

26 CFR 601.204: Changes in accounting periods and in methods of accounting.  
(Also Part 1, § 263A; § 1.263A-4)

Rev. Proc. 2018-35

## SECTION 1. PURPOSE

Section 13207 of “An Act to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018,” Pub. L. 115-97 (the Act), added § 263A(d)(2)(C) to the Internal Revenue Code. Pursuant to § 263A(d)(2)(C), § 263A does not apply to certain costs that are paid or incurred by certain taxpayers for replanting after the loss or damage of citrus plants. This revenue procedure provides the procedures by which certain taxpayers may obtain automatic consent to change their method of accounting from applying § 263A to citrus plant replanting costs to not applying § 263A to those costs, pursuant to § 263A(d)(2)(C).

## SECTION 2. BACKGROUND

.01 Section 263A generally requires direct costs and an allocable portion of indirect costs of certain property produced or acquired for resale by a taxpayer to be included in inventory costs, in the case of property that is inventory, or to be capitalized, in the case of other property.

.02 Section 263A(d)(2)(A) provides that § 263A does not require the capitalization of

certain costs paid or incurred to replant plants bearing an edible crop for human consumption that were lost or damaged by reason of freezing temperatures, disease, drought, pests, or casualty. See also § 1.263A-4(e) of the Income Tax Regulations. Section 263A(d)(2)(A) applies to certain replanting costs paid or incurred by a taxpayer that owned the plants at the time the plants were lost or damaged (the “owner described in § 263A(d)(2)(A)”) and § 263A(d)(2)(B) applies to similar costs paid or incurred by other taxpayers that meet certain ownership and participation criteria.

.03 Section 13207 of the Act added new § 263A(d)(2)(C) for certain costs that are paid or incurred after December 22, 2017, and on or before December 22, 2027, to replant citrus plants after the loss or damage of citrus plants. Pursuant to § 263A(d)(2)(C), in the case of replanting citrus plants after the loss or damage of citrus plants by reason of freezing temperatures, disease, drought, pests, or casualty, § 263A does not apply to replanting costs paid or incurred by a taxpayer other than the owner described in § 263A(d)(2)(A) if: (1) the owner described in § 263A(d)(2)(A) has an equity interest of not less than 50 percent in the replanted citrus plants at all times during the taxable year in which such amounts were paid or incurred and the taxpayer holds any part of the remaining equity interest; or (2) the taxpayer acquired the entirety of the owner described in § 263A(d)(2)(A)’s equity interest in the land on which the lost or damaged citrus plants were located at the time of such loss or damage, and the replanting is on such land.

.04 Section 446(e) and § 1.446-1(e) state that, except as otherwise provided, a taxpayer must secure the consent of the Commissioner of Internal Revenue before

changing an accounting method for federal income tax purposes. Section 1.446-1(e)(3)(ii) authorizes the Commissioner to prescribe administrative procedures that provide the limitations, terms, and conditions deemed necessary to permit a taxpayer to obtain consent to change an accounting method in accordance with § 446(e).

.05 Section 481(a) requires those adjustments necessary to prevent amounts from being duplicated or omitted to be taken into account when the taxpayer's taxable income is determined under an accounting method different from the method used to determine taxable income for the preceding taxable year.

.06 Rev. Proc. 2018-31, 2018-22 I.R.B. 637, provides the procedures by which a taxpayer may obtain automatic consent from the Commissioner to change to a method of accounting described in Rev. Proc. 2018-31.

### SECTION 3. MODIFICATION TO REV. PROC. 2018-31

A taxpayer that wants to change its method of accounting under this revenue procedure must follow the automatic change procedures in Rev. Proc. 2018-31, which is modified to add a new section 12.15 to read as follows:

.15 Change to not apply § 263A to replanting costs for lost or damaged citrus plants pursuant to § 263A(d)(2)(C).

(1) Description of change.

(a) In general. This change, as described in Rev. Proc. 2018-35, applies to a taxpayer, other than the owner described in § 263A(d)(2)(A), that: (a) paid or incurred replanting costs of citrus plants after the loss or damage of citrus plants by reason of freezing temperatures, disease, drought, pests, or casualty, as described in

§ 263A(d)(2)(A); (b) paid or incurred the replanting costs after December 22, 2017, and on or before December 22, 2027; (c) satisfies the ownership test provided in section 12.15(1)(b) of this revenue procedure; and (d) wants to change its method of accounting from applying § 263A to citrus plant replanting costs to not applying § 263A to those costs, pursuant to § 263A(d)(2)(C).

(b) Ownership test. The taxpayer satisfies the ownership test if either: (1) the owner described in § 263A(d)(2)(A) has an equity interest of not less than 50 percent in the replanted citrus plants at all times during the taxable year in which the taxpayer paid or incurred amounts for replanting costs, and the taxpayer holds any part of the remaining equity interest; or (2) the taxpayer acquired the entirety of the equity interest of the owner described in § 263A(d)(2)(A) in the land on which the lost or damaged citrus plants were located at the time of the loss or damage, and the replanting is on such land.

(2) Certain eligibility rules inapplicable. The eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13 does not apply to this change.

(3) Section 481(a) adjustment. A taxpayer making a change under this section 12.15 calculates a § 481(a) adjustment by taking into account only amounts paid or incurred after December 22, 2017, and on or before December 22, 2027.

(4) Multiple changes. A taxpayer making both this change and another change in method of accounting in the same year of change must comply with the ordering rules of § 1.263A-7(b)(2).

(5) Designated automatic accounting change number. The designated automatic accounting change number for a change under this section 12.15 is “232.”

(6) Contact information. For further information regarding a change under this section, contact Natasha Mulleneaux at (202) 317-7007 (not a toll-free call).

#### SECTION 4. EFFECT ON OTHER DOCUMENTS

Rev. Proc. 2018-31 is modified.

#### SECTION 5. EFFECTIVE DATE

This revenue procedure is effective for a taxable year in which a taxpayer pays or incurs replanting costs that are not subject to § 263A pursuant to § 263A(d)(2)(C) and that are paid or incurred after December 22, 2017, and on or before December 22, 2027.

#### DRAFTING INFORMATION

The principal author of this revenue procedure is Natasha Mulleneaux of the Office of Associate Chief Counsel (Income Tax and Accounting). For further information regarding this revenue procedure, contact Ms. Mulleneaux at (202) 317-7007 (not a toll-free call).