note**. This change is implemented on a cut-off basis. |
| 133 | **Timing of incurring liabilities for bonuses (section 461)—to** treat bonuses as incurred in the tax year in which all events have occurred that establish the fact of the liability to pay a bonus and the amount of the liability can be determined with reasonable accuracy. See section 20.01(2) of Rev. Proc. 2018-31. |
| 134 | **Timing of incurring liabilities for vacation pay, sick pay, and severance pay (section 461)—to** treat vacation pay, sick pay, and severance pay as incurred in the tax year in which all events have occurred that establish the fact of the liability to pay vacation pay, sick pay, and severance pay, and the amount of the liability can be determined with reasonable accuracy. The applicant may make this change if the vacation pay, sick pay, and severance pay vests in that tax year and the vacation pay, sick pay, and severance pay is received by the employee by the 15th day of the 3rd calendar month after the end of that tax year. See section 20.01(3) of Rev. Proc. 2018-31. |
| 135 | **Rebates and allowances (section 461)**—for an accrual method applicant's liability for rebates and allowances **to** the recurring item exception method under section 461(h)(3) and Regulations section 1.461-5. See section 20.07 of Rev. Proc. 2018-31. |
| 136 | **Change from an improper method of inclusion of rental income or expense to inclusion in accordance with the rent allocation (section 467)**—for an applicant that is a party to a section 467 rental agreement and is changing its method for its fixed rent **to** the rent allocation method provided in Regulations section 1.467-1(d)(2)(iii). See section 21.01 of Rev. Proc. 2018-31. **Note**. This change only receives limited audit protection. |
| 137 | **Permissible methods of identification and valuation of inventories (section 471)**—for an applicant changing from one permissible method of identifying and valuing inventories **to** another permissible method of identifying and valuing inventories. Complete Schedule D, Parts II and III, of Form 3115, as applicable. See section 22.11 of Rev. Proc. 2018-31. |
| 138 | **Change in the official used vehicle guide utilized in valuing used vehicles (section 471)**—for a used vehicle dealer **from** not using an official used vehicle guide for valuing used vehicles **to** using an official used vehicle guide for valuing used vehicles; or **from** using an official used vehicle guide for valuing used vehicles **to** using a different official used vehicle guide for valuing used vehicles. See section 22.12 of Rev. Proc. 2018-31. |
| 139 | **Invoiced advertising association costs for new vehicle retail dealerships (section 471)**—for an applicant engaged in the trade or business of retail sales of new automobiles or new light-duty trucks (dealership) **from** capitalizing certain advertising costs as acquisition costs under Regulations section 1.471-3(b) **to** deducting the advertising costs under section 162 as the advertising services are provided to the dealership. See Regulations section 1.461-4(d)(2)(i), and section 22.13 of Rev. Proc. 2018-31. |

| List of DCNs | |
|---|---|
| **No.** | **Change** |
| 140 | **Changes within the Used Vehicle Alternative LIFO Method (section 472)**—for a taxpayer using the Used Vehicle Alternative LIFO Method, as described in Rev. Proc. 2001-23, 2001-1 C.B. 784, as modified by Announcement 2004-16, 2004-1 C.B. 668, and Rev. Proc. 2008-23, 2008-1 C.B. 664, **to** use a different "official used vehicle guide" in conjunction with the Used Vehicle Alternative LIFO Method, or **to** a different precise manner of using an official used vehicle guide (for example, a change in the specific guide category that an applicant uses to represent vehicles of average condition for purposes of section 4.02(5)(a) of Rev. Proc. 2001-23). See section 23.09 of Rev. Proc. 2018-31. **Note**. This change is implemented on a cut-off basis. |
| 141 | **Changes to dollar-value pools of manufacturers (section 472)**—for a manufacturer that purchases goods for resale (resale goods) and thus must reassign resale goods from the pool(s) it maintains for the goods it manufactures to one or more resale pools, and the manufacturer wants to change **from** using multiple pools described in Regulations section 1.472-8(b)(3) **to** using natural business unit (NBU) pools described in Regulations section1.472-8(b)(1), or vice versa; or wants to reassign items in NBU pools described in Regulations section 1.472-8(b)(1) into the same number or a greater number of NBU pools. See section 23.10 of Rev. Proc. 2018-31. **Note**. This change is implemented on a cut-off basis. |
| 145 | **Tenant construction allowances (section 168)**—for an applicant changing from improperly treating the applicant as having a depreciable interest in the property subject to the tenant construction allowances for federal income tax purposes **to** properly treating the applicant as not having a depreciable interest in such property for federal income tax purposes; or **from** improperly treating the applicant as not having a depreciable interest in the property subject to the tenant construction allowances for federal income tax purposes **to** properly treating the applicant as having a depreciable interest in such property for federal income tax purposes. This change is implemented on a cut-off basis and does not receive audit protection. Additionally, a qualified small taxpayer qualifies for a reduced Form 3115 filing requirement. See section 6.08 of Rev. Proc. 2018-31. |
| 146 | **Obsolete**. See change number 205. |
| 147 | **Obsolete**. See change number 206. |
| 148 | **Debt issuance costs (section 446)**—for an applicant changing its method of accounting **to** comply with Regulations section 1.446-5, which provides rules for allocating the costs over the term of the debt. See section 15.15 of Rev. Proc. 2018-31. |
| 149 | **Ratable accrual of real property taxes (section 461)**—for an accrual method applicant for real property taxes that relate to a definite period of time **to** the method described in section 461(c) and section 1.461-1(c)(1) (ratable accrual election) for a tax year other than the applicant's first tax year in which real property taxes are incurred. See section 20.08 of Rev. Proc. 2018-31. **Note**. This change has a reduced Form 3115 filing requirement. |
| 150 | **Retail sales facility safe harbor for a motor vehicle dealership (section 263A)**—for a motor vehicle dealership **to** treat its sales facility as a retail sales facility as described in section 5.01 of Rev. Proc. 2010-44, 2010-49 I.R.B. 811. See section 12.06 of Rev. Proc. 2018-31. |
| 151 | **Reseller without production activities safe harbor for a motor vehicle dealership (section 263A)**—for a motor vehicle dealership **to** be treated as a reseller without production activities as described in section 5.02 of Rev. Proc. 2010-44, 2010-49 I.R.B. 811. See section 12.06 of Rev. Proc. 2018-31. |
| 152 | **Deduction for energy efficient commercial buildings (section 179D)**—for an applicant to change its method of accounting to deduct under section 179D amounts paid or incurred for the installation of energy efficient commercial building property, subject to the limits of section 179D(b), in the year the property is placed in service. See Rev. Proc. 2012-39, 2012-2 C.B. 470, and section 8.01 of Rev. Proc. 2018-31. **Note**. This change does not receive audit protection. |
| 153 | **Advance payments—change in applicable financial statements (Rev. Proc. 2004-34)**—for an applicant using the deferral method for including advance payments in gross income in accordance with its applicable financial statement (AFS) to change its method **to** recognize advance payments in gross income under Rev. Proc. 2004-34 consistent with a changed manner for recognizing advance payments for its AFS. The requirement in section 6.03(3)(a) of Rev. Proc. 2015-13 to provide an additional copy of the application to the examining agent(s), appeals officer(s), and counsel to the government, if applicable, applies to this application. A statement in lieu of a Form 3115 is authorized for this change. See section 16.10 of Rev. Proc. 2018-31. **Note**. This change is implemented on a cut-off basis and does not receive audit protection. |
| 154 | **California franchise taxes (Rev. Rul. 2003-90)**—for an accrual method applicant changing **to** recognizing its California franchise tax liability in the tax year following the tax year in which the tax is incurred under the Cal. Rev. & Tax Code. See section 20.09 of Rev. Proc. 2018-31. |
| 155 | **Unearned premiums (section 833)**—for a Blue Cross or Blue Shield organization within the meaning of section 833(c)(2) or an organization described in section 833(c)(3) required to change its method of accounting for unearned premiums because it fails to meet the MLR requirements of section 833(c)(5). See section 26.02 of Rev. Proc. 2018-31. |
| 156 | **Gift cards issued as a refund (Rev. Proc. 2011-17)**—for an accrual method applicant who issues gift cards as a refund for returned goods changing **to** treat the transaction as the payment of a cash refund and sale of a gift card in the amount of the gift card, as provided in Rev. Proc. 2011-17, 2011-5 I.R.B. 441. See section 20.10 of Rev. Proc. 2018-31. |

| List of DCNs | |
|---|---|
| **No.** | **Change** |
| 157 | **Classification of wireless telecommunications assets used by wireless telecommunications carriers (sections 167 and 168)**—for applicants that have a depreciable interest in wireless telecommunication assets (as defined in Rev. Proc. 2011-22, 2011-8 I.R.B. 737) used primarily to provide wireless telecommunications or broadband services by mobile phones that are changing **to** the method described in Rev. Proc. 2011-22 to determine the recovery periods for depreciation of certain tangible assets used by wireless telecommunications carriers. Additionally, a qualified small taxpayer qualifies for a reduced Form 3115 filing requirement. See Rev. Proc. 2011-22 and section 6.09 of Rev. Proc. 2018-31. |
| 158 | **Wireline network property (section 263(a))**—for certain applicants that have a depreciable interest in wireline network assets (as described in section 4 of Rev. Proc. 2011-27, 2011-8 I.R.B. 740) used primarily to provide wireline telecommunication or broadband services that are changing **to** (a) the wireline network assets maintenance allowance method described in section 5 of Rev. Proc. 2011-27, or (b) the adoption of all, or some, of the units of property described in section 6 of Rev. Proc. 2011-27, to determine whether expenditures to maintain, replace, or improve wireline network assets must be capitalized under section 263(a). See section 3.07 of Rev. Proc. 2018-31. |
| 159 | **Wireless network property (section 263(a))**—for certain applicants that have a depreciable interest in wireless network assets (as described in section 4 of Rev. Proc. 2011-28, 2011-8 I.R.B. 743) used primarily to provide wireless telecommunications or broadband services by mobile phones that are changing **to** (a) the wireless network asset maintenance allowance method described in section 5 of Rev. Proc. 2011-28, or (b) the adoption of all, or some, of the units of property described in section 6 of Rev. Proc. 2011-28, to determine whether expenditures to maintain, replace, or improve wireless network assets must be capitalized under section 263(a). See section 3.08 of Rev. Proc. 2018-31. |
| 160 | **Electric transmission and distribution property (section 263(a))**—for certain applicants that have a depreciable interest in electric transmission or distribution property (as described in section 4 of Rev. Proc. 2011-43, 2011-37 I.R.B. 326) used primarily to transport, deliver, or sell electricity that are changing **to** the method described in Rev. Proc. 2011-43, to determine whether expenditures incurred to maintain, replace, or improve transmission and distribution property are deductible repairs under section 162 or capitalizable improvements under section 263(a). See section 3.09 of Rev. Proc. 2018-31. |
| 161 | **Timing of incurring liabilities under the recurring item exception to the economic performance rules (section 461(h)(3))**—for an applicant changing **to** a method of accounting to conform to any of the holdings in Rev. Rul. 2012-1, 2012-2 I.R.B. 255, which addresses the "not material" and "better matching" requirements of the recurring item exception and distinguishes contracts for the provision of services from insurance and warranty contracts. See section 20.11 of Rev. Proc. 2018-31. |
| 175 | **Obsolete**. See change number 199. |
| 176 | **Obsolete**. See change number 200. |
| 177 | **Obsolete**. See change number 205. |
| 178 | **Obsolete**. See change number 206. |
| 179 | **Obsolete**. See change number 207. |
| 181 | **Plants removed from the list of plants that have a preproductive period in excess of 2 years (section 263A)**—for an applicant that is not a corporation, partnership, or tax shelter required to use an accrual method of accounting and either is changing **to** not applying section 263A to the production of a plant or plants that have been removed from the list of plants with a nationwide weighted average preproductive period in excess of 2 years, **or** is revoking its section 263A(d)(3) election **to** not apply section 263A to the production of a plant or plants that have been removed from the list of plants with a nationwide weighted average preproductive period in excess of 2 years. See Rev. Proc. 2013-20 and section 12.07 of Rev. Proc. 2018-31. |
| 182 | **Steam or electric power generation property (section 263(a))**—for an applicant changing its method of accounting for its treatment of expenditures on generation property (as defined in section 4.01 of Rev. Proc. 2013-24, 2013-22 I.R.B. 1142) **to** use all or some of the unit of property definitions and the corresponding major component definitions described in Appendix A of Rev. Proc. 2013-24, to determine whether expenditures to maintain, replace, or improve generation property must be capitalized under section 263(a). See section 3.10 of Rev. Proc. 2018-31. |
| 183 | **Change to proportional method of accounting for OID on a pool of credit card receivables (section 1272(a)(6))**—for an eligible taxpayer that wants to change **to** the proportional method of accounting for original issue discount (OID) on a pool of credit card receivables as described in Rev. Proc. 2013-26, 2013-22 I.R.B. 1160. See section 30.02 of Rev. Proc. 2018-31. **Note**. This change is implemented on a cut-off basis. |

| List of DCNs | |
|---|---|
| **No.** | **Change** |
| 184 | **Deducting repair and maintenance costs or capitalizing improvement costs (sections 162 and 263(a))**—for an applicant changing **to** deducting amounts paid or incurred for repair and maintenance costs under section 162 and Regulations section 1.162-4 or changing **to** capitalizing amounts paid or incurred for improvements to tangible property and, if depreciable, to depreciating such property under section 168. Includes a change by an applicant in the method of identifying units of property under Regulations section 1.263(a)-3(e) for purposes of determining whether amounts paid or incurred improve a unit of property under Regulations section 1.263(a)-3. Additionally, a qualified small taxpayer qualifies for a reduced Form 3115 filing requirement. See section 11.08 of Rev. Proc. 2018-31. |
| 185 | **Change to the regulatory accounting method (section 162)**—for a regulated applicant changing its method of accounting for amounts paid or incurred to repair or maintain tangible property to follow its method of accounting for regulatory accounting purposes to determine whether an amount paid or incurred improves property under Regulations section 1.263(a)-3, consistent with Regulations section 1.263(a)-3(m). Additionally, a qualified small taxpayer qualifies for a reduced Form 3115 filing requirement. See section 11.08 of Rev. Proc. 2018-31. |
| 186 | **Deducting non-incidental materials and supplies when used or consumed (section 162)**—for an applicant changing its method of accounting for non-incidental materials and supplies **to** the method of deducting such amounts in the tax year in which they are actually used or consumed, consistent with Regulations section 1.162-3. Additionally, a qualified small taxpayer qualifies for a reduced Form 3115 filing requirement. See section 11.08 of Rev. Proc. 2018-31. |
| 187 | **Deducting incidental materials and supplies when paid or incurred (section 162)**—for an applicant that wants to change its method of accounting for incidental materials and supplies **to** the method of deducting such amounts in the tax year in which they are paid or incurred, consistent with Regulations section 1.162-3. Additionally, a qualified small taxpayer qualifies for a reduced Form 3115 filing requirement. See section 11.08 of Rev. Proc. 2018-31. |
| 188 | **Deducting non-incidental rotable and temporary spare parts when disposed (section 162)**—for an applicant changing its method of accounting for costs to acquire or produce non-incidental rotable and temporary spare parts **to** the method of deducting such costs in the tax year in which the taxpayer disposes of the parts, consistent with Regulations section 1.162-3. Additionally, a qualified small taxpayer qualifies for a reduced Form 3115 filing requirement. See section 11.08 of Rev. Proc. 2018-31. |
| 189 | **Change to the optional method for rotable and temporary spare parts (section 162)**—for an applicant changing its method of accounting for rotable and temporary spare parts **to** the optional method of accounting for rotable and temporary spare parts (described in Regulations section 1.162-3(e)), consistent with Regulations section 1.162-3. Additionally, a qualified small taxpayer qualifies for a reduced Form 3115 filing requirement. See section 11.08 of Rev. Proc. 2018-31. |
| 190 | **Deducting dealer expenses that facilitate the sale of property (section 162)**—for an applicant that is a dealer in property changing its method of accounting for commissions and other costs paid or incurred to facilitate the sale of tangible property **to** the method of treating such costs as ordinary and necessary business expenses, consistent with Regulations section 1.263(a)-1(e)(2). Additionally, a qualified small taxpayer qualifies for a reduced Form 3115 filing requirement. See section 11.08 of Rev. Proc. 2018-31. |
| 191 | **Non-dealer expense to facilitate the sale of property (section 263(a))**—for an applicant that is not a dealer in property changing its method of accounting for commissions and other costs paid or incurred to facilitate the sale of property **to** the method of capitalizing such costs, consistent with Regulations section 1.263(a)-1(e)(1). Additionally, a qualified small taxpayer qualifies for a reduced Form 3115 filing requirement. See section 11.08 of Rev. Proc. 2018-31. |
| 192 | **Capitalizing acquisition or production costs (section 263(a))**—for an applicant changing its method of accounting **to** capitalizing amounts paid or incurred to acquire or produce property under Regulations section 1.263(a)-2 and, if depreciable, to depreciating such property under section 168. Additionally, a qualified small taxpayer qualifies for a reduced Form 3115 filing requirement. See section 11.08 of Rev. Proc. 2018-31. |
| 193 | **Deducting certain costs for investigating or pursuing the acquisition of property (section 162)**—for an applicant changing its method of accounting **from** capitalizing **to** deducting amounts paid or incurred in the process of investigating or otherwise pursuing (a) the acquisition of real property if the amounts meet the requirements of Regulations section 1.263(a)-2(f)(2)(iii), or (b) the acquisition of real or personal property if the amounts are for employee compensation or overhead costs under Regulations section 1.263(a)-2(f)(2)(iv), consistent with Regulations section 1.263(a)-2. Additionally, a qualified small taxpayer qualifies for a reduced Form 3115 filing requirement. See section 11.08 of Rev. Proc. 2018-31. |
| 194 | **Change to a reasonable allocation method for self-constructed assets (section 263A)**—for a producer or a reseller-producer **to** a reasonable allocation method under Regulations section 1.263A-1(f)(4) for self-constructed assets or **from** not capitalizing a cost subject to section 263A **to** capitalizing that cost under a reasonable allocation method under Regulations section 1.263A-1(f)(4) that the producer or reseller-producer is already using for self-constructed assets. See section 12.08 of Rev. Proc. 2018-31. |

| List of DCNs | |
|---|---|
| **No.** | **Change** |
| 195 | **Real property acquired through foreclosure (section 263A)**—for an applicant that capitalizes costs under section 263A(b)(2) and Regulations section 1.263A-3(a)(1) to real property acquired through foreclosure, or similar transaction, **to** an otherwise permissible method of accounting under which the acquisition and holding costs for real property acquired through foreclosure, or similar transaction, are not capitalized under section 263A(b)(2) and Regulations section 1.263A-3(a)(1). See section 12.09 of Rev. Proc. 2018-31. |
| 196 | **Obsolete**. |
| 197 | **Obsolete**. |
| 198 | **Partial dispositions of tangible depreciable asset to which the IRS's adjustment pertains (section 168)**—for MACRS property for which the applicant is making a partial disposition election under Regulations section 1.168(i)-8(d)(2)(iii) to the disposition of a portion of the asset to which the IRS's adjustment pertains (as described in Regulations section 1.168(i)-8(d)(2)(iii)). Complete Schedule E of Form 3115. Additionally, a qualified small taxpayer qualifies for a reduced Form 3115 filing requirement. See section 6.10 of Rev. Proc. 2018-31. |
| 199 | **Depreciation of leasehold improvements (sections 167, 168, and 197)**—for leasehold improvements in which the applicant has a depreciable interest at the beginning of the year of change, **from** improperly depreciating or amortizing these leasehold improvements over the term of the lease (including renewals, if applicable) **to** properly depreciating or amortizing these leasehold improvements under section 167(f)(1), 168, or 197, as applicable. Complete Schedule E of Form 3115. Additionally, a qualified small taxpayer qualifies for a reduced Form 3115 filing requirement. See section 6.11 of Rev. Proc. 2018-31. |
| 200 | **Depreciation of MACRS property (permissible to permissible) (section 168)**—for MACRS property, **from** a permissible method **to** another permissible method listed in section 6.12(3) of Rev. Proc. 2018-31. Certain changes are made on a modified cut-off basis or a cut-off basis. Complete Schedule E of Form 3115. Additionally, a qualified small taxpayer qualifies for a reduced Form 3115 filing requirement. See section 6.12 of Rev. Proc. 2018-31. |
| 201 | **Sales-based royalties (section 263A)**—for sales-based royalties (as described in Regulations section 1.263A-1(e)(3)(ii)(U)(2)) properly allocable to inventory property for which the applicant is making a change listed in section 12.10(1) of Rev. Proc. 2018-31. See Rev. Proc. 2014-33 and section 12.10 of Rev. Proc. 2018-31. |
| 202 | **Sales-based vendor chargebacks under a simplified method (section 263A)**—for an applicant changing its method of accounting to no longer include cost adjustments for sales-based vendor chargebacks (as described in Regulations section 1.471-3(e)(1)) in the formulas used to allocate additional section 263A costs to ending inventory under a simplified method. See Rev. Proc. 2014-33 and section 12.11 of Rev. Proc. 2018-31. |
| 203 | **Sales-based vendor chargebacks (section 471)**—for an applicant changing its method of accounting to treat sales-based vendor chargebacks as a reduction in cost of goods sold in accordance with Regulations section 1.471-3(e)(1). See Rev. Proc. 2014-33 and section 22.15 of Rev. Proc. 2018-31. |
| 204 | **Retail inventory method (section 471)**—for an applicant using the retail inventory method, a change **to**: (a) not adjusting the numerator of the cost complement for an allowance, discount, or price rebate required by Regulations section 1.471-3(e) to reduce only cost of goods sold; (b) not adjusting the denominator of the cost complement for temporary markups and markdowns; (c) computing the cost complement using a method described in Regulations section 1.471-8(b)(3) (including changes from a method described in section 1.471-8(b)(3) to another method described in that section) for a retail LCM applicant; or (d) adjusting the denominator of the cost complement for permanent markups and markdowns for a retail cost applicant. See section 22.16 of Rev. Proc. 2018-31. **Note**. A taxpayer making any of these changes for its first or second tax year after December 31, 2014, may use either a section 481(a) adjustment or a cut-off basis to implement the change. |
| 205 | **Dispositions of a building or structural component (section 168)**—for MACRS property for which the applicant is making a change listed in section 6.13(3) of Rev. Proc. 2018-31 for disposing of a building or a structural component or disposing of a portion of a building (including its structural components) to which the partial disposition rule in Regulations section 1.168(i)-8(d)(1) applies. Complete Schedule E of Form 3115. Additionally, a qualified small taxpayer qualifies for a reduced Form 3115 filing requirement. See section 6.13 of Rev. Proc. 2018-31. |
| 206 | **Dispositions of tangible depreciable assets (other than a building or its structural components) (section 168)**—for MACRS property for which the applicant is making a change listed in section 6.14(3) of Rev. Proc. 2018-31 for disposing of section 1245 property or a depreciable land improvement **or** disposing of a portion of section 1245 property or a depreciable land improvement to which the partial disposition rule in Regulations section 1.168(i)-8(d)(1) applies. Complete Schedule E of Form 3115. Additionally, a qualified small taxpayer qualifies for a reduced Form 3115 filing requirement. See section 6.14 of Rev. Proc. 2018-31. |
| 207 | **Dispositions of tangible depreciable assets in a general asset account (section 168)**—for MACRS property for which the applicant is making a change listed in section 6.15(3) of Rev. Proc. 2018-31 for disposing of an asset subject to a general asset account election. Complete Schedule E of Form 3115. Additionally, a qualified small taxpayer qualifies for a reduced Form 3115 filing requirement. See section 6.15 of Rev. Proc. 2018-31. |

| List of DCNs | |
|---|---|
| **No.** | **Change** |
| 208 | **Cable network asset maintenance allowance or unit of property method of accounting (section 263(a))**—for certain applicants that operate and have a depreciable interest in cable network assets used in a cable system that provides video, high speed internet, and VOIP phone services that are changing to (a) the network maintenance allowance method for cable network assets described in section 5 of Rev. Proc. 2015-12, 2015-2 I.R.B. 265, or (b) the adoption of all, or some, of the units of property described in section 6 of Rev. Proc. 2015-12, to determine whether expenditures to maintain, replace, or improve cable network assets must be capitalized under section 263(a). See section 3.11 of Rev. Proc. 2018-31. |
| 209 | **Cable network customer drops and labor costs associated with installing customer premise equipment (section 263(a))**—for certain applicants that operate cable systems and (a) are changing to the specific identification method described in section 7.01(1) of Rev. Proc. 2015-12, or the safe harbor allocation method described in section 7.01(2) of Rev. Proc. 2015-12 for determining whether customer drop costs (including installations) may be deducted under section 162 or must be capitalized under section 263(a), or (b) are changing to deducting labor costs associated with installing customer premise equipment under section 7.02 of Rev. Proc. 2015-12. See section 3.11 of Rev. Proc. 2018-31. |
| 210 | **Depreciation of fiber optic transfer node and fiber optic cable used by a cable system operator (section 168)**—for a cable system operator within the scope of Rev. Proc. 2015-12 that is changing to the safe harbor method of accounting in section 8.03 of Rev. Proc. 2015-12 for determining depreciation of a fiber optic transfer node and trunk line consisting of fiber optic cable used in a cable distribution network providing one-way and two-way communication services. See Rev. Proc. 2015-12 and section 6.17 of Rev. Proc. 2018-31. |
| 211 | **Bad debt conformity election by bank after previous election automatically revoked (section 166)**—for an eligible bank changing its method of accounting for bad debts by making the conformity election under Regulations section 1.166-2(d)(3)(iii)(C)*(3)*. See section 4.02 of Rev. Proc. 2018-31. |
| 212 | **Change to comply with section 163(e)(3)**—for a taxpayer changing its method or methods of accounting to comply with the requirements of section 163(e)(3), which defers certain deductions attributable to original issue discount debt instruments held by related foreign persons. Any portion of the original issue discount will not be allowable as a deduction to the U.S. person issuer until paid. See section 5.02 of Rev. Proc. 2018-31. |
| 213 | **Railroad track structure expenditures (section 263(a))**—for a taxpayer changing its method of accounting for track structures **to**: (a) the safe harbor method provided in Rev. Proc. 2002-65, 2002-2 C.B. 700; or (b) the safe harbor method provided in Rev. Proc. 2001-46, 2001-2 C.B. 263. See section 11.09 of Rev. Proc. 2018-31. |
| 214 | **U.S. ratio method (section 263A)**—for a foreign person (as defined in Notice 88-104, as modified by Notice 89-67) required to capitalize costs under section 263A that is changing its method of accounting to the U.S. ratio method (as described in Notice 88-104) or that currently uses the U.S. ratio method and is changing to the U.S. ratio method of a different applicable U.S. trade or business for applying the U.S. ratio method. See section 12.12 of Rev. Proc. 2018-31. |
| 215 | **Depletion (section 263A)**—for an applicant changing its method of accounting for depletion to treat these amounts as an indirect cost that is only properly allocable to property that has been sold under Regulations section 1.263A-1(e)(3)(ii)(J). See section 12.13 of Rev. Proc. 2018-31. |
| 216 | **An accrual method taxpayer receiving advance payments (section 451)**—that wants to change **to** a method of accounting of including advance payments in income in the tax year of receipt. See section 16.07 of Rev. Proc. 2018-31. **Note**. This change does not apply to any tax year beginning after December 31, 2017. |
| 217 | **Retainages received under long-term contracts (section 451)**—for an accrual method applicant's retainages under section 451 **to** a method consistent with the holding in Rev. Rul. 69-314, 1969-1 C.B. 139. This change only applies to retainages under long-term contracts as defined in section 460(f) that are exempt construction contracts (as defined in Regulations section 1.460-3(b)(1)). An applicant changing its method of accounting under this section must treat all retainages (receivables and payables) in the same manner. See section 16.09 of Rev. Proc. 2018-31. **Note**. This change is implemented on a cut-off basis. |
| 218 | **Change from the mark-to-market method of accounting to a realization method (section 475)**—for a taxpayer changing its method of accounting for securities or commodities **from** the mark-to-market method described in section 475 **to** a realization method of accounting (for example, by revoking an election under section 475(e), section 475(f)(1), or section 475(f)(2)). A notification statement must be filed earlier than the due date of the Form 3115. See section 24.02 of Rev. Proc. 2018-31. **Note**. This change is generally made with audit protection, but has conditions or limitations. This change also is implemented on a cut-off basis. |
| 219 | **Change in qualification as life/non-life insurance company (section 816)**—for a taxpayer changing its qualification under section 816(a) to move **from** a life insurance company taxable under Part I of subchapter L **to** a non-life insurance company taxable under Part II of subchapter L, or vice versa. See section 26.03 of Rev. Proc. 2018-31. **Note**. This change does not receive audit protection. |
| 220 | **Economic performance safe harbor for Ratable Service Contracts (section 461)**—for an accrual method taxpayer that wants to change its treatment of Ratable Service Contracts to conform **to** the safe harbor method provided by Rev. Proc. 2015-39, 2015-33 I.R.B. 197. See section 20.12 of Rev. Proc. 2018-31, as modified by Rev. Proc. 2015-39. |
| 221 | **Obsolete**. |

| List of DCNs | |
|---|---|
| **No.** | **Change** |
| 222 | **Remodel–refresh safe harbor method (section 263)**—for a qualified taxpayer changing **to** the remodel–refresh safe harbor method of accounting provided in section 5.02 of Rev. Proc. 2015-56 for its qualified costs, including the making of a late general asset account election as provided under section 5.02(6)(d) of Rev. Proc. 2015-56. Additionally, a qualified small taxpayer qualifies for a reduced Form 3115 filing requirement. See section 11.10 of Rev. Proc. 2018-31. **Note**. This change is generally made with audit protection, but has conditions or limitations. Certain changes also are implemented on a cut-off basis. |
| 223 | **Start-up expenditures (section 195)**— for an applicant changing its method of accounting under section 195 **to** change the characterization of an item as a start-up expenditure, the determination of the tax year in which the taxpayer begins the active trade or business to which the start-up expenditures relate, or the amortization period of a start-up expenditure to 180 months. See section 10.01 of Rev. Proc. 2018-31. |
| 224 | **Interest capitalization (section 263A)**—for an applicant changing its method of accounting for interest **from** not capitalizing any interest, capitalizing interest in accordance with its method of accounting for financial reporting purposes, or applying an improper method of capitalizing interest under Regulations sections 1.263A-8 through -14, with respect to the production of designated property, **to** capitalizing interest with respect to the production of designated property in accordance with Regulations sections 1.263A-8 through -14. See section 12.14 of Rev. Proc. 2018-31. |
| 225 | **Certain changes within the retail inventory method (section 471)**—for an applicant using the retail inventory method that wants to change **from** including **to** not including temporary markups and markdowns in determining the retail selling prices of goods on hand at the end of the tax year. See section 22.17 of Rev. Proc. 2018-31. |
| 226 | **Transfer of interties under the safe harbor described in Notice 2016-36 (section 118)**—for a utility changing **to** the safe harbor method of accounting provided in section III.C of Notice 2016-36 for the treatment under section 118 of a transfer of an intertie, including a dual-use intertie, by a generator to a utility, or for a utility using the safe harbor method of accounting provided in section III.C of Notice 2016-36 and is required to terminate that safe harbor method of accounting. See section 15.16 of Rev. Proc. 2018-31. **Note**. The change from using the safe harbor method of accounting provided in section III.C of Notice 2016-36 to terminating that safe harbor method of accounting is implemented on a cut-off basis. |
| 227 | **Change to or from the net asset value (NAV) method (section 446)**—for an applicant that holds shares in a money market fund (MMF) and that wants to change its method of accounting for gain or loss on the shares from a realization method to the NAV method described in Regulations section 1.446-7 or from the NAV method to a realization method. See section 15.17 of Rev. Proc. 2018-31. **Note**. This change is implemented on a cut-off basis and also has a reduced Form 3115 filing requirement. |
| 228 | **Organizational expenditures under section 248 (section 248)**— for a corporation changing its method of accounting under section 248 **to** change the characterization of an item as an organizational expenditure, the determination of the tax year in which the corporation begins business to which the organizational expenditures relate, or the amortization period of an organizational expenditure to 180 months. See section 10.02 of Rev. Proc. 2018-31. |
| 229 | **Organization fees under section 709 (section 709)**—for a partnership changing its method of accounting under section 709 **to** change the characterization of an item as an organizational expense, the determination of the tax year in which the partnership begins business to which the organizational expenses relate, or the amortization period of an organizational expense to 180 months. See section 10.03 of Rev. Proc. 2018-31. |
| 230 | **Change from currently deducting inventories to permissible methods of identification and valuation of inventories (section 471)**—for an applicant changing **from** currently deducting inventories **to** a permissible method of identifying and valuing inventories. See section 22.18 of Rev. Proc. 2018-31. |
| 231 | **Changes in the timing of recognition of income due to the New Standards (section 451)**—for an applicant that wants to change its method of accounting for the recognition of income **to** a method under the new financial accounting standards jointly announced by the Financial Accounting Standards Board and the International Accounting Standards Board for: (i) identifying performance obligations, (ii) allocating transaction price to performance obligations, and/or (iii) considering performance obligations satisfied. See Rev. Proc. 2018-29, 2018-22 I.R.B. 634, and section 16.11 of Rev. Proc. 2018-31, as modified by Rev. Proc. 2018-49. **Note**. A taxpayer making this change may implement the change with either a section 481(a) adjustment or on a cut-off basis. |
| 232 | **Change to not apply section 263A to replanting costs for lost or damaged citrus plants pursuant to section 263A(d)(2)(C)**—for certain applicants that currently capitalize costs of replanting citrus plants under section 263A(d)(2), **to** not applying section 263A to those costs under section 263A(d)(2)(C). Costs must be paid or incurred after December 22, 2017, and on or before December 22, 2027. See Rev. Proc. 2018-35, 2018-28 I.R.B. 204, and section 12.15 of Rev. Proc. 2018-31. **Note**. The section 481(a) adjustment is calculated by taking into account only amounts paid or incurred after December 22, 2017, and on or before December 22, 2027. |
| 233 | **Overall cash method for a small business taxpayer (section 446)**—for a qualifying applicant with average annual gross receipts of $25 million or less (adjusted for inflation) changing **to** the overall cash method. Complete certain lines of Schedule A, Part I, of Form 3115. See Rev. Proc. 2018-40 and section 15.18 of Rev. Proc. 2018-31. |

| List of DCNs | |
|---|---|
| **No.** | **Change** |
| 234 | **Uniform capitalization exception for a small business taxpayer (section 263A)**—for a qualifying applicant with average annual gross receipts of $25 million or less (adjusted for inflation) changing **from** capitalizing costs under section 263A **to** no longer capitalizing costs under section 263A, including for self-constructed assets. See Rev. Proc. 2018-40 and section 12.16 of Rev. Proc. 2018-31. |
| 235 | **Inventory exception for a small business taxpayer (section 471)**—for a qualifying applicant with average annual gross receipts of $25 million or less (adjusted for inflation) changing its accounting method for inventory items under section 471 **to** one of the following methods: (a) treating inventory as non-incidental materials and supplies under Regulations section 1.162-3; or (b) conforming to the taxpayer's accounting method reflected in its applicable financial statements, as defined in section 451(b)(3) with respect to the taxable year, or if the taxpayer does not have an applicable financial statement for the taxable year, the books and records of the taxpayer prepared in accordance with the taxpayer's accounting procedures. See Rev. Proc. 2018-40 and section 22.19 of Rev. Proc. 2018-31. |
| 236 | **Long-term contract exception for small business taxpayer (section 460)**— for a qualifying applicant with average annual gross receipts of $25 million or less (adjusted for inflation) (a) changing **from** the percentage-of-completion accounting method described in Regulation section 1.460-4(b) for exempt long-term constructions contracts described in section 460(e)(1)(B) **to** an exempt contract accounting method described in section 1.460-4(c), or (b) with long-term home construction contracts defined in section 460(e)(1)(A) changing its accounting method **to** stop capitalizing costs under 263A. Complete Schedule D, Part I. See Rev. Proc. 2018-40 and section 19.01 of Rev. Proc. 2018-31. |
| 237 | **Recharacterizing costs under the simplified resale method, simplified production method, or the modified simplified production method**—for an applicant that uses or is changing **to** the simplified resale method, simplified production method, or the modified simplified production method and wants to recharacterize a section 471 cost, as defined section 1.263A-1(d)(2), as an additional section 263A cost, as defined in section 1.263A-1(d)(3), or vice versa. See Rev. Proc. 2018–56 and section 12.17 of Rev. Proc. 2018-31. |
| 238 | **Revocation of a historic absorption ratio election**—for an applicant that either: (a) uses the simplified resale method with historic absorption ratio election that wants to revoke its historic absorption ratio election and change to the simplified resale method without historic absorption ratio election, or (b) uses the simplified production method with historic absorption ratio election that wants to revoke its historic absorption ratio election and change to the simplified production method without historic absorption ratio election. This change applies to a taxpayer's first, second, or third taxable year ending on or after November 20, 2018. See Rev. Proc. 2018-56 and section 12.18 of Rev. Proc. 2018-31. |
| 239 | **Changes in the timing of the recognition of income under section 451(b) (section 451)**—for an applicant with an applicable financial statement that uses an accrual method of accounting and wants to change its method of accounting for the recognition of income to a method that complies with section 451(b), as amended by section 13221 of the Tax Cuts and Jobs Act (P.L. 115-97). This change applies to taxable years beginning after December 31, 2017. See Rev. Proc. 2018-60 and section 16.12 of Rev. Proc. 2018-31. |

**Paperwork Reduction Act Notice.** We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated burden for business taxpayers filing this form is approved under OMB control number 1545-0123 and is included in the estimates shown in the instructions for their business income tax return. The estimated burden for individual taxpayers filing this form is approved under OMB control number 1545-0074 and is included in the estimates shown in the instructions for their individual income tax return. The estimated burden for all other taxpayers who file this form is shown below.

| **Time Per Response** | |
|---|---|
| Recordkeeping | 60 hours, 1 minute |
| Learning | 16 hours, 25 minutes |
| Preparing | 20 hours |
| Sending | 32 minutes |

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. You can send us comments from *IRS.gov/FormComments*. Or you can send your comments to: Internal Revenue Service, Tax Forms and Publications Division, 1111 Constitution Ave. NW, IR-6526, Washington, DC 20224. Do not send Form 3115 to this address. Instead, see *When and Where to File*, earlier.