

# INTERNAL REVENUE BULLETIN



## HIGHLIGHTS OF THIS ISSUE

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

**Bulletin No. 2021-35**  
**August 30, 2021**

## ADMINISTRATIVE

### **Rev. Proc. 2021-36, page 357.**

This revenue procedure provides the applicable percentage table in § 36B(b)(3)(A) of the Internal Revenue Code for taxable years beginning in calendar year 2022. This table is used to calculate an individual's premium tax credit under § 36B. This revenue procedure also provides the indexing adjustment for the required contribution percentage in § 36B(c)(2)(C)(i)(II) for plan years beginning in calendar year 2022. This percentage is used to determine whether an individual is eligible for affordable employer-sponsored minimum essential coverage.

## EMPLOYEE PLANS

### **Notice 2021-50, page 333.**

This notice sets forth updates on the corporate bond monthly yield curve, the corresponding spot segment rates for August 2021 used under § 417(e)(3)(D), the 24-month average segment rates applicable for August 2021, and the 30-year Treasury rates, as reflected by the application of § 430(h)(2)(C)(iv).

## ESTATE TAX

### **Rev. Rul. 2021-15, page 331.**

Special Use Value: Farms: Interest Rates. The 2021 interest rates to be used in computing the special use value of farm real property for which an election is made under section 2032A of the Code are listed for estate of decedents.

## INCOME TAX

### **Notice 2021-43, page 332.**

The notice provides transition relief related to the work opportunity credit by giving employers additional time to submit a certification request to a Designated Local Agency for the targeted groups described in section 51(d)(5) and (7) of the Internal Revenue Code.

### **Rev. Proc. 2021-34, page 337.**

Rev. Proc. 2021-34 modifies Rev. Proc. 2019-43, 2019-48 I.R.B. 1107, to provide procedures under § 446 of the Internal Revenue Code (Code) and § 1.446-1(e) of the Income Tax Regulations to obtain automatic consent of the Commissioner of Internal Revenue (Commissioner) to change methods of accounting to comply with final regulations under §§ 1.451-3, 1.451-8, and 1.1275-2(l) and to change methods of accounting for certain inventory costs to comply with §§ 263A, 461, and 471 if such changes are made in connection with a change to comply with § 1.451-3 and/or § 1.451-8, as applicable. This revenue procedure also modifies 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 further modified by Rev. Proc. 2016-1, 2016-1 I.R.B. 1, Rev. Proc. 2017-59, 2017-48 I.R.B. 543, and Rev. Proc. 2021-26, 2021-22 I.R.B. 1163, to provide procedures for a taxpayer to obtain the consent of the Commissioner to change its method of accounting to comply with §§ 1.451-3 and/or 1.451-8, as applicable, by providing rules related to cost offset method changes.

### **Rev. Proc. 2021-35, page 355.**

Rev. Proc. 2021-35 modifies Rev. Proc. 2013-26, 2013-22 I.R.B. 1160, to reflect changes made to the treatment of certain credit card fees by section 451(b) and sections 1.451-3 and 1.1275-2(l). Rev. Proc. 2013-26 describes the proportional method of accounting for original issue discount on a pool of credit card receivables.

# The IRS Mission

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

## Introduction

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

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

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

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

against reaching the same conclusions in other cases unless the facts and circumstances are substantially the same.

The Bulletin is divided into four parts as follows:

### **Part I.—1986 Code.**

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

### **Part II.—Treaties and Tax Legislation.**

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

### **Part III.—Administrative, Procedural, and Miscellaneous.**

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

### **Part IV.—Items of General Interest.**

This part includes notices of proposed rulemakings, disbarment and suspension lists, and announcements.

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

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# Part I

## Section 2032A.—Valuation of Certain Farm, Etc., Real Property

26 CFR 20.2032A-4: Method of valuing farm real property.

### Rev. Rul. 2021-15

This revenue ruling contains a list of the average annual effective interest rates on new loans under the Farm Credit System. This revenue ruling also contains a list of the states within each Farm Credit System Bank Territory.

Under § 2032A(e)(7)(A)(ii) of the Internal Revenue Code, rates on new Farm

Credit System Bank loans are used in computing the special use value of real property used as a farm for which an election is made under § 2032A. The rates in Table 1 of this revenue ruling may be used by estates that value farmland under § 2032A as of a date in 2021.

Average annual effective interest rates, calculated in accordance with § 2032A(e)(7)(A) and § 20.2032A-4(e) of the Estate Tax Regulations, to be used under § 2032A(e)(7)(A)(ii), are set forth in the accompanying Table of Interest Rates (Table 1). The states within each Farm Credit System Bank Territory are set forth in the accompanying Table of Farm Credit System Bank Territories (Table 2).

Rev. Rul. 81-170, 1981-1 C.B. 454, contains an illustrative computation of an average annual effective interest rate. The rates applicable for valuation in 2020 are in Rev. Rul. 2020-17, 2020-37 I.R.B. 552. For rate information for years prior to 2020, see Rev. Rul. 2019-18, 2019-35 I.R.B. 668, and other revenue rulings that are referenced therein.

#### DRAFTING INFORMATION

The principal author of this revenue ruling is Lane Damazo of the Office of the Associate Chief Counsel (Passthroughs and Special Industries). For further information regarding this revenue ruling, contact Lane Damazo at (202) 317-4628 (not a toll-free number).

REV. RUL. 2021-15 TABLE 1 TABLE OF INTEREST RATES (Year of Valuation 2021)	
Farm Credit System Bank Servicing State in Which Property is Located	Rate
AgFirst, FCB .....	5.25
AgriBank, FCB .....	4.62
CoBank, ACB .....	4.49
Texas, FCB .....	5.02

REV. RUL. 2021-15 TABLE 2 TABLES OF FARM CREDIT SYSTEM BANK TERRITORIES	
Farm Credit System Bank	Location of Property
AgFirst, FCB.....	Delaware, District of Columbia, Florida, Georgia, Maryland, North Carolina, Pennsylvania, South Carolina, Virginia, West Virginia.
AgriBank, FCB.....	Arkansas, Illinois, Indiana, Iowa, Kentucky, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, Tennessee, Wisconsin, Wyoming.
CoBank, ACB.....	Alaska, Arizona, California, Colorado, Connecticut, Hawaii, Idaho, Kansas, Maine, Massachusetts, Montana, New Hampshire, New Jersey, New Mexico, New York, Nevada, Oklahoma, Oregon, Rhode Island, Utah, Vermont, Washington.
Texas, FCB.....	Alabama, Louisiana, Mississippi, Texas.

# Part III

## Work Opportunity Tax Credit (WOTC) Transition Relief under Internal Revenue Code § 51

### Notice 2021-43

#### I. PURPOSE

This notice provides transition relief for certain employers claiming the Work Opportunity Tax Credit (WOTC) under § 51 of the Internal Revenue Code (Code) for certain employees beginning work after December 31, 2020, in response to legislation permitting the designation of an Empowerment Zone, defined in § 1393(b) of the Code, to be extended from December 31, 2020, through December 31, 2025. Specifically, section IV of this notice provides transition relief by extending the 28-day deadline for employers to request certification from a designated local agency (DLA)<sup>1</sup> that an individual who begins work on or after January 1, 2021, and before October 9, 2021, is a member of the Designated Community Resident targeted group or the Qualified Summer Youth Employee targeted group.<sup>2</sup>

#### II. BACKGROUND

Section 51(a) of the Code provides the WOTC to employers based on a percentage of qualified wages paid during the taxable year. Section 51(b) defines “qualified wages” as wages paid or incurred by an employer during the taxable year to an individual who is certified as a member of a targeted group. Section 51(d)(1) lists the targeted groups, which include Designated Community Residents, defined in § 51(d)(5), and Qualified Summer Youth Employees, defined in § 51(d)(7).

Pursuant to § 51(d)(13)(A), an individual is not treated as a member of a

targeted group unless (1) on or before the day the individual begins work, the employer obtains certification from the DLA that the individual is a member of a targeted group, or (2) the employer completes a pre-screening notice on or before the day the individual is offered employment and submits such notice to the DLA to request certification that the individual is a member of a targeted group not later than 28 days after the individual begins work. The Form 8850, *Pre-Screening Notice and Certification Request for the Work Opportunity Credit*, is the pre-screening notice that must be submitted by the employer to the DLA to request certification that an individual is a member of a targeted group.

To be certified as a Designated Community Resident or a Qualified Summer Youth Employee, an individual must be certified by the DLA as having a principal place of residence within an Empowerment Zone where the individual continuously resides. For such individuals, any wages paid to or incurred on behalf of the individual for services rendered while the individual is not living at a residence within an Empowerment Zone do not qualify for the WOTC.

#### III. TAXPAYER CERTAINTY AND DISASTER TAX RELIEF ACT OF 2020 AMENDMENTS

The WOTC has been subject to several legislative extensions and modifications since its enactment by § 1201 of the Small Business Job Protection Act of 1996, Pub. L. 104-188, 110 Stat. 1755 (August 20, 1996). Most recently, § 113 of the Taxpayer Certainty and Disaster Tax Relief Act of 2020 (Act), enacted as Division EE of the Consolidated Appropriations Act, 2021, Pub. L. 116-260, 134 Stat. 1182 (December 27, 2020), amended § 51(c)(4) of the Code to extend the effective date of WOTC.

As amended by the Act, § 51(c)(4) provides that WOTC applies to wages paid or incurred with respect to members of a targeted group who begin work after December 31, 2020, and before January 1, 2026. In addition, § 118(a) of the Act amended § 1391(d)(1) of the Code to provide that any designation of an Empowerment Zone ends on the earliest of (1) December 31, 2025, (2) the termination date designated by the State and local governments as provided for in their nomination, or (3) the date the “Appropriate Secretary”<sup>3</sup> revokes the designation. Section 118(d) of the Act provides that where a nomination of an Empowerment Zone included a termination date of December 31, 2020, § 1391(d)(1)(B) of the Code will not apply with respect to such designation if, after the date of the enactment of the Act, the entity that made such nomination amends the nomination, in such manner as the Secretary of the Treasury or her designee may provide, to provide for a new termination date. The amendment made by § 118(a) of the Act applies to taxable years beginning after December 31, 2020.

On March 26, 2021, the Department of the Treasury (Treasury Department) and the Internal Revenue Service (IRS) released Revenue Procedure 2021-18, 2021-15 I.R.B. 1007 (April 12, 2021), to explain how a State or local government is deemed to extend the termination date designated in an Empowerment Zone nomination until December 31, 2025. Revenue Procedure 2021-18 provides that if a State or local government did not submit a written declination to extend an Empowerment Zone to the IRS by May 25, 2021, and if the Appropriate Secretary did not revoke the Empowerment Zone designation, then the termination date provided in that Empowerment Zone nomination is automatically extended to December 31, 2025.

<sup>1</sup> Section 51(d)(12) provides that a “DLA” is a State employment security agency (sometimes referred to as a State Workforce Agency) established in accordance with 29 U.S.C. §§ 49-49n.

<sup>2</sup> For purposes of this notice, the terms “Designated Community Resident” and “Qualified Summer Youth Employee” refer to those individuals certified by a DLA as having a principal place of residence within an Empowerment Zone.

<sup>3</sup> Section 1393(a)(1) of the Code provides that the “Appropriate Secretary” is the Secretary of Housing and Urban Development (in the case of any nominated area designated under § 1391 that is located in an urban area as defined in § 1393(a)(3)), or the Secretary of Agriculture (in the case of any nominated area designated under § 1391 that is located in a rural area as defined in § 1393(a)(2)).

## IV. GRANT OF RELIEF

As explained below, because the Act extended the WOTC and the period for which Empowerment Zone designations are in effect through December 31, 2025, employers may need additional time to comply with the certification requirements of § 51(d)(13)(A)(ii).

The Treasury Department and the IRS understand that, because the termination dates designated in Empowerment Zone nominations are not automatically extended until after the deadline set forth in Revenue Procedure 2021-18 for submitting a written declination has passed, employers that hired an individual who is a Designated Community Resident or a Qualified Summer Youth Employee and who began work for that employer on or after January 1, 2021, may not have submitted Form 8850 to the DLA within 28 days of the individual beginning work. To be eligible for the relief provided by this notice, an employer that did not submit Form 8850 to the DLA within 28 days of an individual beginning work must submit the completed Form 8850 to the DLA by the date set forth in section IV.A of this notice.

In addition, the Treasury Department and the IRS are aware that some employers that hired individuals who are Designated Community Residents or Qualified Summer Youth Employees may have submitted Form 8850 to the DLA within 28 days of the individual beginning work, regardless of the expiration of the Empowerment Zone designations. To be eligible for the relief provided by this notice, an employer that submitted Form 8850 to the DLA and subsequently received a denial letter from the DLA due to the expiration of the Empowerment Zone designations must re-submit the completed Form 8850 by the date set forth in section IV.A of this notice. If an employer submitted Form 8850 to the DLA and was not issued a denial letter by the DLA, the employer does not need to re-submit Form 8850 to be eligible for the relief provided in this notice.

For these reasons, the Treasury Department and the IRS are providing employers with additional time to submit Form 8850

to the DLAs in accordance with the following timeframe.

### **A. Additional time for employers hiring individuals who are Designated Community Residents or Qualified Summer Youth Employees who begin work on or after January 1, 2021, and before October 9, 2021, to submit a completed Form 8850 to the DLA no later than November 8, 2021.**

An employer that hires or hired an individual who is a Designated Community Resident or a Qualified Summer Youth Employee and who begins or began work for that employer on or after January 1, 2021, and before October 9, 2021, will be considered to have satisfied the requirements of § 51(d)(13)(A)(ii), whether or not the employer submitted the completed Form 8850 to the DLA within 28 days of the individual beginning work for the employer, if the employer submits the completed Form 8850 to the DLA to request certification no later than November 8, 2021. If an employer hired an individual who is a Designated Community Resident or a Qualified Summer Youth Employee who began work on or after January 1, 2021, and before May 26, 2021, and the employer submitted Form 8850 to the DLA but either was not issued a denial notification by the DLA or was issued a certification, then the employer does not need to re-submit Form 8850 to request certification from the DLA.

### **B. Application of 28-day requirement to individuals who begin work on or after October 9, 2021.**

An employer that hires an individual who is a Designated Community Resident or a Qualified Summer Youth Employee and who begins work for the employer on or after October 9, 2021, is not eligible for the transition relief described in this notice with respect to that new employee.

## V. EFFECTIVE DATE

The effective date of this notice is August 10, 2021.

## VI. DRAFTING INFORMATION

The principal author of this notice is Christopher Dellana of the Office of Associate Chief Counsel (Employee Benefits, Exempt Organizations, and Employment Taxes). For further information regarding the WOTC, contact Mr. Dellana at (202) 317-5500 (not a toll-free number).

## **Update for Weighted Average Interest Rates, Yield Curves, and Segment Rates**

### **Notice 2021-50**

This notice provides guidance on the corporate bond monthly yield curve, the corresponding spot segment rates used under § 417(e)(3), and the 24-month average segment rates under § 430(h)(2) of the Internal Revenue Code. In addition, this notice provides guidance as to the interest rate on 30-year Treasury securities under § 417(e)(3)(A)(ii)(II) as in effect for plan years beginning before 2008 and the 30-year Treasury weighted average rate under § 431(c)(6)(E)(ii)(I).

### **YIELD CURVE AND SEGMENT RATES**

Section 430 specifies the minimum funding requirements that apply to single-employer plans (except for CSEC plans under § 414(y)) pursuant to § 412. Section 430(h)(2) specifies the interest rates that must be used to determine a plan's target normal cost and funding target. Under this provision, present value is generally determined using three 24-month average interest rates ("segment rates"), each of which applies to cash flows during specified periods. To the extent provided under § 430(h)(2)(C)(iv), these segment rates are adjusted by the applicable percentage of the 25-year average segment rates for the period ending September 30 of the year preceding the calendar year in which the plan year begins.<sup>1</sup>

<sup>1</sup> Pursuant to § 433(h)(3)(A), the 3<sup>rd</sup> segment rate determined under § 430(h)(2)(C) is used to determine the current liability of a CSEC plan (which is used to calculate the minimum amount of the full funding limitation under § 433(c)(7)(C)).

However, an election may be made under § 430(h)(2)(D)(ii) to use the monthly yield curve in place of the segment rates.

Notice 2007-81, 2007-44 I.R.B. 899, provides guidelines for determining the monthly corporate bond yield curve, and the 24-month average corporate bond segment rates used to compute the target normal cost and the funding target. Consistent with the methodology specified in Notice 2007-81, the monthly corporate bond yield curve derived from July 2021 data is in Table 2021-7 at the end of this

notice. The spot first, second, and third segment rates for the month of July 2021 are, respectively, 0.63, 2.51, and 3.10.

The 24-month average segment rates determined under § 430(h)(2)(C)(i) through (iii) must be adjusted pursuant to § 430(h)(2)(C)(iv) to be within the applicable minimum and maximum percentages of the corresponding 25-year average segment rates.

The 25-year average segment rates for plan years beginning in 2020 and 2021 were published Notice 2019-51, 2019-41

I.R.B. 866, and Notice 2020-72, 2020-40 I.R.B. 789, respectively.

**24-MONTH AVERAGE CORPORATE BOND SEGMENT RATES**

The three 24-month average corporate bond segment rates applicable for August 2021 without adjustment for the 25-year average segment rate limits are as follows:

<i>24-Month Average Segment Rates Without 25-Year Average Adjustment</i>			
<b>Applicable Month</b>	<b>First Segment</b>	<b>Second Segment</b>	<b>Third Segment</b>
August 2021	1.13	2.70	3.38

**25-YEAR AVERAGE SEGMENT RATES**

Section 9706(a) of the American Rescue Plan Act of 2021, Pub. L. No. 117-2 (ARP), which was enacted on March 11, 2021, changes the 25-year average segment rates and the applicable minimum and maximum percentages used under § 430(h)(3)(C)(iv) of the Code to adjust the 24-month average segment rates. Prior to this change, the applicable minimum and maximum percentages were 90% and 110% for a plan year beginning in 2020, and 85% and 115% for a plan

year beginning in 2021, respectively. After this change, the applicable minimum and maximum percentages are 95% and 105% for a plan year beginning in 2020 or 2021. In addition, pursuant to this change, any 25-year average segment rate that is less than 5% is deemed to be 5%.<sup>2</sup>

Pursuant to § 9706(c)(1) of ARP, these changes apply with respect to plan years beginning on or after January 1, 2020. However, § 9706(c)(2) of ARP provides that a plan sponsor may elect not to have these changes apply to any plan year beginning before January 1, 2022.<sup>3</sup>

The adjusted 24-month average segment rates set forth in the chart below reflect § 430(h)(2)(C)(iv) of the Code as amended by § 9706(a) of ARP. These adjusted 24-month average segment rates apply only for plan years for which an election under § 9706(c)(2) of ARP is not in effect. For a plan year for which such an election does not apply, the 24-month averages applicable for August 2021, adjusted to be within the applicable minimum and maximum percentages of the corresponding 25-year average segment rates in accordance with § 430(h)(2)(C)(iv) of the Code, are as follows:

<i>Adjusted 24-Month Average Segment Rates</i>				
<b>For Plan Years Beginning In</b>	<b>Applicable Month</b>	<b>First Segment</b>	<b>Second Segment</b>	<b>Third Segment</b>
2020	August 2021	4.75	5.50	6.27
2021	August 2021	4.75	5.36	6.11

The adjusted 24-month average segment rates set forth in the chart below do not reflect the changes to § 430(h)(2)(C)

(iv) of the Code made by § 9706(a) of ARP. These adjusted 24-month average segment rates apply only for plan years for

which an election under § 9706(c)(2) of ARP is in effect. For a plan year for which such an election applies, the 24-month av-

<sup>2</sup> Pursuant to this change, the 25-year averages of the first segment rate for 2020 and 2021 are increased to 5.00% because those 25-year averages as originally published are below 5.00%.  
<sup>3</sup> This election may be made either for all purposes for which the amendments under § 9706 of ARP apply or solely for purposes of determining the adjusted funding target attainment percentage under § 436 of the Code for the plan year.

erages applicable for August 2021, adjusted to be within the applicable minimum

and maximum percentages of the corresponding 25-year average segment rates

in accordance with § 430(h)(2)(C)(iv) of the Code, are as follows:

<i>Pre-ARP Adjusted 24-Month Average Segment Rates</i>				
<b>For Plan Years Beginning In</b>	<b>Applicable Month</b>	<b>First Segment</b>	<b>Second Segment</b>	<b>Third Segment</b>
2020	August 2021	3.64	5.21	5.94
2021	August 2021	3.32	4.79	5.47

### 30-YEAR TREASURY SECURITIES INTEREST RATES

Section 431 specifies the minimum funding requirements that apply to multi-employer plans pursuant to § 412. Section 431(c)(6)(B) specifies a minimum amount for the full-funding limitation described in § 431(c)(6)(A), based on the plan's current liability. Section 431(c)(6)(E)(ii)(I) pro-

vides that the interest rate used to calculate current liability for this purpose must be no more than 5 percent above and no more than 10 percent below the weighted average of the rates of interest on 30-year Treasury securities during the four-year period ending on the last day before the beginning of the plan year. Notice 88-73, 1988-2 C.B. 383, provides guidelines for determining the weighted average interest rate. The rate

of interest on 30-year Treasury securities for July 2021 is 1.94 percent. The Service determined this rate as the average of the daily determinations of yield on the 30-year Treasury bond maturing in May 2051. For plan years beginning in August 2021, the weighted average of the rates of interest on 30-year Treasury securities and the permissible range of rates used to calculate current liability are as follows:

<i>Treasury Weighted Average Rates</i>		
<b>For Plan Years Beginning In</b>	<b>30-Year Treasury Weighted Average</b>	<b>Permissible Range 90% to 105%</b>
July 2021	2.20	1.98 to 2.31

### MINIMUM PRESENT VALUE SEGMENT RATES

In general, the applicable interest rates

under § 417(e)(3)(D) are segment rates computed without regard to a 24-month average. Notice 2007-81 provides guidelines for determining the minimum pres-

ent value segment rates. Pursuant to that notice, the minimum present value segment rates determined for July 2021 are as follows:

<i>Minimum Present Value Segment Rates</i>			
<b>Month</b>	<b>First Segment</b>	<b>Second Segment</b>	<b>Third Segment</b>
August 2021	0.63	2.51	3.10

### DRAFTING INFORMATION

The principal author of this notice is Tom Morgan of the Office of the Asso-

ciate Chief Counsel (Employee Benefits, Exempt Organizations, and Employment Taxes). However, other personnel from the IRS participated in the development

of this guidance. For further information regarding this notice, contact Mr. Morgan at 202-317-6700 or Paul Stern at 202-317-8702 (not toll-free numbers).

**Table 2021-7**  
 Monthly Yield Curve for July 2021  
 Derived from July 2021 Data

<i>Maturity</i>	<i>Yield</i>	<i>Maturity</i>	<i>Yield</i>	<i>Maturity</i>	<i>Yield</i>	<i>Maturity</i>	<i>Yield</i>	<i>Maturity</i>	<i>Yield</i>
0.5	0.13	20.5	3.01	40.5	3.11	60.5	3.15	80.5	3.17
1.0	0.25	21.0	3.01	41.0	3.11	61.0	3.15	81.0	3.17
1.5	0.37	21.5	3.01	41.5	3.11	61.5	3.15	81.5	3.17
2.0	0.48	22.0	3.02	42.0	3.11	62.0	3.15	82.0	3.17
2.5	0.58	22.5	3.02	42.5	3.11	62.5	3.15	82.5	3.17
3.0	0.68	23.0	3.02	43.0	3.11	63.0	3.15	83.0	3.17
3.5	0.79	23.5	3.03	43.5	3.12	63.5	3.15	83.5	3.17
4.0	0.90	24.0	3.03	44.0	3.12	64.0	3.15	84.0	3.17
4.5	1.02	24.5	3.03	44.5	3.12	64.5	3.15	84.5	3.17
5.0	1.14	25.0	3.03	45.0	3.12	65.0	3.15	85.0	3.17
5.5	1.27	25.5	3.04	45.5	3.12	65.5	3.16	85.5	3.17
6.0	1.40	26.0	3.04	46.0	3.12	66.0	3.16	86.0	3.17
6.5	1.54	26.5	3.04	46.5	3.12	66.5	3.16	86.5	3.17
7.0	1.67	27.0	3.04	47.0	3.12	67.0	3.16	87.0	3.18
7.5	1.80	27.5	3.05	47.5	3.13	67.5	3.16	87.5	3.18
8.0	1.93	28.0	3.05	48.0	3.13	68.0	3.16	88.0	3.18
8.5	2.05	28.5	3.05	48.5	3.13	68.5	3.16	88.5	3.18
9.0	2.16	29.0	3.06	49.0	3.13	69.0	3.16	89.0	3.18
9.5	2.26	29.5	3.06	49.5	3.13	69.5	3.16	89.5	3.18
10.0	2.36	30.0	3.06	50.0	3.13	70.0	3.16	90.0	3.18
10.5	2.44	30.5	3.07	50.5	3.13	70.5	3.16	90.5	3.18
11.0	2.52	31.0	3.07	51.0	3.13	71.0	3.16	91.0	3.18
11.5	2.59	31.5	3.07	51.5	3.13	71.5	3.16	91.5	3.18
12.0	2.65	32.0	3.07	52.0	3.14	72.0	3.16	92.0	3.18
12.5	2.71	32.5	3.08	52.5	3.14	72.5	3.16	92.5	3.18
13.0	2.76	33.0	3.08	53.0	3.14	73.0	3.16	93.0	3.18
13.5	2.80	33.5	3.08	53.5	3.14	73.5	3.16	93.5	3.18
14.0	2.83	34.0	3.08	54.0	3.14	74.0	3.16	94.0	3.18
14.5	2.86	34.5	3.08	54.5	3.14	74.5	3.17	94.5	3.18
15.0	2.89	35.0	3.09	55.0	3.14	75.0	3.17	95.0	3.18
15.5	2.91	35.5	3.09	55.5	3.14	75.5	3.17	95.5	3.18
16.0	2.93	36.0	3.09	56.0	3.14	76.0	3.17	96.0	3.18
16.5	2.95	36.5	3.09	56.5	3.14	76.5	3.17	96.5	3.18
17.0	2.96	37.0	3.09	57.0	3.14	77.0	3.17	97.0	3.18
17.5	2.97	37.5	3.10	57.5	3.14	77.5	3.17	97.5	3.18
18.0	2.98	38.0	3.10	58.0	3.15	78.0	3.17	98.0	3.18
18.5	2.99	38.5	3.10	58.5	3.15	78.5	3.17	98.5	3.18
19.0	2.99	39.0	3.10	59.0	3.15	79.0	3.17	99.0	3.18
19.5	3.00	39.5	3.10	59.5	3.15	79.5	3.17	99.5	3.18
20.0	3.00	40.0	3.11	60.0	3.15	80.0	3.17	100.0	3.18



26 CFR 601.204: Changes in accounting periods and in methods of accounting.  
(Also: Part I, Sections 446, 451, 1275; 1.451-1, 1.451-3, 1.451-8, 1.1275-2.)

## Rev. Proc. 2021-34

### SECTION 1. PURPOSE

This revenue procedure modifies Rev. Proc. 2019-43, 2019-48 I.R.B. 1107, to provide procedures under § 446 of the Internal Revenue Code (Code) and § 1.446-1(e) of the Income Tax Regulations to obtain automatic consent of the Commissioner of Internal Revenue (Commissioner) to change methods of accounting to comply with final regulations under §§ 1.451-3, 1.451-8, and 1.1275-2(l) and to change methods of accounting for certain inventory costs to comply with §§ 263A, 461, and 471 if such changes are made in connection with a change to comply with § 1.451-3 and/or § 1.451-8, as applicable. This revenue procedure also modifies 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 further modified by Rev. Proc. 2016-1, 2016-1 I.R.B. 1, Rev. Proc. 2017-59, 2017-48 I.R.B. 543, and Rev. Proc. 2021-26, 2021-22 I.R.B. 1163, to provide procedures for a taxpayer to obtain the consent of the Commissioner to change its method of accounting to comply with §§ 1.451-3 and/or 1.451-8, as applicable, by providing rules related to cost offset method changes.

### SECTION 2. BACKGROUND

.01 On December 22, 2017, §§ 451(b) and (c) were amended by section 13221 of Public Law 115-97, 131 Stat. 2054, 2113, commonly referred to as the Tax Cuts and Jobs Act (TCJA). Section 451(b) was amended to provide that, for a taxpayer using an accrual method of accounting, the all events test for any item of gross income, or portion thereof, is met no later than when that item, or portion thereof, is taken into account as revenue in an applicable financial statement (AFS) (AFS Income Inclusion Rule). Section 451(b) also overturned the historical Federal income tax treatment of credit card late fees, credit card cash advance fees, and inter-

change fees by subjecting the fees to the AFS Income Inclusion Rule instead of the original issue discount (OID) timing rules. Section 451(c) was amended to provide that an accrual method taxpayer may use the deferral method of accounting provided in § 451(c) for advance payments.

.02 On April 12, 2018, the Department of Treasury (Treasury Department) and the Internal Revenue Service (IRS) issued Notice 2018-35, 2018-18 I.R.B. 520, to provide transitional guidance relating to advance payments under 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, and as modified by Rev. Proc. 2011-14, 2011-4 I.R.B. 330. The notice provides that the Treasury Department and the IRS expect to issue future guidance regarding the treatment of advance payments incorporating the TCJA amendments to § 451(c) and that until such guidance is applicable, taxpayers may continue to rely on Rev. Proc. 2004-34 for the treatment of advance payments. Notice 2018-35 is obsolete for taxable years beginning on or after January 1, 2021. See TD 9941, 86 FR 810 (January 6, 2021), corrected by 86 FR 126 (January 8, 2021) and 86 FR 2974 (January 14, 2021) (as so corrected, TD 9941).

.03 On May 29, 2018, the Treasury Department and the IRS issued Rev. Proc. 2018-29, 2018-22 I.R.B. 634, modified by Rev. Proc. 2018-49, 2018-41 I.R.B. 548, which added section 16.11 to the List of Automatic Changes, as defined in section 3.09 of Rev. Proc. 2015-13, to provide procedures for a taxpayer to change its method of accounting for the recognition of income for Federal income tax purposes to a method of accounting described in the new financial accounting standards on revenue from contracts with customers issued by the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) (New Standards) if such change is made for the taxable year in which the taxpayer adopts the New Standards. A change under this section required that the taxpayer's method comply with § 451, as amended by the TCJA. Rev. Proc. 2018-29 indicated that the IRS expected to issue future guidance addressing the TCJA amendments to § 451.

.04 On December 17, 2018, the Treasury Department and the IRS issued Rev. Proc. 2018-60, 2018-51 I.R.B. 1045, which added section 16.12 to the List of Automatic Changes for a taxpayer to change its method of accounting for the timing of income recognition for Federal income tax purposes to comply with § 451(b) for taxable years beginning after December 31, 2017 (or, December 31, 2018, in the case of income from a debt instrument having OID). Rev. Proc. 2018-60 permits a taxpayer to change its method of accounting to comply with § 451(b) using streamlined method change procedures if the change results in a zero § 481(a) adjustment or if the taxpayer requesting the change is a small business taxpayer, as defined in the guidance.

.05 On September 9, 2019, the Treasury Department and the IRS published proposed regulations under § 1.451-3 (REG-104870-18; 84 FR 47205) (proposed § 1.451-3), § 1.451-8 (REG-104554-18; 84 FR 47191) (proposed § 1.451-8), and § 1.1275-2(l) (REG-104870-18; 84 FR 47205) (proposed § 1.1275-2(l)). Proposed § 1.451-3 provided rules relating to the taxable year of inclusion in gross income under § 451(b). Proposed § 1.451-8 provided rules relating to the use of the deferral method for advance payments under § 451(c). Proposed § 1.1275-2(l) provides rules clarifying that an item of income that is subject to the timing rules in proposed § 1.451-3, such as specified credit card fees, is not taken into account in determining the amount of OID on a debt instrument. Concurrent with the issuance of the proposed regulations, the Treasury Department and the IRS issued Rev. Proc. 2019-37, 2019-39 I.R.B. 731, which modified sections 16.10, 16.11, and 16.12 in the List of Automatic Changes to provide procedures for a taxpayer to obtain the automatic consent of the Commissioner to make a method change to comply with § 451(b), proposed § 1.451-3, proposed § 1.451-8, and proposed § 1.1275-2(l), as applicable.

.06 On December 30, 2020, the Treasury Department and the IRS issued final regulations under § 1.451-3, § 1.451-8, and § 1.1275-2(l). See TD 9941. The regulations are generally applicable for taxable years beginning on or after January 1, 2021. However, the rules in § 1.451-3(j)

and § 1.1275-2(l)(1) for specified fees that are not specified credit card fees, as defined in § 1.451-3(j)(2), apply for taxable years beginning on or after January 6, 2022.

.07 However, a taxpayer and its related parties, within the meaning of §§ 267(b) and 707(b), may choose to apply both the rules in § 1.451-3 and, to the extent relevant, the rules in § 1.451-8 for a taxable year beginning after December 31, 2017 and before January 1, 2021, provided the rules in § 1.451-3 and, to the extent relevant, the rules in § 1.451-8 are applied in their entirety and in a consistent manner for such taxable year and all subsequent years. In addition, for specified credit card fees, a taxpayer and its related parties may apply both the rules in §§ 1.451-3 and 1.1275-2(l) that apply to specified credit card fees for a taxable year beginning after December 31, 2018 and before January 1, 2021, provided that the rules in §§ 1.451-3 and 1.1275-2(l) that apply to specified credit card fees are applied in their entirety and in a consistent manner for such taxable year and all subsequent taxable years.

.08 Alternatively, a taxpayer may rely on proposed § 1.451-3, proposed § 1.451-8, and/or proposed § 1.1275-2(l), as applicable, for taxable years beginning after December 31, 2017 (or December 31, 2018, in the case of specified credit card fees) and before January 1, 2021. For a specified fee that is not a specified credit card fee, a taxpayer may neither choose to apply the final regulations to, nor rely on the proposed regulations for, a taxable year beginning before January 6, 2022.

.09 The final regulations obsolete Rev. Proc. 2004-33, 2004-1 C.B. 989, Rev. Proc. 2004-34, Rev. Proc. 2005-47, 2005-2 C.B. 269, Rev. Proc. 2011-18, Rev. Proc. 2013-29, and Notice 2018-35 for taxable years beginning on or after January 1, 2021. A taxpayer that relied on the now obsoleted guidance must determine whether a change in method of accounting occurs once it ceases to use the obsoleted guidance.

.10 A change to comply with the final regulations under §§ 1.451-3, 1.451-8, and/or 1.1275-2(l), as applicable, is a change in method of accounting to which the provisions of §§ 446 and 481 and the accompanying regulations apply. Except

as otherwise provided by the Code or the regulations, § 446(e) and § 1.446-1(e)(2) require a taxpayer to secure the consent of the Commissioner before changing a method of accounting for Federal income tax purposes. Section 1.446-1(e)(3)(ii) authorizes the Commissioner to prescribe administrative procedures that provide the terms and conditions necessary for a taxpayer to obtain consent to a change in method of accounting. Rev. Proc. 2015-13 provides the general procedures by which a taxpayer may obtain automatic consent of the Commissioner to a change in method of accounting described in the List of Automatic Changes. Section 6.03(1) of Rev. Proc. 2015-13 sets forth the application procedures for timely filing a change in method of accounting under the automatic change procedures. Such procedural guidance provides that a taxpayer may not request, or otherwise make, a retroactive change in method of accounting on an amended Federal income tax return, unless specifically authorized by the Commissioner or by statute. See section 2.05 of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, 425. A taxpayer that chooses to early apply the final regulations under §§ 1.451-3, 1.451-8, and/or 1.1275-2(l), as applicable, to a taxable year beginning before January 1, 2021, must follow the rules for changes in method of accounting under § 446, the accompanying regulations, and the applicable procedural guidance, as described above. Accordingly, such taxpayer cannot change its method(s) of accounting to early apply the final regulations under §§ 1.451-3, 1.451-8, and/or 1.1275-2(l), as applicable, on an amended Federal income tax return.

.11 Because a change to comply with §§ 1.451-3, 1.451-8, and/or 1.1275-2(l), as applicable, is a change in method of accounting to which the provisions of § 446 and the accompanying regulations apply, the item being changed to comply with §§ 1.451-3, 1.451-8, and/or 1.1275-2(l), as applicable, is determined by applying § 446 and the accompanying regulations. See §§ 1.451-3(l)(1) and 1.451-8(g)(2). In that regard, while §§ 451(b) and (c) and the final regulations use the term “item of gross income” to generally refer to income that arises under a specific contract, the term “item of gross income” is not synonymous with the terms “item” or “material

item” as used throughout the regulations under § 446.

.12 Rev. Proc. 2013-26, 2013-22 I.R.B. 1160, describes the proportional method of accounting for OID on a pool of credit card receivables. Under § 1.1275-2(l), OID no longer includes a specified fee, such as a specified credit card fee, that is subject to the timing rules of § 1.451-3. Therefore, Rev. Proc. 2021-35, 2021-35 I.R.B. 355, modifies Rev. Proc. 2013-26 to make clear that the proportional method no longer applies to a specified fee, including a specified credit card fee. See section 16.12 of Rev. Proc. 2019-43, as modified by this revenue procedure, for the procedures by which a taxpayer, including a taxpayer using the proportional method of accounting, can change its method of accounting for specified credit card fees to comply with § 451(b), as amended by the TCJA, and §§ 1.451-3 and 1.1275-2(l). Pursuant to that change, a taxpayer that is already using the proportional method of accounting is required to remove any specified credit card fees from its pools of credit card receivables. See Rev. Proc. 2021-35.

.13 Rev. Proc. 2019-43 provides the current List of Automatic Changes to which the automatic change procedures in Rev. Proc. 2015-13 apply. Section 3 of this revenue procedure modifies Rev. Proc. 2019-43 to provide procedures for a taxpayer to obtain the automatic consent of the Commissioner to change its methods of accounting to comply with §§ 1.451-3, 1.451-8, and/or 1.1275-2(l), as applicable, including special terms and conditions for certain changes to comply with §§ 1.451-3, 1.451-8, and/or 1.1275-2(l), as applicable. Section 3 of this revenue procedure also makes changes to the current automatic changes in Rev. Proc. 2019-43 by:

(1) modifying sections 12.01, 12.02, 22.05, 22.11, and 22.18 of Rev. Proc. 2019-43 to temporarily waive the eligibility rule in section 5.01(f) of Rev. Proc. 2015-13 for certain inventory changes made in connection with changes to comply with §§ 1.451-3 and 1.451-8.

(2) modifying the change in overall method of accounting from the cash method to an accrual method in section 15.01 for taxpayers with an AFS;

(3) removing the automatic change for credit card late fees in section 16.06;

(4) modifying the automatic change for advance payments under section 16.07 by making the change inapplicable for a year of change beginning on or after January 1, 2021;

(5) removing the automatic change for credit card cash advance fees in section 16.08;

(6) modifying section 16.11 to make it inapplicable for changes to comply with §§ 451(b) and (c) and the regulations thereunder, and modifying sections 16.10 and 16.12 to provide terms and conditions that are similar to those provided under section 16.11 for certain changes made in the year in which the taxpayer adopts the New Standards that are no longer permitted to be made under section 16.11 and that are now made under sections 16.10 or 16.12;

(7) modifying section 16.12 to remove the automatic change to comply with § 451(b);

(8) correcting sections 16.11 and 16.12 of Rev. Proc. 2019-43 by providing that changes in method of accounting made under sections 16.11 and 16.12 with regard to taxpayers who are members of consolidated groups generally are governed by sections 16.11 and 16.12, as applicable, rather than by § 1.1502-17(b)(2), which is applicable to changes in the application of the timing rules of § 1.1502-13 in accounting for intercompany transactions within the meaning of § 1.1502-13(b)(1) (i). See § 1.1502-17(a) and (b)(1);

(9) modifying section 16.12 to provide that the rules for netting the § 481(a) adjustment provided in section 16.12(4)(b) (iii) of Rev. Proc. 2019-43, as modified by this revenue procedure, generally apply to certain changes related to the cost offset methods under §§ 1.451-3(c) and § 1.451-8(e) that are required to be filed under the non-automatic change procedures;

(10) modifying section 20 to provide a temporary automatic change under new section 20.13 for a taxpayer to change its method of accounting for inventory costs to comply with §§ 1.461-1(a)(2) and 1.461-4(d)(4) if the taxpayer: (a) presently takes inventory costs into account in a taxable year prior to the taxable year in which such costs are incurred under § 461 and the regulations thereunder; (b) recovers such costs in a taxable year prior to the taxable year in which ownership of inven-

tory is transferred to the customer to offset income inclusions under § 451(b) and/or § 451(c); and (c) meets certain other requirements; and

(11) modifying the automatic change for OID on a pool of credit card receivables in section 30.02 (proportional method).

.14 Section 4 of this revenue procedure modifies Rev. Proc. 2015-13 to provide procedures for a taxpayer to obtain the consent of the Commissioner to change its method of accounting to comply with §§ 1.451-3 and/or 1.451-8, as applicable, by:

(1) adding a new automatic change eligibility rule under section 5.01(1)(g) that requires certain taxpayers making a cost-offset related inventory method change, as defined in new section 5.06, to also make the corresponding cost offset change for the same year of change; and

(2) adding concurrent automatic method change language in section 6.03(1)(b) to provide for certain taxpayers to make one or more cost-offset related inventory method changes and one or more corresponding cost offset changes on the same Form 3115, *Application for Change in Accounting Method*.

### SECTION 3. MODIFICATIONS TO REV. PROC. 2019-43

.01 *Modification to section 12.01 of Rev. Proc. 2019-43, relating to certain uniform capitalization (UNICAP) methods used by resellers and reseller-producers.* Section 12.01(2) of Rev. Proc. 2019-43 is modified by adding new subparagraph (c) to read as follows:

(c) *Eligibility rule temporarily inapplicable for certain changes related to cost offset method.* The eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13 does not apply to a method change under this section 12.01 if:

(i) the taxpayer made or requested to make a change during any of the five taxable years ending with the year of change to recover inventory costs in a taxable year prior to the taxable year in which ownership of the inventory is transferred to the customer to offset inclusions under § 451(b) and/or 451(c), as applicable;

(ii) in the case of a taxpayer with an applicable financial statement (AFS), as

defined in section 16.12(1)(b) of this revenue procedure, the taxpayer makes, for the same year of change, a change in method of accounting for income from the sale of inventory under section 16.12(2)(a)(iii) of this revenue procedure and, to the extent the taxpayer receives advance payments for the sale of inventory, section 16.12(2)(a)(iv) of this revenue procedure, or in the case of a taxpayer that does not have an AFS, the taxpayer concurrently changes its method of accounting for advance payments from the sale of inventory under section 16.12(2)(b)(ii) of this revenue procedure; and

(iii) the taxpayer makes the change under this section 12.01 for its early application year, as defined in section 16.12(4)(c)(i) of this revenue procedure, or if a taxpayer does not apply § 1.451-3 and/or § 1.451-8 for a taxable year beginning before January 1, 2021, for the taxpayer's first taxable year beginning on or after January 1, 2021.

.02 *Modification to section 12.02 of Rev. Proc. 2019-43, relating to certain uniform capitalization (UNICAP) methods used by producers and reseller-producers.* Section 12.02(4) of Rev. Proc. 2019-43 is modified to read as follows:

(4) *Eligibility rule temporarily inapplicable.*

(a) *In general.* The eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, does not apply to the changes described in this section 12.02 for the taxpayer's first, second, or third taxable year ending on or after November 20, 2018.

(b) *Eligibility rule temporarily inapplicable for certain changes related to cost offset method.* The eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13 does not apply to a method change under this section 12.02 if:

(i) the taxpayer made or requested to make a change during any of the five taxable years ending with the year of change to recover inventory costs in a taxable year prior to the taxable year in which ownership of the inventory is transferred to the customer to offset inclusions under § 451(b) and/or 451(c), as applicable;

(ii) in the case of a taxpayer with an applicable financial statement (AFS), as defined in section 16.12(1)(b) of this revenue procedure, the taxpayer makes, for the

same year of change, a change in method of accounting for income from the sale of inventory under section 16.12(2)(a)(iii) of this revenue procedure and, to the extent the taxpayer receives advance payments for the sale of inventory, section 16.12(2)(a)(iv) of this revenue procedure, or in the case of a taxpayer that does not have an AFS, the taxpayer concurrently changes its method of accounting for advance payments from the sale of inventory under section 16.12(2)(b)(ii) of this revenue procedure; and

(iii) the taxpayer makes the change under this section 12.02 for its early application year, as defined in section 16.12(4)(c)(i) of this revenue procedure, or if a taxpayer does not apply § 1.451-3 and/or § 1.451-8, as applicable, for a taxable year beginning before January 1, 2021, for the taxpayer's first taxable year beginning on or after January 1, 2021.

.03 *Modifications to section 15.01 of Rev. Proc. 2019-43, relating to changes in overall method of accounting from the cash method to an accrual method.*

(1) Section 15.01(1)(a) of Rev. Proc. 2019-43 is modified by replacing the last paragraph thereof with the following:

Lastly, for a taxable year beginning after December 31, 2017, or December 31, 2018 in the case of specified credit card fees, as defined in § 1.451-3(j)(2), and before January 1, 2021, a taxpayer with an applicable financial statement (AFS) that is changing its overall method of accounting from the cash method to an accrual method qualifies to use this section 15.01 to comply with § 451(b)(1), and, if applicable, § 451(b)(4), or the proposed regulations under § 1.451-3 (REG-104870-18; 84 FR 47191) (proposed § 1.451-3). For a taxable year beginning after December 31, 2017, or December 31, 2018 in the case of specified credit card fees, a taxpayer with an AFS that is changing its overall method of accounting from the cash method to an accrual method qualifies to use this section 15.01 to comply with § 1.451-3. For purposes of this section 15.01, the term "AFS" is defined under: § 451(b)(3) for a taxpayer making a change to comply with § 451(b); proposed § 1.451-3(c)(1) for a taxpayer making a change to comply with proposed § 1.451-3; or § 1.451-3(b)(5) for a taxpayer making a change to comply with § 1.451-3.

A taxpayer that uses this section 15.01 to comply with § 1.451-3 must attach a statement to its Form 3115 that provides a description of the proposed method(s) under § 1.451-3 to which it is changing. For example, a taxpayer that chooses to apply the alternative AFS revenue method in § 1.451-3(b)(2)(ii) must indicate in the statement attached to its Form 3115 that it is choosing to comply with the AFS income inclusion rule in § 1.451-3(b)(1) by applying the alternative AFS revenue method described in § 1.451-3(b)(2)(ii).

(2) Section 15.01(1)(b) of Rev. Proc. 2019-43 is modified by removing division (ix), and adding new divisions (ix) through (xiii) to read as follows:

(ix) a taxpayer with an AFS that wants to make a change in method of accounting for allocating transaction price between item(s) of gross income that are subject to § 451 and item(s) of gross income that are subject to a special method of accounting, as defined in § 451(b)(2), proposed § 1.451-3(c)(5), or § 1.451-3(a)(14), as applicable, including a change to comply with the transaction price allocation rules in § 1.451-3(d)(5);

(x) a taxpayer with an AFS that wants to change to use the AFS cost offset method, as defined in § 1.451-3(c), if the taxpayer receives advance payments from the sale of inventory and does not also make a concurrent change to apply the advance payment cost offset method, as defined in § 1.451-8(e), for the same year of change by using section 16.12 of this revenue procedure, or a taxpayer with an AFS that wants to change to use the advance payment cost offset method if the taxpayer is required to include gross income from the sale of inventory under § 1.451-3 and does not also make a change to apply the AFS cost offset method;

(xi) a taxpayer with an AFS that wants to make a change in method of accounting for specified fees, as defined in proposed § 1.451-3(i)(2) or § 1.451-3(j)(2), as applicable, other than specified credit card fees;

(xii) a taxpayer that wants to make a change in method of accounting for payments within the scope of the specified good exception, as defined in § 1.451-8(a)(1)(ii), if the proposed method of accounting is to include such payments in gross income under § 1.451-3 in one or more

taxable years following the taxable year of receipt; or

(xiii) a taxpayer with an AFS that makes a change to apply § 1.451-3 for a taxable year that begins before January 1, 2021, and fails to comply with the requirements in § 1.451-3(m)(3).

(3) Section 15.01(2)(b) of Rev. Proc. 2019-43 is modified to read as follows:

(b) *Accrual method of accounting* is a method identified by § 446(c)(2) and §§ 1.446-1(c)(1)(ii), 1.451-1(a), 1.451-3, and 1.461-1(a)(2). For a taxable year beginning after December 31, 2017, for which the taxpayer has an AFS, the all events test under § 451(b)(1)(C) and § 1.451-1(a) for any item of gross income, or portion thereof, is met no later than when that item, or portion thereof, is taken into account as AFS revenue. See § 451(b)(1) and § 1.451-3(b).

(4) Section 15.01(2)(d) of Rev. Proc. 2019-43 is modified to read as follows:

(d) *Special method of accounting* within the meaning of this section 15.01 is a method of accounting, other than the cash method, expressly permitted or required by the Code, regulations, or in other guidance published in the IRB, that deviates from the tax accrual accounting rules of §§ 446, 451, 461, and the regulations thereunder. For purposes of this section 15.01, a deferral method under section 451(c) and the regulations thereunder is deemed to be a special method of accounting. Examples of special methods of accounting include the installment method of accounting under § 453, the mark-to-market method under § 475, and a long-term contract method under § 460. In contrast, application of the all-events test under a specific set of facts is not a special method of accounting. See, for example, Rev. Rul. 69-314, 1969-1 C.B. 139 (concerning the treatment of retainages).

(5) Section 15.01(3)(a) of Rev. Proc. 2019-43 is modified by adding new division (iii) to read as follows:

(iii) *Section 481(a) adjustment period for changes relating to specified credit card fees.* In the case of income from a specified credit card fee, the § 481(a) adjustment period for any qualified change in method of accounting is six taxable years (year of change and next five taxable years). For purposes of this section 15.01(3)(a)(iii), a qualified change in

method of accounting is a change in method of accounting for income from a specified credit card fee to a method that is required by § 451(b), as added by section 13221 of Public Law 115-97, 131 Stat. 2054 (Dec. 22, 2017), commonly referred to as the Tax Cuts and Jobs Act (TCJA), for such income, but only for the taxpayer's first taxable year beginning after December 31, 2018. Accordingly, a taxpayer that makes a qualified change in method of accounting as part of its overall method change under section 15.01 of this revenue procedure is required to use an adjustment period of six taxable years for the portion of the overall § 481(a) adjustment that is attributable to the qualified change in method of accounting. The § 481(a) adjustment period for the remainder of the overall § 481(a) adjustment required by section 15.01(3)(a)(i) of this revenue procedure is determined without regard to the qualified change in method of accounting.

(6) Section 15.01(3)(b)(ii) of Rev. Proc. 2019-43 is modified to read as follows:

(ii) *Certain eligibility rule temporarily inapplicable.* For a taxpayer with an AFS that changes to an overall accrual method under this section 15.01 that complies with § 451(b)(1), and, if applicable, § 451(b)(4), or proposed § 1.451-3, the eligibility rule in section 5.01(1)(e) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, does not apply to such change for the taxpayer's first, second or third taxable year beginning after December 31, 2017, provided such taxable year begins before January 1, 2021. In addition, for a taxpayer with an AFS that changes to an overall accrual method under this section 15.01 that complies with § 1.451-3 for a taxable year beginning before January 1, 2021, the eligibility rule in section 5.01(1)(e) of Rev. Proc. 2015-13 does not apply to such change for such taxable year. For a taxpayer with an AFS that does not apply § 1.451-3 for a taxable year beginning before January 1, 2021, and changes to an overall accrual method under this section 15.01 that complies with § 1.451-3 for the first taxable year that begins on or after January 1, 2021, the eligibility rule in section 5.01(1)(e) of Rev. Proc. 2015-13 does not apply to such change for such taxable year.

(7) Section 15.01(3)(d)(i) of Rev. Proc. 2019-43, is modified to read as follows:

(i) *Concurrent automatic changes.* Except as provided in section 15.01(3)(d)(ii) of this revenue procedure, a taxpayer that is changing from the overall cash method to an overall accrual method under this section 15.01 and changing to one or more special methods, as permitted under section 15.01(1)(a)(ii), (iii), or (iv) of this revenue procedure, must timely file a single Form 3115 for all changes and must enter the designated automatic accounting method change numbers for all changes on the appropriate line of Form 3115. For example, a taxpayer making both a change from the overall cash method to an overall accrual method under this section 15.01 and a change to the deferral method for advance payments under section 16.07 or 16.12 of this revenue procedure must timely file a single Form 3115 for both changes and enter the designated automatic accounting method change numbers for both changes on the appropriate line on that Form 3115. See section 6.03(1)(b) of Rev. Proc. 2015-13 for information on making concurrent changes.

(8) Section 15.01(3) of Rev. Proc. 2019-43 is modified by:

(a) removing subparagraph (f), titled “*Concurrent automatic changes for a taxpayer with an AFS that complies with § 451(b).*”; and

(b) removing subparagraph (g), titled “*Concurrent change in the timing of recognition of income due to the New Standards.*”

(9) Section 15.01(5) of Rev. Proc. 2019-43 is modified to read as follows:

(5) *No ruling on method used.* The consent granted under section 9 of Rev. Proc. 2015-13 for a change made under this section 15.01 is not a determination by the Commissioner that the new method of accounting is a permissible method of accounting under § 451(b) and does not create a presumption that the allocation method used under § 451(b)(4) is a permissible method of accounting. The director may ascertain whether the new method of accounting is a permissible method of accounting under § 451 and whether the allocation method is permissible under § 451(b)(4). This section 15.01(5) does not apply to a taxpayer with an AFS that is making a change to a method of accounting permissible under proposed § 1.451-3 or § 1.451-3.

.04 *Modification to section 16.06 of Rev. Proc. 2019-43, relating to credit card late fees.* Section 16.06 of Rev. Proc. 2019-43 is modified to remove the automatic change in method of accounting in section 16.06 for credit card late fees and to read as follows:

.06 [Reserved]

.05 *Modification to section 16.07 of Rev. Proc. 2019-43, relating to advance payments.* Section 16.07(1) of Rev. Proc. 2019-43 is modified by: redesignating subparagraph (b) as division (b)(i) with a new heading that reads “*In general.*”; adding a heading to subparagraph (b) that reads “*Inapplicability.*”; and adding new division (b)(ii) to read as follows:

(ii) *Limited time to make change.* This change does not apply to taxable years beginning on or after January 1, 2021.

.06 *Modification to section 16.08 of Rev. Proc. 2019-43, relating to credit card cash advance fees.* Section 16.08 of Rev. Proc. 2019-43 is modified to remove the automatic change in method of accounting in section 16.08 for credit card cash advance fees and to read as follows:

.08 [Reserved]

.07 *Modification of section 16.10 of Rev. Proc. 2019-43, relating to changes in applicable financial statements for purposes of applying certain revenue recognition methods of accounting.*

(1) Section 16.10 of Rev. Proc. 2019-43 is modified to read as follows:

.10 *Change in applicable financial statements (AFS) for purposes of applying certain revenue recognition methods of accounting.*

(1) *Description of change.*

(a) *Applicability.*

(i) This change applies to a taxpayer that has an applicable financial statement (AFS), as defined in section 4.06 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, and as modified by Rev. Proc. 2011-14, 2011-4 I.R.B. 330, that: (A) receives advance payments, as defined in section 4 of Rev. Proc. 2004-34, (B) uses the deferral method described in section 5.02(3)(a) of Rev. Proc. 2004-34 for including those advance payments in gross income in accordance with its AFS, (C) changes the manner in which it recognizes advance payments in revenues in its

AFS, and (D) wants to change its method of accounting to use the new AFS method of recognizing advance payments in revenues in its AFS for determining the extent to which advance payments are included in gross income under Rev. Proc. 2004-34. *See also* Notice 2018-35, 2018-18 I.R.B. 520.

(ii) This change applies to a taxpayer that has an AFS, as defined in proposed § 1.451-8(b)(2) (REG-104554-18; 84 FR 47191), that: (A) receives advance payments, as defined in proposed § 1.451-8(b)(1); (B) uses the deferral method described in proposed § 1.451-8(c); (C) changes the manner in which it recognizes advance payments in revenues in its AFS; and (D) wants to change its method of accounting to use the new AFS method of recognizing advance payments in revenues in its AFS for determining the extent to which advance payments are included in income under proposed § 1.451-8(c).

(iii) This change applies to a taxpayer with an AFS, as defined in § 451(b)(3), that: (A) includes amounts in income in accordance with § 451(b); (B) changes the manner in which the item, or portion thereof, is taken into account in revenue in its AFS, as defined in § 451(b)(3), including, if applicable, a change in the manner in which transaction price is allocated to performance obligations; and (C) wants to change its method of accounting to use the new AFS method of taking into account the item, or portion thereof, in revenue in its AFS for purposes of § 451(b)(1)(A), including, if applicable, a change in the manner in which transaction price is allocated for purposes of § 451(b)(4).

(iv) This change applies to a taxpayer with an AFS, as defined in proposed § 1.451-3(c)(1) (REG-104870-18; 84 FR 47205), that: (A) includes amounts in income in accordance with proposed § 1.451-3; (B) changes the manner in which the item, or portion thereof, is taken into account as revenue in its AFS, including, if applicable, a change in the manner in which transaction price is allocated to performance obligations; and (C) wants to change its method of accounting to use the new AFS method of taking into account the item, or portion thereof, in revenue in its AFS for purposes of proposed § 1.451-3(b), including, if applicable, a change in the manner in which transaction

price is allocated for purposes of proposed § 1.451-3(g).

(v) This change applies to a taxpayer with an AFS, as defined in § 1.451-3(a)(5), that: (A) includes amounts in income in accordance with § 1.451-3; (B) changes the manner in which the item, or portion thereof, is taken into account as AFS revenue, as defined in § 1.451-3(a)(4), including, if applicable, a change in the manner in which transaction price is allocated to performance obligations; and (C) wants to change its method of accounting to use the new AFS method of taking into account the item, or portion thereof, in AFS revenue for purposes of § 1.451-3(b)(1), including, if applicable, a change in the manner in which transaction price is allocated for purposes of § 1.451-3(d).

(vi) This change applies to a taxpayer with an AFS, as defined in § 1.451-3(a)(5), that: (A) receives an advance payment, as defined in § 1.451-8(a)(1); (B) uses the deferral method described in § 1.451-8(c); (C) changes the manner in which it recognizes advance payments in AFS revenue, as defined in § 1.451-8(a)(4), including, if applicable, a change in the manner in which payments are allocated to performance obligations; and (D) wants to change its method of accounting to use the new AFS method of recognizing advance payments in AFS revenue for purposes of determining the extent to which advance payments are included in income under § 1.451-8, including, if applicable, a change in the manner in which payments are allocated for purposes of § 1.451-8(c)(8).

*(b) Inapplicability.*

(i) *Changes relating to Rev. Proc. 2004-34.* The change described in section 16.10(1)(a)(i) of this revenue procedure does not apply to:

(A) a taxpayer that uses a present method of accounting for advance payments that is not the deferral method described in section 5.02(3)(a) of Rev. Proc. 2004-34. For example, this change does not apply to a taxpayer that uses the full inclusion method under section 5.01 of Rev. Proc. 2004-34;

(B) a taxpayer that wants to change its method for allocating payments under section 5.02(4) of Rev. Proc. 2004-34; or

(C) taxable years beginning on or after January 1, 2021.

(ii) *Changes relating to § 451(b), proposed § 1.451-3, or proposed § 1.451-8.* A change described in section 16.10(1)(a)(ii), (iii), or (iv) of this revenue procedure does not apply to:

(A) a taxpayer whose present method of accounting does not comply with § 451(b) or proposed § 1.451-3, as applicable, for a change described in section 16.10(1)(a)(iii) or (iv) of this revenue procedure;

(B) a taxpayer whose present method is not the deferral method under proposed § 1.451-8(c), for a change described in section 16.10(1)(a)(ii) of this revenue procedure. For example, this change does not apply to a taxpayer that uses the full inclusion method under § 451(c)(1)(A) or proposed § 1.451-8(a), or the non-AFS deferral method under proposed § 1.451-8(d);

(C) a taxpayer that wants to change its method for allocating payments under § 451(c)(1)(D) or proposed § 1.451-8(c)(6);

(D) a taxpayer that wants to change its method for allocating transaction price between performance obligations that are accounted for under § 451(b) or proposed § 1.451-3, and performance obligations that are accounted for under a special method of accounting, as defined in § 451(b)(2) and proposed § 1.451-3(c)(5); or

(E) taxable years beginning on or after January 1, 2021.

(iii) *Changes relating to § 1.451-3 or § 1.451-8.* A change described in section 16.10(1)(a)(v) or (vi) of this revenue procedure does not apply to:

(A) a taxpayer whose present method of accounting is not described in § 1.451-3, for a change described in section 16.10(1)(a)(v) of this revenue procedure. A taxpayer that wants to change to a method of accounting described in § 1.451-3 must use section 16.12(2)(a)(v) of this revenue procedure to make such change;

(B) a taxpayer whose present method of accounting for advance payments is not the deferral method under § 1.451-8(c), for a change described in section 16.10(1)(a)(vi) of this revenue procedure. For example, this change does not apply to a taxpayer that uses the full inclusion method under § 1.451-8(b) or the non-AFS deferral method under § 1.451-8(d). However, this change does apply to a taxpayer that uses both the cost offset method under

§ 1.451-8(e) and the deferral method under § 1.451-8(c);

(C) a taxpayer that wants to change its method for allocating payments described in § 1.451-8(c)(8)(iii); or

(D) a taxpayer that wants to change its method for allocating transaction price for contracts described in § 1.451-3(d)(5).

(c) *Restatements of AFS.* A taxpayer's restatement of its AFS for financial accounting presentation does not affect the propriety of the taxpayer's method of accounting for revenue recognized in the prior taxable year(s). For example, if the taxpayer properly uses the deferral method described in § 1.451-8(c) for including advance payments in gross income in accordance with its AFS, the taxpayer satisfies the requirement of section 16.10(1)(a)(vi) of this revenue procedure even if the AFS for that taxable year is later restated and may change its method of accounting under this section 16.10 if it is otherwise eligible.

(2) *Manner of making change.*

(a) *Cut-off basis or a § 481(a) adjustment.*

(i) *Cut-off basis for certain changes.*

(A) *In general.* Except as provided in section 16.10(2)(a)(i)(B) of this revenue procedure, a change made under section 16.10(1)(a)(i), (ii), or (vi) of this revenue procedure is made on a cut-off basis and applies to advance payments received by the taxpayer on or after the beginning of the year of change. Accordingly, any advance payments received prior to the year of change (prior advance payments) are accounted for under the taxpayer's former method of accounting, and any advance payments received in the year of change and in subsequent taxable years are accounted for under the taxpayer's new method of accounting. A taxpayer that changes its method of allocating payments for purposes of § 1.451-8(c)(8)(i) must allocate any payments received prior to the year of change using the taxpayer's former method of accounting. Accordingly, a § 481(a) adjustment is neither permitted nor required.

(B) *Section 481(a) adjustment for certain changes.* If a taxpayer makes a change under section 16.10(1)(a)(i), (ii), or (vi) of this revenue procedure, and the AFS treatment of prior advance payments in the year of change or a subsequent tax-

able year is relevant for purposes of determining the amount of such payments that is required to be included in gross income in the year of change or a subsequent taxable year, the taxpayer must implement the change with a § 481(a) adjustment as provided in sections 7.02 and 7.03 of Rev. Proc. 2015-13.

(ii) *Cut-off basis or § 481(a) adjustment for certain changes.* A taxpayer that makes a change under section 16.10(1)(a)(iii) or (iv) of this revenue procedure as a result of adopting the New Standards, as defined in section 16.11(1) of this revenue procedure, in the year of change may implement the change with either a § 481(a) adjustment as provided in sections 7.02 and 7.03 of Rev. Proc. 2015-13, or on a cut-off basis. If the taxpayer implements the change on a cut-off basis,

(A) the change applies to contracts entered into on or after the beginning of the year of change;

(B) all changes made under section 16.10(1)(a)(iii) or (iv) of this revenue procedure for the same year of change must be implemented using a cut-off basis; and

(C) a § 481(a) adjustment is neither permitted nor required.

(iii) *Computing § 481(a) adjustments when the year of change is a year in which the taxpayer implements a change in accounting principle with a retained earnings adjustment.* If the year of change is a year in which the taxpayer implements a change in accounting principle for AFS purposes, including a change in the method of applying an accounting principle for AFS purposes, and the change in accounting principle is implemented with a retained earnings adjustment that is taken into account during the year of change, the taxpayer is required to treat such adjustment as being taken into account in the taxable year prior to the year of change for purposes of computing the § 481(a) adjustment. An AFS change to adopt the New Standards, as defined in section 16.11(1) of this revenue procedure, is an example of a change in accounting principle.

(iv) *Example. Computing a § 481(a) adjustment when the taxpayer presently uses the AFS cost offset method - related accounts.* *B* is in the trade or business of selling computers. *B* uses an accrual method of accounting and computes Fed-

eral income tax on a calendar-year basis and has an AFS, as defined in § 1.451-3(a)(5). *B* is not under examination within the meaning of section 3.18 of Rev. Proc. 2015-13. *B* does not receive advance payments. For 2021, *B* makes two changes in method of accounting to comply with § 1.451-3. Specifically, pursuant to section 16.12(2)(a)(iii)(A) of this revenue procedure, *B* changes its method of accounting for gross income from the sale of computers to apply the AFS income inclusion rule and, pursuant to section 16.12(2)(a)(iii)(C) of this revenue procedure, changes its method of accounting to apply the AFS cost offset method. For 2022, *B* changes the manner in which income from the sale of computers is taken into account as AFS revenue, as defined in § 1.451-3(a)(4), and changes its method of accounting under section 16.10(1)(a)(v) of this section to use the new AFS method. However, *B* continues to use the AFS cost offset method. In computing the § 481(a) adjustment resulting from the change to the new method of computing AFS revenue for 2022 under section 16.10(1)(a)(v) of this revenue procedure, *B* must take into account its continued use of the AFS cost offset method. See section 3.15 of Rev. Proc. 2015-13.

(b) In accordance with § 1.446-1(e)(3)(ii), the requirement of § 1.446-1(e)(3)(i) to file a Form 3115 is waived and a statement in lieu of a Form 3115 is authorized for a change made under this section 16.10. Notwithstanding the definition of Form 3115 in section 3.07 of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, the statement in lieu of a Form 3115 that is permitted under this section 16.10 is considered a Form 3115 for purposes of the automatic consent procedures of Rev. Proc. 2015-13. However, the requirement to file the duplicate copy, under section 6.03(1)(a) of Rev. Proc. 2015-13, is waived. The statement attached to the taxpayer's return for the year of change must include the following information for each applicant:

(i) the designated automatic accounting change number for this change, which is "153;"

(ii) the applicant's name, employer identification number (or social security number in the case of an individual), and type of applicant, as would be provided had a Form 3115 been required;

(iii) the year of change (both the beginning and ending dates);

(iv) the type of AFS used by the applicant, as defined in applicable guidance, and which change the applicant is making under section 16.10(1)(a) of this revenue procedure. See section 4.06 of Rev. Proc. 2004-34, § 451(b)(3), proposed § 1.451-8(b)(2), proposed § 1.451-3(c)(1), § 1.451-3(a)(5); and/or § 1.451-8(a)(5), as applicable;

(v) a detailed and complete description of each item affected by the change in AFS revenue recognition and the line number (or schedule) where the affected item is reflected on the Federal income tax return for the year of change, and if applicable, the § 481(a) adjustment for each change; and

(vi) a detailed description of the basis used for AFS revenue recognition (that is, the method the applicant uses in its AFS) both before and after the AFS change.

(c) *Concurrent automatic change.* A taxpayer may make more than one change under this section 16.10 on the same statement in lieu of a Form 3115 for the same year of change. The taxpayer must separately provide all of the information required for each change on that statement.

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

(4) *No audit protection.* A taxpayer does not receive audit protection under section 8.01 of Rev. Proc. 2015-13 for this change. See section 8.02(2) of Rev. Proc. 2015-13.

(5) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 16.10 is “153.”

(6) *Contact information.* For further information regarding a change under this section, contact Maria Castillo-Valle at (202) 317-7003 (not a toll-free number).

.08 *Modification to section 16.11 of Rev. Proc. 2019-43, relating to changes in the timing of recognition of income due to the New Standards.*

(1) Section 16.11(2) of Rev. Proc. 2019-43 is modified by deleting the last two sentences.

(2) Section 16.11(3) of Rev. Proc. 2019-43 is modified by removing the “or”

at the end of section 16.11(3)(d), inserting at the end of section 16.11(3)(e) an “; or” and adding a new subparagraph (f) at the end thereof to read as follows:

(f) an item of gross income that is required to be accounted for under § 451(b) or § 451(c). Accordingly, a taxpayer that wants to make a change in method of accounting for an item of gross income to comply with § 451(b), the proposed section 451(b) regulations (REG-104870-18; 84 FR 47205) (proposed § 1.451-3), the proposed section 451(c) regulations (REG-104554-18; 84 FR 47191) (proposed § 1.451-8), § 1.451-3 and/or § 1.451-8, as applicable, in the year in which it adopts the New Standards is not permitted to do so under section 16.11 of this revenue procedure. See, however, sections 16.07, 16.10, or 16.12, as applicable, of this revenue procedure.

(3) Section 16.11(4) of Rev. Proc. 2019-43 is modified by replacing the date “May 10, 2021” with the date “May 10, 2022.”

(4) Section 16.11(5)(a) of Rev. Proc. 2019-43 is modified to read as follows:

(a) *Cut-off basis or § 481(a) adjustment.* A taxpayer making a change under this section 16.11 may implement the change with either a § 481(a) adjustment as provided in sections 7.02 and 7.03 of Rev. Proc. 2015-13, or on a cut-off basis. If the taxpayer implements the change on a cut-off basis, (i) the taxpayer must allocate any payments received prior to the year of change using the taxpayer’s former method of accounting, (ii) all changes made under this section 16.11 must be implemented using a cut-off basis, and (iii) a § 481(a) adjustment is neither permitted nor required. Changes under this section 16.11 with regard to taxpayers who are members of consolidated groups generally are governed by this section 16.11 rather than by § 1.1502-17(b)(2) (applicable to changes in the application of the timing rules of § 1.1502-13 in accounting for intercompany transactions (within the meaning of § 1.1502-13(b)(1)(i)). See § 1.1502-17(a) and (b)(1).

(5) Section 16.11(6) of Rev. Proc. 2019-43 is removed and paragraphs (7)–(11) are renumbered (6)–(10), respectively.

(6) Newly renumbered section 16.11(6) of Rev. Proc. 2019-43 is modified by re-

placing the date “May 10, 2021” with the date “May 10, 2022.”

(7) Newly renumbered section 16.11(10) of Rev. Proc. 2019-43 is modified to read as follows:

(10) *Contact information.* For further information regarding a change under this section, contact Sharon Horn at (202) 317-7003 (not a toll-free number).

.09 *Modifications to section 16.12 of Rev. Proc. 2019-43, relating to changes in the timing of income recognition under § 451(b) and (c).*

(1) Section 16.12 of Rev. Proc. 2019-43 is modified to read as follows:

.12 *Changes in the timing of income recognition under § 451(b) and (c).*

(1) *Description of change.*

(a) *In general.* This change applies to an accrual method taxpayer with an applicable financial statement (AFS) that wants to make certain changes in method of accounting described in section 16.12(2)(a) of this revenue procedure. This change also applies to a taxpayer without an AFS that wants to make certain changes in method of accounting described in section 16.12(2)(b) of this revenue procedure.

(b) *Applicable terms.* For this section 16.12, the term “AFS” is defined under proposed § 1.451-3(c)(1) (REG-104870-18; 84 FR 47205) for a taxpayer making a change to apply proposed § 1.451-3 and/or proposed § 1.451-8 (REG-104554-18; 84 FR 47191), as applicable, or under § 1.451-3(b)(5) for a taxpayer making a change to apply § 1.451-3 and/or § 1.451-8, as applicable. Additionally, because a change to comply with §§ 1.451-3, 1.451-8, and/or 1.1275-2(l), as applicable, is a change in method of accounting to which the provisions of § 446 and the accompanying regulations apply, the item being changed to comply with §§ 1.451-3, 1.451-8, and/or 1.1275-2(l), as applicable, is determined by applying § 446 and the accompanying regulations. See §§ 1.451-3(l)(1) and 1.451-8(g)(2). In that regard, while §§ 451(b) and (c) and the final regulations use the term “item of gross income” to generally refer to income that arises under a specific contract, the term “item of gross income” is not synonymous with the terms “item” or “material item” as used throughout the regulations under § 446.

(2) *Applicability.*



(a) *Taxpayer with an AFS.* This change applies to an accrual method taxpayer with an AFS that:

(i) for a taxable year beginning before January 1, 2021, wants to change to a method of accounting under proposed § 1.451-3 (including a change for a specified credit card fee under proposed § 1.451-3(i) and proposed § 1.1275-2(l));

(ii) for a taxable year beginning before January 1, 2021, wants to change to a method of accounting for advance payments under proposed § 1.451-8(a) or (c);

(iii) wants to make one of the following changes under § 1.451-3:

(A) a change to comply with the AFS income inclusion rule in § 1.451-3(b) under which the taxpayer determines the amount of an item of gross income that is treated as “taken into account as AFS revenue” by making the AFS revenue adjustments provided in § 1.451-3(b)(2) (i) (including a change for specified credit card fees under §§ 1.451-3(j)(2) and 1.1275-2(l));

(B) a change to comply with the AFS income inclusion rule in § 1.451-3(b) under which the taxpayer determines the amount of the item of gross income that is “taken into account as AFS revenue” by making the AFS revenue adjustments provided in § 1.451-3(b)(2)(ii) (including a change for specified credit card fees under §§ 1.451-3(j)(2) and 1.1275-2(l)) (Alternative AFS Revenue Method);

(C) except as provided in section 16.12(2)(a)(iii)(E) of this section, a change to apply the AFS cost offset method in § 1.451-3(c) to determine the amount of an item of gross income from the sale of inventory that is required to be included in gross income under the AFS income inclusion rule in § 1.451-3(b);

(D) a change from applying a cost offset method, including the AFS cost offset method in § 1.451-3(c), to not applying a cost offset method to determine the amount of an item of gross income from the sale of inventory that is required to be included in gross income under the AFS income inclusion rule in § 1.451-3(b);

(E) a change to comply with § 1.451-3(c)(5)(ii) as a result of a concurrent cost-offset related inventory method change, as defined in section 5.06 of Rev. Proc. 2015-13 (or successor), or because the taxpayer determines its cost of goods

in progress offset by reference to costs that the taxpayer has impermissibly capitalized and/or allocated under its present method of accounting for inventory;

(F) a change to comply with the transaction price allocation rules in § 1.451-3(d); or

(G) a change to a method of accounting described in § 1.451-3(h)(4) when a taxpayer’s AFS covers mismatched reportable periods; or

(iv) wants to make one of the following changes in method of accounting for advance payments under § 1.451-8:

(A) a change to the full inclusion method provided in § 1.451-8(b);

(B) a change to the deferral method provided in § 1.451-8(c);

(C) a change to the specified goods § 451(c) method described in § 1.451-8(f) to treat payments that otherwise qualify for the specified good exception, as defined in § 1.451-8(a)(1)(ii)(H), as advance payments and account for such payments either under the full inclusion method provided in § 1.451-8(b) or under the deferral method provided in § 1.451-8(c);

(D) except as provided in section 16.12(2)(a)(iv)(F) of this revenue procedure, a change to apply the advance payment cost offset method in § 1.451-8(e) to determine the amount of an advance payment from the sale of inventory that is required to be included in gross income under either the full inclusion method in § 1.451-8(b) or the deferral method in § 1.451-8(c), as applicable;

(E) a change from applying a cost offset method, including the advance payment cost offset method in § 1.451-8(e), to not applying a cost offset method to determine the amount of an advance payment from the sale of inventory that is required to be included in gross income under either the full inclusion method in § 1.451-8(b) or the deferral method in § 1.451-8(c), as applicable;

(F) a change to comply with § 1.451-8(e)(8)(ii) as a result of a concurrent cost-offset related inventory method change, as defined in section 5.06 of Rev. Proc. 2015-13 (or successor), or because the taxpayer presently determines its cost of goods in progress offset by reference to costs that the taxpayer has impermissibly capitalized and/or allocated under its present method of accounting for inventory;

(G) a change to a method of accounting described in § 1.451-8(c)(7), which refers to the methods described in § 1.451-3(h)(4), when a taxpayer’s AFS covers mismatched reporting periods; or

(H) a change to comply with the payment allocation rules in § 1.451-8(c)(8).

(b) *Taxpayer without an AFS.* This change applies to a taxpayer that does not have an AFS that:

(i) for a taxable year beginning after December 31, 2017, and before January 1, 2021, wants to change to a method of accounting for advance payments under proposed § 1.451-8(a) or (d); or

(ii) wants to make one of the following changes in method of accounting for advance payments under § 1.451-8:

(A) a change to the full inclusion method provided in § 1.451-8(b);

(B) a change to the deferral method provided in § 1.451-8(d)(3);

(C) except as provided in section 16.12(2)(b)(ii)(E) of this revenue procedure, a change to apply the advance payment cost offset method in § 1.451-8(e) to determine the amount of an advance payment from the sale of inventory that is required to be included in gross income under either the full inclusion method in § 1.451-8(b) or the deferral method in § 1.451-8(d)(3), as applicable;

(D) a change from applying a cost offset method, including the advance payment cost offset method in § 1.451-8(e), to not applying a cost offset method to determine the amount of an advance payment from the sale of inventory that is required to be included in gross income under either the full inclusion method in § 1.451-8(b) or the deferral method in § 1.451-8(d)(3), as applicable;

(E) a change to comply with § 1.451-8(e)(8)(ii) as a result of a concurrent cost-offset related inventory method change, as defined in section 5.06 of Rev. Proc. 2015-13 (or successor), or because the taxpayer determines its cost of goods in progress offset by reference to costs that the taxpayer has impermissibly capitalized and/or allocated under its present method of accounting for inventory; or

(F) a change to a payment allocation method described in § 1.451-8(d)(4)(ii).

(3) *Inapplicability.* Section 16.12(2) of this revenue procedure does not apply to:

(a) a change in method of accounting to use a special method of accounting, as defined in proposed § 1.451-3(c)(5) or § 1.451-3(a)(13), as applicable;

(b) a change in method of allocating transaction price between item(s) of gross income that are accounted for under proposed § 1.451-3 or § 1.451-3, as applicable, and item(s) of gross income that are accounted for under a special method of accounting, as defined in proposed § 1.451-3(c)(5) or § 1.451-3(a)(14), as applicable, including a change to comply with § 1.451-3(d)(5);

(c) a change described in section 16.12(2)(a)(iii)(E), section 16.12(2)(a)(iv)(F) or section 16.12(2)(b)(ii)(E) of this revenue procedure, as applicable, if, immediately after such change is made, the taxpayer's method of accounting for cost offsets does not otherwise comply with the AFS cost offset method under § 1.451-3(c) and/or the advance payment cost offset method under § 1.451-8(e), as applicable;

(d) a change described in section 16.12(2)(a)(iii)(E), section 16.12(2)(a)(iv)(F) or section 16.12(2)(b)(ii)(E) of this revenue procedure, including a change to comply with § 1.451-3(c)(5)(ii) or § 1.451-8(e)(8)(ii) because the taxpayer determines its cost of goods in progress offset by reference to costs that the taxpayer has impermissibly capitalized and/or allocated under its present method of accounting for inventory, unless the taxpayer makes, for the same year of change, the cost-offset related inventory method change(s), as defined in section 5.06 of Rev. Proc. 2015-13;

(e) a change to use the AFS cost offset method if the taxpayer receives advance payments from the sale of inventory and does not also make a change to apply the advance payment cost offset method, or a change to use the advance payment cost offset method if the taxpayer is required to include gross income from the sale of inventory under § 1.451-3 and does not also make a change to apply the AFS cost offset method;

(f) a change to use the deferral method in § 1.451-8(c) for allocable payments described in § 1.451-8(c)(8)(iii)(A) (other than allocable payments described in § 1.451-8(c)(8)(iii)(B));

(g) a taxpayer that presently uses the deferral method in § 1.451-8(c) for alloca-

ble payments described in § 1.451-8(c)(8)(iii)(A) that wants to change its payment allocation method to an allocation method that is not described in § 1.451-8(c)(8)(iii)(B);

(h) a change to use the deferral method in § 1.451-8(d)(3) for allocable payments described in § 1.451-8(d)(4)(i) other than either allocable payments described in § 1.451-8(d)(4)(ii) or allocable payments that are wholly attributable to two or more items described in § 1.451-8(a)(1)(i)(C);

(i) a taxpayer that presently uses the deferral method in § 1.451-8(d)(3) for allocable payments described in § 1.451-8(d)(4)(i) that wants to change its payment allocation method to an allocation method that is not described in § 1.451-8(d)(4)(ii);

(j) a taxpayer without an AFS that wants to change its method of accounting for advance payments to the deferral method under proposed § 1.451-8(d)(3) or § 1.451-8(d)(3) under which the taxpayer determines the extent to which an advance payment is earned by using the following: (i) a statistical basis if adequate data are available to the taxpayer; or (ii) the use of any other basis that in the opinion of the Commissioner results in a clear reflection of income;

(k) a change in method of accounting for specified fees, as defined in proposed § 1.451-3(i)(2) or § 1.451-3(j)(2), as applicable, other than specified credit card fees;

(l) a change in method of accounting that qualifies under another automatic change provided in this revenue procedure including, for example, a change described in section 16.10 of this revenue procedure;

(m) a change in method of accounting for a liability, as defined in § 1.446-1(c)(1)(ii)(B);

(n) a change in a taxpayer's mismatched reporting periods method described in § 1.451-3(h)(4) if the taxpayer uses the deferral method for advance payments under § 1.451-8(c) and does not also change to the same mismatched reporting periods method for purposes of accounting for advance payments pursuant to § 1.451-8(c)(7) for the same year of change; or, if applicable, a change in a taxpayer's mismatched reporting periods method pursuant to § 1.451-8(c)(7) if the taxpayer uses the deferral method

for advance payments under § 1.451-8(c) and does not also change to the same mismatched reporting periods method for purposes of § 1.451-3(h)(4) for the same year of change;

(o) a change in method of accounting for payments within the scope of the specified good exception, as defined in § 1.451-8(a)(1)(ii), if the proposed method of accounting is to include such payments in gross income under § 1.451-3 in one or more taxable years following the taxable year of receipt; and

(p) a taxpayer that makes one or more changes under section 16.12(2)(a)(iii) or (iv) of this revenue procedure for a taxable year that begins before January 1, 2021, unless the taxpayer complies with all the requirements in §§ 1.451-3(m)(3), 1.451-8(h)(2), and 1.1275-2(l)(2)(ii), as applicable.

#### (4) *Manner of making change.*

(a) *Short Form 3115.* A taxpayer making a change under this section 16.12 for its early application year, as defined in section 16.12(4)(c)(i) of this revenue procedure, or in the case of a taxpayer that does not apply § 1.451-3 and/or § 1.451-8, as applicable, for a taxable year beginning before January 1, 2021, for its first taxable year beginning on or after January 1, 2021, is required to complete the following information on Form 3115 (Rev. December 2018), and the requirement to file the duplicate copy, under section 6.03(1)(a) of Rev. Proc. 2015-13 is waived:

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

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

(iii) Part I;

(iv) Part II, all lines except lines 13, 16c, and 19; and

(v) Part IV, all lines. For a taxpayer making a change under this section 16.12, the statement required for Line 26 of Form 3115 should list the § 481(a) adjustment(s).

(vi) Schedule B, all lines except line 1e.

(b) *Special rules relating to § 481(a) adjustment or cut-off basis.*

(i) *Section 481(a) adjustment period for changes relating to specified credit card fees.* In the case of income from a specified credit card fee, the § 481(a) adjustment period for any qualified change in method of accounting described in this

section 16.12(4)(b)(i) is six taxable years, including the year of change and next five taxable years. For purposes of the preceding sentence, a qualified change in method of accounting is a change in method of accounting for income from a specified credit card fee to a method that is required by § 451(b), as added by section 13221 of Public Law 115-97, 131 Stat. 2054 (Dec. 22, 2017), commonly referred to as the Tax Cuts and Jobs Act (TCJA), for such income, but only for the taxpayer's first taxable year beginning after December 31, 2018. Section 16.12(4)(b)(ii) of this revenue procedure may not be used for a change relating to specified credit card fees.

(ii) *Cut-off basis or § 481(a) adjustment.*

(A) *In general.* Changes under this section 16.12 with regard to taxpayers who are members of consolidated groups generally are governed by this section 16.12, rather than by § 1.1502-17(b)(2) (applicable to changes in the application of the timing rules of § 1.1502-13 in accounting for intercompany transactions (within the meaning of § 1.1502-13(b)(1)(i))). See § 1.1502-17(a) and (b)(1).

(B) *Cut-off basis or § 481(a) adjustment for changes made under section 16.12(2)(a)(i) of this revenue procedure when taxpayer is also adopting the New Standards.* Except as otherwise provided in this section 16.12(4)(b)(ii), a taxpayer making a change described in section 16.12(2)(a)(i) of this revenue procedure may implement the change with either a § 481(a) adjustment as provided in sections 7.02 and 7.03 of Rev. Proc. 2015-13 or on a cut-off basis provided the year of change is the same year that the taxpayer adopts the New Standards, as defined in section 16.11 of this revenue procedure. A taxpayer described in section 16.12(4)(c)(i)(B) or (C) of this revenue procedure that uses the streamlined procedures provided in section 16.12(4)(c) of this revenue procedure may not make a change in method of accounting on a cut-off basis. If the taxpayer makes a change described in section 16.12(2)(a)(i) of this revenue procedure for the taxable year in which it adopts the New Standards and chooses to implement such change on a cut-off basis, (1) the change applies to contracts entered into on or after the beginning of the year

of change, (2) all changes made under section 16.12(2)(a)(i) of this revenue procedure must be implemented using a cut-off basis, and (3) a § 481(a) adjustment is neither permitted nor required.

(C) *Cut-off basis or § 481(a) adjustment for certain changes under proposed § 1.451-8(c).* Except as otherwise provided in this section 16.12(4)(b)(ii), a taxpayer making a change described in section 16.12(2)(a)(ii) of this revenue procedure may implement the change with either a § 481(a) adjustment as provided in sections 7.02 and 7.03 of Rev. Proc. 2015-13 or on a cut-off basis. A taxpayer described in section 16.12(4)(c)(i)(B) of this revenue procedure that uses the streamlined procedures provided in section 16.12(4)(c) of this revenue procedure may not make a change in method of accounting on a cut-off basis. If the taxpayer implements the change on a cut-off basis, (1) the change applies to contracts entered into on or after the beginning of the year of change, (2) all changes made under section 16.12(2)(a)(ii) of this revenue procedure to comply with proposed § 1.451-8(c) must be implemented using a cut-off basis, and (3) a § 481(a) adjustment is neither permitted nor required.

(D) *Computing section 481(a) adjustments when the year of change is a year in which the taxpayer implements a change in accounting principle with a retained earnings adjustment.* If the year of change is a year in which the taxpayer implements a change in accounting principle for AFS purposes, including a change in the method of applying an accounting principle for AFS purposes, and the change in accounting principle is implemented with a retained earnings adjustment that is taken into account during the year of change, the taxpayer is required to treat such adjustment as being taken into account in the taxable year prior to the year of change for purposes of computing the section 481(a) adjustment. An AFS change to adopt the New Standards, as defined in section 16.11(1) of this revenue procedure, is an example of a change in accounting principle.

(iii) *Netting of the section § 481(a) adjustment.*

(A) *Required netting for changes made under § 1.451-3 related to inventory sales.* A taxpayer that makes a change described

in section 16.12(2)(a)(iii)(C) or (D) of this revenue procedure and one or more changes described in section 16.12(2)(a)(iii)(A), (B), and/or (G) of this revenue procedure for gross income from inventory sales for the same year of change must provide a single net § 481(a) adjustment for all such changes. The § 481(a) adjustment period described in section 7.03 of Rev. Proc. 2015-13 is determined based on the net § 481(a) adjustment.

(B) *Required netting for changes made under § 1.451-8 related to inventory sales for taxpayers with an AFS.* A taxpayer that makes a change described in section 16.12(2)(a)(iv)(D) or (E) of this revenue procedure and one or more changes described in section 16.12(2)(a)(iv)(A), (B), (C), and/or (G) of this revenue procedure for advance payments from the sale of inventory for the same year of change must provide a single net § 481(a) adjustment for all such changes. The § 481(a) adjustment period described in section 7.03 of Rev. Proc. 2015-13 is determined based on the net § 481(a) adjustment.

(C) *Required netting for changes made under § 1.451-8 related to inventory sales for taxpayers without an AFS.* A taxpayer that makes a change described in section 16.12(2)(b)(ii)(C) or (D) of this revenue procedure and one or more changes in method of accounting described in section 16.12(2)(b)(ii)(A) or (B) of this revenue procedure for advance payments from the sale of inventory for the same year of change must provide a single net § 481(a) adjustment for all such changes. The § 481(a) adjustment period described in section 7.03 of Rev. Proc. 2015-13 is determined based on the net § 481(a) adjustment.

(D) *Required netting for non-automatic method changes under § 1.451-3 and/or § 1.451-8 related to inventory sales.* The rules in section 16.12(4)(b)(iii) of this revenue procedure generally will apply to a non-automatic change under § 1.451-3 and/or § 1.451-8 for which the netting rules of section 16.12(4)(b)(iii) of this revenue procedure would otherwise apply if the taxpayer were eligible to make the change under section 16.12 of this revenue procedure.

(iv) *Special § 481(a) adjustment rules for cost offset method change(s) under § 1.451-3 and/or § 1.451-8 made with*

corresponding cost-offset related inventory method change(s).

(A) *Required netting rule for changes described in section 16.12(2)(a)(iii)(E).* A taxpayer that makes more than one method change under section 16.12(2)(a)(iii)(E) of this revenue procedure for the same year of change must provide a single net § 481(a) adjustment for all such changes. The § 481(a) adjustment period for this net § 481(a) adjustment is determined by applying the rules in section 16.12(4)(b)(iv)(D) of this revenue procedure.

(B) *Required netting rule for changes described in section 16.12(2)(a)(iv)(F).* A taxpayer that makes more than one method change under section 16.12(2)(a)(iv)(F) of this revenue procedure for the same year of change must provide a single net § 481(a) adjustment for all such changes. The § 481(a) adjustment period for this net § 481(a) adjustment is determined by applying the rules in section 16.12(4)(b)(iv)(D) of this revenue procedure.

(C) *Required netting rule for changes described in section 16.12(2)(b)(ii)(E).* A taxpayer that makes more than one method change under section 16.12(2)(b)(ii)(E) of this revenue procedure for the same year of change must provide a single net § 481(a) adjustment for all such changes. The § 481(a) adjustment period for this net § 481(a) adjustment is determined by applying the rules in section 16.12(4)(b)(iv)(D) of this revenue procedure.

(D) *Special § 481(a) adjustment spread period.* For purposes of sections 7.02 and 7.03 of Rev. Proc. 2015-13, the § 481(a) adjustment spread period for a cost offset change described in section 16.12(2)(a)(iii)(E), section 16.12(2)(a)(iv)(F), or section 16.12(2)(b)(ii)(E) of this revenue procedure, whether the § 481(a) adjustment is positive or negative, is the same as the § 481(a) spread period for the corresponding cost-offset related inventory method change, as defined in section 5.06 of Rev. Proc. 2015-13. The rules of section 7.02 and 7.03 of Rev. Proc. 2015-13, including the short period rule and the accelerated adjustment period rules, apply to determine the spread period for the § 481(a) adjustment for the cost-offset related inventory method change, which is used to determine the § 481(a) adjustment spread period for a positive or negative § 481(a) adjustment for the correspond-

ing cost offset change described in section 16.12(2)(a)(iii)(E), section 16.12(2)(a)(iv)(F), or section 16.12(2)(b)(ii)(E) of this revenue procedure. If the taxpayer must net the § 481(a) adjustments for cost offset changes under section 16.12(4)(b)(iv)(A), (B) or (C) of this revenue procedure, as applicable, the spread period for any such net § 481(a) adjustment is the same as the § 481(a) spread period for the corresponding cost-offset related inventory method changes, determined by netting the § 481(a) adjustments from such corresponding cost-offset related inventory method changes. The requirement that the taxpayer net the § 481(a) adjustments for such corresponding cost-offset related inventory method changes is solely for purposes of determining the spread period for the net § 481(a) adjustment determined under section 16.12(4)(b)(iv)(A), (B), or (C), as applicable. This section 16.12(4)(b)(iv)(D) does not apply if, after applying the netting rules in section 16.12(4)(b)(iv)(A), (B), or (C), as applicable, the § 481(a) adjustment for the corresponding cost offset change(s) is zero. For example, if the taxpayer makes a cost-offset related inventory method change that is implemented on a cut-off basis and the § 481(a) adjustment for the taxpayer's corresponding change described in section 16.12(2)(a)(iii)(E), section 16.12(2)(a)(iv)(F), or section 16.12(2)(b)(ii)(E) of this revenue procedure is zero as a result, this section 16.12(4)(b)(iv)(D) does not apply.

(v) *Examples.* For each of the following examples, the taxpayer uses an accrual method of accounting, is on a calendar year, and has an AFS, as defined in § 1.451-3(a)(5). The taxpayer implements § 1.451-3 and, if applicable, § 1.451-8, beginning with its 2021 taxable year.

(A) *Example 1. Netting rules.* *A* is engaged in a single trade or business of selling and servicing computers. *A* is not under examination within the meaning of section 3.18 of Rev. Proc. 2015-13. *A* does not receive advance payments. For 2021, *A* makes multiple changes in method of accounting to apply § 1.451-3. Specifically, *A* changes its method of accounting for gross income from the sale of computers to apply the AFS income inclusion rule pursuant to section 16.12(2)(a)(iii)(A) of this revenue procedure and to apply the AFS cost offset method pursuant to section 16.12(2)(a)(iii)(C) of this revenue procedure. *A* also changes its method of accounting for gross income from computer services to apply the AFS income inclusion rule pursuant to section 16.12(2)(a)(iii)(A) of this revenue procedure. Since *A* made a change described in section 16.12(2)(a)(iii)(C) of

this revenue procedure and a change described in section 16.12(2)(a)(iii)(A) of this revenue procedure for gross income from computer sales for the same year of change, *A* must net the § 481(a) adjustments resulting from these changes in the manner required by section 16.12(4)(b)(iii)(A) of this revenue procedure. The § 481(a) adjustment resulting from *A*'s change in method of accounting for income from computer services under section 16.12(2)(a)(iii)(A) of this revenue procedure is not netted with the § 481(a) adjustments resulting from the computer sales method changes.

(B) *Example 2. Special section 481(a) adjustment period under section 16.12(4)(b)(iv) of this revenue procedure.* The facts are the same as in Example 1. For 2022, *A* changes its inventory method under section 12.01 of this revenue procedure and, as a result, also changes its cost offset method to comply with § 1.451-3(c)(5)(ii) pursuant to section 16.12(2)(a)(iii)(E) of this revenue procedure. The cost-offset related inventory method change under section 12.01 of this revenue procedure results in a positive § 481(a) adjustment that is spread over four taxable years under section 7.01 and 7.03 of Rev. Proc. 2015-13. The cost offset method change under section 16.12(2)(a)(iii)(E) of this revenue procedure results in a negative § 481(a) adjustment. Section 16.12(4)(b)(iv)(D) of this revenue procedure requires *A* to spread the negative § 481(a) adjustment over four taxable years consistent with the § 481(a) adjustment period for the concurrent cost-offset related inventory method change under section 12.01 of this revenue procedure.

(c) *Streamlined method change procedures for certain taxpayers.*

(i) *Applicability.* The procedures described in this section 16.12(4)(c) may be used by a taxpayer to make a change in method of accounting described in section 16.12(2)(a)(iii)(A), (B), (F), and/or (G), section 16.12(2)(a)(iv)(A), (B), (C), (G), and/or (H), or section 16.12(2)(b)(ii)(A), (B), and/or (F) of this revenue procedure for the taxpayer's early application year, provided the taxpayer meets the requirements in this section 16.12(4)(c). For purposes of section 16.12, a taxpayer's "early application year" means the taxable year beginning before January 1, 2021, in which a taxpayer first applies § 1.451-3 and/or § 1.451-8, as applicable. In addition, in the case of a taxpayer that does not apply § 1.451-3 and/or § 1.451-8 for a taxable year beginning before January 1, 2021, the procedures described in this section 16.12(4)(c) may be used to make a change in method of accounting described in section 16.12(2)(a)(iii)(A), (B), (F), and/or (G), section 16.12(2)(a)(iv)(A), (B), (C), (G), and/or (H), or section 16.12(2)(b)(ii)(A), (B), and/or (F) of this revenue procedure, for the taxpayer's first

taxable year beginning on or after January 1, 2021, provided the taxpayer meets the requirements in this section 16.12(4)(c). A taxpayer may not use the streamlined procedures for any change in method of accounting described in section 16.12(2) of this revenue procedure if the taxpayer is also making a change in method of accounting described in sections 16.12(2)(a)(iii)(C), (D), and/or (E), sections 16.12(2)(a)(iv)(D), (E), and/or (F), or sections 16.12(2)(b)(ii)(C), (D), and/or (E) of this revenue procedure for the same year of change. In addition, a taxpayer may not use the streamlined procedures if one or more of the inapplicability rules provided in section 16.12(3) of this revenue procedure applies to the change. A taxpayer that is otherwise permitted to use the streamlined method change procedures in this section 16.12(4)(c) may use these streamlined procedures if the taxpayer meets one of the following requirements:

(A) the taxpayer, other than a tax shelter, as defined in § 448(d)(3), meets the § 448(c) gross receipts test (a “small business taxpayer”) for the year of change. The taxpayer meets the § 448(c) gross receipts test if the taxpayer has average annual gross receipts for the three prior taxable years of \$25,000,000 or less (adjusted for inflation). See § 448(c)(4). For a taxable year beginning in 2019, 2020, or 2021, the inflation-adjusted amount is \$26,000,000. See Rev. Proc. 2018-57, 2018-49 I.R.B. 827, Rev. Proc. 2019-44, 2019-47 I.R.B. 1093, or Rev. Proc. 2020-45, 2020-46 I.R.B. 1016 as applicable;

(B) the taxpayer is making one or more changes described in section 16.12(2)(a)(iii)(A), (B), (F), and/or (G) of this revenue procedure, and the § 481(a) adjustment required by each of the changes is zero. A taxpayer that meets this requirement is permitted to make the changes described in section 16.12(2)(a)(iii)(A), (B), (F), and/or (G) of this revenue procedure under the streamlined method change procedures. Notwithstanding any provisions of this section 16.12, a taxpayer making more than one change in method of accounting under section 16.12(2)(a)(iii)(A), (B), (F), and/or (G) of this revenue procedure for the same year of change is not permitted to net the § 481(a) adjustments to determine if the taxpayer meets the requirements to use the streamlined

method change procedures. See section 16.12(7)(a) of this revenue procedure for more information on making concurrent changes; or

(C) the taxpayer is making one or more changes described in section 16.12(2)(a)(iv)(A), (B), (C), (G), and/or (H), or section 16.12(2)(b)(ii)(A), (B), and/or (F) of this revenue procedure, and the § 481(a) adjustment required by each of the changes is zero. A taxpayer that meets this requirement is permitted to make the changes described in section 16.12(2)(a)(iv)(A), (B), (C), (G), and/or (H), or section 16.12(2)(b)(ii)(A), (B), and/or (F) of this revenue procedure under the streamlined method change procedures. Notwithstanding any provisions of this section 16.12, a taxpayer making more than one change in method of accounting under section 16.12(2) for the same year of change is not permitted to net the § 481(a) adjustments to determine if the taxpayer meets the requirements to use the streamlined method change procedures. See section 16.12(7)(a) of this revenue procedure for more information on making concurrent changes.

(ii) *No Form 3115 required.* In accordance with § 1.446-1(e)(3)(ii), the requirement of § 1.446-1(e)(3)(i) to file a Form 3115 is waived for a taxpayer making a change in method of accounting under this section 16.12 using the streamlined method change procedures. Thus, a taxpayer using the streamlined method change procedures is not required to file a Form 3115 and is not required to attach a separate statement when making a change under this section 16.12.

(d) *Certain cost offset changes made on an amended return.*

(i) *In general.* Notwithstanding section 6.03(1)(a) of Rev. Proc. 2015-13, a taxpayer making a change described in section 16.12(2)(a)(iii)(E), section 16.12(2)(a)(iv)(F), or section 16.12(2)(b)(ii)(E) of this revenue procedure, as applicable, which corresponds to a cost-offset related inventory method change filed under the non-automatic method change procedures of Rev. Proc. 2015-13 for the same year of change may make the corresponding cost offset change described in section 16.12(2)(a)(iii)(E), section 16.12(2)(a)(iv)(F), or section 16.12(2)(b)(ii)(E) on an amended Federal income tax return for the cost offset year of change (as defined

in section 16.12(4)(d)(ii) of this revenue procedure) provided:

(A) the taxpayer received consent for the cost-offset related inventory method change filed under the non-automatic method change procedures for the year of change after the time the taxpayer was required to file the original Form 3115 for the corresponding cost offset change under section 16.12(2)(a)(iii)(E), section 16.12(2)(a)(iv)(F), or section 16.12(2)(b)(ii)(E) of this revenue procedure, as applicable, in accordance with section 6.03(1)(a)(i)(A) of Rev. Proc. 2015-13 for the cost offset year of change;

(B) the taxpayer timely signs and returns the Consent Agreement for the non-automatic corresponding cost-offset related inventory method change in accordance with section 11.03(2)(c)(i) of Rev. Proc. 2015-13, and timely implements such non-automatic change in accordance with section 11.03(2)(c)(ii)(A) or (B) of Rev. Proc. 2015-13;

(C) the taxpayer implements the corresponding cost offset method change described in section 16.12(2)(a)(iii)(E), section 16.12(2)(a)(iv)(F), or section 16.12(2)(b)(ii)(E) of this revenue procedure, as applicable, on the same amended Federal income tax return that the taxpayer implements the cost-offset related inventory method change described in section 16.12(4)(d)(i)(A) of this revenue procedure; and

(D) the taxpayer’s amended Federal income tax return for the year of change includes any adjustments to taxable income or tax liability resulting from the change(s) in method of accounting for the cost-offset related inventory method change(s) specified in the letter ruling and the corresponding cost offset method change(s).

(ii) *Cost offset year of change.* For purposes of this section 16.12(4)(d), a taxpayer’s cost offset year of change is the same year of change that the taxpayer received consent under the non-automatic change procedures for the cost-offset inventory related change.

(iii) *Filing requirements.* Notwithstanding section 6.03(1)(a) of Rev. Proc. 2015-13, a taxpayer making a change under section 16.12(2)(a)(iii)(E), section 16.12(2)(a)(iv)(F), or section 16.12(2)(b)(ii)(E) of this revenue procedure in accordance with section 16.12(4)(d) of this rev-

enue procedure must attach the original Form 3115 to the taxpayer's timely filed amended Federal income tax return for the cost offset year of change and must file the required copy (with signature) of the Form 3115 with the IRS in Ogden, UT, no later than the date the taxpayer timely files the amended Federal income tax return that implements the cost-offset related inventory method described in section 16.12(4)(d)(i)(A) of this revenue procedure, as provided in section 11.03(2)(c)(ii)(A) or (B) of Rev. Proc. 2015-13.

(5) *Eligibility rule inapplicable.*

(a) *Eligibility rule temporarily inapplicable for changes under sections 16.12(2)(a)(i), (2)(a)(ii), or (2)(b)(i) of this revenue procedure.* Except as otherwise provided in section 16.12(5)(c) of this revenue procedure, the eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13 does not apply to a change under section 16.12(2)(a)(i), (a)(ii) or (2)(b)(i) of this revenue procedure for a taxpayer's first, second or third taxable year beginning after December 31, 2017, provided the taxable year begins before January 1, 2021.

(b) *Eligibility rule temporarily inapplicable for changes under sections 16.12(2)(a)(iii), (2)(a)(iv), or (2)(b)(ii) of this revenue procedure.* Except as otherwise provided in section 16.12(5)(c) of this revenue procedure, for a taxpayer that applies § 1.451-3 and/or § 1.451-8, as applicable, for a taxable year beginning before January 1, 2021, the eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13 does not apply to a change under section 16.12(2)(a)(iii), (2)(a)(iv), or (2)(b)(ii) of this revenue procedure for a taxpayer's early application year, as defined in section 16.12(4)(c)(i) of this revenue procedure. Except as otherwise provided in this section 16.12(5), for a taxpayer that does not apply § 1.451-3 and/or § 1.451-8 for a taxable year beginning before January 1, 2021, the eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13 does not apply to a change under section 16.12(2)(a)(iii), (2)(a)(iv), or (2)(b)(ii) of this revenue procedure for a taxpayer's first taxable year beginning on or after January 1, 2021.

(c) *Changes related to specified credit card fees.* The eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13 does not apply to a specified credit card fee change made under section 16.12(2)(a)(i) of this revenue procedure for a taxpayer's first

or second taxable year beginning after December 31, 2018, provided the taxable year begins before January 1, 2021. In addition, for a taxpayer that applies § 1.451-3 and § 1.1275-2(l) for specified credit card fees for a taxable year beginning before January 1, 2021, the eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13 does not apply to a specified credit card fee change under section 16.12(2)(a)(iii) of this revenue procedure for the taxpayer's early application year, as defined in section 16.12(4)(c)(i) of this revenue procedure. For a taxpayer that does not apply § 1.451-3 and § 1.1275-2(l) for specified credit card fees for a taxable year beginning before January 1, 2021, the eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13 does not apply to a specified credit card fee change under section 16.12(2)(a)(iii) of this revenue procedure for the taxpayer's first taxable year beginning on or after January 1, 2021.

(d) *Certain cost offset method changes.* The eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13 does not apply to a change under section 16.12(2)(a)(iii)(E), section 16.12(2)(a)(iv)(F) or section 16.12(2)(b)(ii)(E) of this revenue procedure.

(6) *Audit protection.*

(a) *Streamlined procedures.* A taxpayer making a change in method of accounting under this section 16.12 using the streamlined method change procedures provided in section 16.12(4)(c) of this revenue procedure does not receive audit protection under section 8.01 of Rev. Proc. 2015-13.

(b) *Taxpayers under examination.*

(i) *In general – certain audit protection exception temporarily inapplicable.* Except as otherwise provided in section 16.12(6)(b)(ii) and (iii) of this revenue procedure, for a taxpayer's first, second or third taxable year beginning after December 31, 2017, and before January 1, 2021, section 8.02(1) of Rev. Proc. 2015-13 does not apply to a change in method of accounting made under section 16.12(2)(a)(i), (2)(a)(ii) or (2)(b)(i) of this revenue procedure. In addition, except as otherwise provided in section 16.12(6)(b)(ii) and (iii) of this revenue procedure, for a taxpayer that applies § 1.451-3 and/or § 1.451-8, as applicable, for a taxable year beginning before January 1, 2021, section 8.02(1) of Rev. Proc. 2015-13, does not apply to a change in method of accounting made under section 16.12(2)(a)(iii), (2)(a)(iv) or (2)(b)(ii) of this revenue

procedure for a taxpayer's early application year, as defined in section 16.12(4)(c)(i) of this revenue procedure. Except as otherwise provided in section 16.12(6)(b)(ii) and (iii) of this revenue procedure, for a taxpayer that does not apply § 1.451-3 or § 1.451-8 for a taxable year beginning before January 1, 2021, section 8.02(1) of Rev. Proc. 2015-13 does not apply to a change in method of accounting made under section 16.12(2)(a)(iii), (2)(a)(iv), or (2)(b)(ii) of this revenue procedure for a taxpayer's first taxable year beginning on or after January 1, 2021. In addition, except as otherwise provided in section 16.12(4) of this revenue procedure, section 8.02(1) of Rev. Proc. 2015-13 continues to apply for purposes of determining the § 481(a) adjustment period provided in section 7.03(3)(b) of Rev. Proc. 2015-13.

(ii) *Changes related to specified credit card fees.* Except as otherwise provided in section 16.12(6)(b)(iii) of this revenue procedure, for a taxpayer's first or second taxable year beginning after December 31, 2018, and before January 1, 2021, section 8.02(1) of Rev. Proc. 2015-13 does not apply to a change under section 16.12(2)(a)(i) of this revenue procedure for specified credit card fees. In addition, except as otherwise provided in section 16.12(6)(b)(iii) of this revenue procedure, for a taxpayer that applies § 1.451-3 and § 1.1275-2(l) to specified credit card fees for a taxable year beginning before January 1, 2021, section 8.02(1) of Rev. Proc. 2015-13 does not apply to a change for specified credit card fees under section 16.12(2)(a)(iii) of this revenue procedure for the taxpayer's early application year, as defined in section 16.12(4)(c)(i) of this revenue procedure. Except as otherwise provided in section 16.12(6)(b)(iii) of this revenue procedure, for a taxpayer that does not apply § 1.451-3 and § 1.1275-2(l) to specified credit card fees for a taxable year beginning before January 1, 2021, section 8.02(1) of Rev. Proc. 2015-13 does not apply to a change for specified credit card fees under section 16.12(2)(a)(iii) of this revenue procedure for the taxpayer's first taxable year beginning on or after January 1, 2021. In addition, except as otherwise provided in section 16.12(4)(b)(i) of this revenue procedure, section 8.02(1) of Rev. Proc. 2015-13 continues to apply for purposes of determining the § 481(a) adjustment period provided in section 7.03(3)(b) of Rev. Proc. 2015-13.

(iii) *Exception.* Sections 16.12(6)(b)(i) and (ii) of this revenue procedure do not apply to a taxpayer that uses the streamlined method change procedures under section 16.12(4)(c) of this revenue procedure.

(iv) *No audit protection for certain cost offset changes.* For a taxpayer under examination that makes a change in method of accounting under section 16.12(2)(a)(iii)(E), section 16.12(a)(iv)(F), or section 16.12(2)(b)(ii)(E) of this revenue procedure, the taxpayer does not receive audit protection under section 8.01 of Rev. Proc. 2015-13 for such change if, at the time of filing, the taxpayer's method of accounting for the item being changed by the corresponding cost-offset related inventory method change, as defined in section 5.06 of Rev. Proc. 2015-13 (or successor), is an issue under consideration for the taxable year under examination. However, if the taxpayer ultimately receives audit protection for the corresponding cost-offset related inventory method change under section 8.02(1)(f) of Rev. Proc. 2015-13, then the preceding sentence does not apply and the normal audit protection rules in section 8 of Rev. Proc. 2015-13 apply.

(7) *Concurrent automatic changes.*

(a) *Changes under this section 16.12.* A taxpayer that wants to make one or more concurrent changes in method of accounting under this section 16.12 may file a single Form 3115 that includes all of the changes. Except as otherwise required by section 16.12(4)(b)(iii) of this revenue procedure, the taxpayer may not net the § 481(a) adjustment from one change with the § 481(a) adjustment from another change, and must separately state the § 481(a) adjustment for each change. If a taxpayer makes a concurrent change in method of accounting to allocate transaction price and/or payments under section 16.12(2)(a)(i), (iii), or (iv) or section 16.12(2)(b)(ii) of this revenue procedure, the taxpayer is required to make the allocation change before any other change described in section 16.12(2)(a)(i), (iii), or (iv) or section 16.12(2)(b)(ii) of this revenue procedure, as applicable.

(b) *Concurrent cost offset change and cost-offset related inventory method change.* See section 6.03(1)(b) of Rev. Proc. 2015-13 for a taxpayer that makes one or more change(s) under section 16.12(2)(a)(iii)(E), (a)(iv)(F), or (b)(ii)

(E) of this revenue procedure and one or more cost-offset related inventory method change(s), as defined in section 5.06 of Rev. Proc. 2015-13, under this revenue procedure in the same year of change. Additionally, such taxpayer is required to implement the cost-offset related inventory method change(s) under this revenue procedure before it implements the corresponding change(s) under section 16.12(2)(a)(iii)(E), (a)(iv)(F), or (b)(ii)(E) of this revenue procedure, as applicable.

(8) *Limited applicability.* Notwithstanding the inapplicability rules in section 16.12(3) of this revenue procedure, the changes described in section 16.12(2)(a)(iii)(A) and (B) of this revenue procedure are applicable only for taxable years beginning before January 1, 2021, and for a taxpayer's first, second or third taxable year beginning after December 31, 2020.

(9) *Designated automatic accounting method change number.* See the following tables for the designated automatic method change number (DCN) for the changes in method of accounting under this section 16.12.

(a) Changes under proposed §§ 1.451-3 and 1.451-8.

Description of change	SECTION # in REV. PROC. 2019-43	DESIGNATED CHANGE NUMBER (DCN)
Timing of Income Recognition - Taxpayer with an AFS		
Changes to proposed § 1.451-3	16.12(2)(a)(i)	242
Changes to account for advance payments under proposed § 1.451-8(a) or (c)	16.12(2)(a)(ii)	242
Timing of Income Recognition - Taxpayer without an AFS		
Changes to account for advance payments under proposed § 1.451-8(a) or (d)	16.12(2)(b)(i)	242

(b) Changes under the final regulations of §§ 1.451-3 and 1.451-8.

Description of change	SECTION # in REV. PROC. 2019-43	DESIGNATED CHANGE NUMBER (DCN)
Changes related to § 1.451-3 other than cost offset	16.12(2)(a)(iii)(A), (B), (F), (G)	250
Changes related to cost offset under § 1.451-3, except concurrent cost-offset related inventory method changes	16.12(2)(a)(iii)(C), (D)	251
Changes related to the deferral method for advance payments - § 1.451-8 other than cost offset	16.12(2)(a)(iv)(A)-(C), (G) and (H), (2)(b)(ii)(A), (B) or (F)	252
Changes related to cost offset under § 1.451-8, except concurrent cost-offset related inventory method changes	16.12(2)(a)(iv)(D), (E), 16.12(2)(b)(ii)(C) or (D)	253
Changes related to full-inclusion method under § 1.451-8(b)	16.12(2)(a)(iv)(A), (b)(ii)(A)	254
Changes related to cost offsets resulting from concurrent cost-offset related inventory changes	16.12(2)(a)(iii)(E), 16.12(a)(iv)(F), and 16.12(b)(ii)(E)	255

(10) *Contact information.* For further information regarding a change under this section, contact Sharon Horn at (202) 317-7003 (not a toll-free number). For further information regarding a change under this section for OID and specified fees (including specified credit card fees), contact Deepan Patel at (202) 317-3423 (not a toll-free number).

.10 Section 20 of Rev. Proc. 2019-43 is modified to add new section 20.13 to read as follows:

.13 *Timing of incurring inventory costs.*

(1) *Applicability.* This change applies to an accrual method taxpayer that wants to change its method of accounting for one or more inventory costs to treat such costs as incurred in accordance with § 1.461-1(a)(2) and § 1.461-4(d)(4) if:

(a) under the taxpayer's present method of accounting, the taxpayer takes one or more inventory costs into account in a taxable year prior to the taxable year in which such costs are incurred under § 461 and the regulations thereunder, and recovers such costs in a taxable year prior to the taxable year in which ownership of inventory is transferred to the customer to offset income inclusions under § 451(b) and/or § 451(c);

(b) in the case of a taxpayer with an applicable financial statement (AFS), as defined in section 16.12(1)(b) of this revenue procedure, the taxpayer makes, for the same year of change, a change in method of accounting for income from the sale of inventory under section 16.12(2)(a)(iii) of this revenue procedure and, to the extent the taxpayer receives advance payments for the sale of inventory, section 16.12(2)(a)(iv) of this revenue procedure, or in the case of a taxpayer that does not have an AFS, the taxpayer makes, for the same year of change, a change in method of accounting for advance payments from the sale of inventory under section 16.12(2)(b)(ii) of this revenue procedure;

(c) the taxpayer makes, for the same year of change, a change in method of accounting for such inventory costs under section 12.01, 12.02, 22.05, 22.11, 22.18, or 22.19 of this revenue procedure, as applicable; and

(d) the taxpayer makes the change for its inventory costs under this section 20.13 for its early application year, as defined in section 16.12(4)(c)(i) of this revenue

procedure, or if a taxpayer does not apply § 1.451-3 and/or § 1.451-8, as applicable, for a taxable year beginning before January 1, 2021, for the taxpayer's first taxable year beginning on or after January 1, 2021.

(2) *Inapplicability.* Section 20.13 of this revenue procedure does not apply to a taxpayer that is not on a permissible method of accounting for its inventory as required under § 471 and § 263A, as applicable, unless the taxpayer changes to a permissible method of accounting under § 471 or § 263A, as applicable, for the same year of change.

(3) *Eligibility rule inapplicable.* The eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13 does not apply to a change described in section 20.13(1) of this revenue procedure.

(4) *No ruling on method used.* The consent granted under section 9 of Rev. Proc. 2015-13 for a change made under this section 20.13 is not a determination by the Commissioner that the proposed method of accounting is a permissible method of accounting under § 1.461-1(a)(2) and § 1.461-4(d)(4), and does not create a presumption that the proposed method of accounting is a permissible method of accounting under a provision of the Code. The director will ascertain whether the proposed method is permissible and in accordance with § 1.461-1(a)(2) and § 1.461-4(d)(4).

(5) *Concurrent automatic change.* A taxpayer that is making a change described in section 20.13(1) of this revenue procedure and one or more changes described in sections 12.01, 12.02, 22.05, 22.11, 22.18, or 22.19 of this revenue procedure for the same year of change must timely file a single Form 3115 for all such changes and must enter the designated automatic accounting change numbers for all such changes on the appropriate line of Form 3115. If the taxpayer is making a change described in section 20.13(1) of this revenue procedure for one or more inventory costs, and a change described in section 12.01, 12.02, 22.05, 22.11, 22.18, or 22.19 of this revenue procedure for the same year of change, the taxpayer may provide a single net § 481(a) adjustment for all such changes. See section 6.03(1)(b) of Rev. Proc. 2015-13 for information on making concurrent changes.

(6) *Designated automatic accounting method change number.* The designated automatic method change number (DCN) for a change to the method of accounting under this section 20.13 is "256."

(7) *Contact information.* For further information regarding a change under this section, contact Douglas Kim at (202) 317-7003 (not a toll-free number).

.11 *Modification to section 22.05 of Rev. Proc. 2019-43, relating to Impermissible methods of identification and valuation of inventories.* Section 22.05(1) of Rev. Proc. 2019-43 is modified to add a new subparagraph (d) to read as follows:

(d) *Eligibility rule temporarily inapplicable for certain changes related to cost offset method.* The eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13 does not apply to a method change under this section 22.05 if:

(i) the taxpayer made or requested to make a change during any of the five taxable years ending with the year of change to recover inventory costs in a taxable year prior to the taxable year in which ownership of the inventory is transferred to the customer to offset inclusions under § 451(b) and/or 451(c), as applicable;

(ii) in the case of a taxpayer with an applicable financial statement (AFS), as defined in section 16.12(1)(b) of this revenue procedure, the taxpayer makes, for the same year of change, a change in method of accounting for income from the sale of inventory under section 16.12(2)(a)(iii) of this revenue procedure and, to the extent the taxpayer receives advance payments for the sale of inventory, section 16.12(2)(a)(iv) of this revenue procedure, or in the case of a taxpayer that does not have an AFS, the taxpayer concurrently changes its method of accounting for advance payments from the sale of inventory under section 16.12(2)(b)(ii) of this revenue procedure; and

(iii) the taxpayer makes the change under this section 22.05 for its early application year, as defined in section 16.12(4)(c)(i) of this revenue procedure, or if a taxpayer does not apply § 1.451-3 and/or § 1.451-8, as applicable, for a taxable year beginning before January 1, 2021, for the taxpayer's first taxable year beginning on or after January 1, 2021.

.12 *Modification to section 22.11 of Rev. Proc. 2019-43, relating to Permis-*



sible methods of identification and valuation of inventories. Section 22.11(1) of Rev. Proc. 2019-43 is modified to add new subparagraphs (d) and (e) to read as follows:

(d) *Eligibility rule temporarily inapplicable.* The eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13 does not apply to a method change under this section 22.11 if:

(i) the taxpayer made or requested to make a change during any of the five taxable years ending with the year of change to recover inventory costs in a taxable year prior to the taxable year in which ownership of the inventory is transferred to the customer to offset inclusions under § 451(b) and/or 451(c), as applicable;

(ii) in the case of a taxpayer with an applicable financial statement (AFS), as defined in section 16.12(1)(b) of this revenue procedure, the taxpayer makes, for the same year of change, a change in method of accounting for income from the sale of inventory under section 16.12(2)(a)(iii) of this revenue procedure and, to the extent the taxpayer receives advance payments for the sale of inventory, section 16.12(2)(a)(iv) of this revenue procedure, or in the case of a taxpayer that does not have an AFS, the taxpayer concurrently changes its method of accounting for advance payments from the sale of inventory under section 16.12(2)(b)(ii) of this revenue procedure; and

(iii) the taxpayer makes the change under this section 22.11 for its early application year, as defined in section 16.12(4)(c)(i) of this revenue procedure, or if a taxpayer does not apply § 1.451-3 and/or § 1.451-8, as applicable, for a taxable year beginning before January 1, 2021, for the taxpayer's first taxable year beginning on or after January 1, 2021.

(e) *Permissible method determination.* The eligibility waiver under section 22.11(1)(d) of this revenue procedure is not a determination by the Commissioner that the taxpayer's present method of accounting described in section 22.11(1)(d)(i) of this revenue procedure is a permissible method of accounting. The method of accounting described in section 22.11(1)(d)(i) of this revenue procedure is not a permissible method of accounting for any taxable year in which §§ 1.451-3 and 1.451-8 are applicable.

.13 *Modification to section 22.18 of Rev. Proc. 2019-43, relating to Change from currently deducting inventories to permissible methods of identification and valuation of inventories.* Section 22.18(1) of Rev. Proc. 2019-43 is modified to add a new subparagraph (d) to read as follows:

(d) *Eligibility rule temporarily inapplicable.* The eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13 does not apply to a method change under this section 22.18 if:

(i) the taxpayer made or requested to make a change during any of the five taxable years ending with the year of change to recover inventory costs in a taxable year prior to the taxable year in which ownership of the inventory is transferred to the customer to offset inclusions under § 451(b) and/or 451(c), as applicable;

(ii) in the case of a taxpayer with an applicable financial statement (AFS), as defined in section 16.12(1)(b) of this revenue procedure, the taxpayer makes, for the same year of change, a change in method of accounting for income from the sale of inventory under section 16.12(2)(a)(iii) of this revenue procedure and, to the extent the taxpayer receives advance payments for the sale of inventory, section 16.12(2)(a)(iv) of this revenue procedure, or in the case of a taxpayer that does not have an AFS, the taxpayer concurrently changes its method of accounting for advance payments from the sale of inventory under section 16.12(2)(b)(ii) of this revenue procedure; and

(iii) the taxpayer makes the change under this section 22.18 for its early application year, as defined in section 16.12(4)(c)(i) of this revenue procedure, or if a taxpayer does not apply § 1.451-3 and/or § 1.451-8, as applicable, for a taxable year beginning before January 1, 2021, for the taxpayer's first taxable year beginning on or after January 1, 2021.

.14 *Modification to section 30.02 of Rev. Proc. 2019-43.* Section 30.02 of Rev. Proc. 2019-43 is modified to read as follows:

(1) *Description of change.* This change applies to a taxpayer that wants to change to the proportional method of accounting for OID on a pool of credit card receivables described in Rev. Proc. 2013-26, 2013-22 I.R.B. 1160, as modified by Rev. Proc. 2021-35, 2021-35 I.R.B. 355,

to reflect changes made to the treatment of certain credit card fees by § 451(b), as amended by the TCJA, and §§ 1.451-3 and 1.1275-2(l). The proportional method of accounting applies to OID and certain amounts that would not otherwise be treated as OID (for example, market discount or bond premium). Under § 1.1275-2(l), OID does not include items that are subject to the timing rules in § 1.451-3, such as credit card late fees, credit card cash advance fees, and interchange fees (specified credit card fees). Therefore, items subject to the timing rules in § 1.451-3, such as specified credit card fees, are excluded from the proportional method. See section 16.12 of this revenue procedure for the procedures by which a taxpayer, including a taxpayer using the proportional method of accounting, can change its method of accounting for specified credit card fees to comply with § 451(b), as amended by the TCJA, and §§ 1.451-3 and 1.1275-2(l).

(2) *Manner of making change.*

(a) This change is made on a cut-off basis. Accordingly, a § 481(a) adjustment is neither required nor permitted.

(b) The unaccrued OID for the pool as of the beginning of the first period in the year of change is equal to the unaccrued OID for the pool as of the end of the preceding taxable year under the taxpayer's previous method of accounting for OID on the pool, reduced by any amounts representing charges or fees that are not properly treated as OID (for example, specified credit card fees).

(3) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under this section 30.02 is "183."

(4) *Contact information.* For further information regarding this section, please contact Deepan Patel at (202) 317-3423 (not a toll-free number).

#### **SECTION 4. MODIFICATIONS TO REV. PROC. 2015-13**

.01 *Modifications to section 5.01(1) of Rev. Proc. 2015-13, relating to the eligibility of automatic changes.* Section 5.01(1)(e) of Rev. Proc. 2015-13 is modified by deleting the word "and" at the end of the sentence, section 5.01(1)(f) of Rev. Proc. 2015-13 is modified by deleting the

period at the end of the sentence and adding “; and”, and section 5.01 of Rev. Proc. 2015-13 is modified by adding a new subparagraph (g) to read as follows:

(g) in the case of a taxpayer that uses the AFS cost offset method in § 1.451-3(c) and/or the advance payment cost offset method in § 1.451-8(e) and wants to make a cost-offset related inventory method change, as defined in SECTION 5.06, that is described in the List of Automatic Changes, the taxpayer makes a concurrent change under section 16.12(2)(a)(iii)(E) and/or section 16.12(2)(a)(iv)(F) or section 16.12(2)(b)(ii)(E) of Rev. Proc. 2019-43, 2019-48 I.R.B. 1107, (or successor), as applicable.

.02 *Modification to section 5 of Rev. Proc. 2015-13, relating to the eligibility rules.* Section 5 of Rev. Proc. 2015-13 is modified by adding a new paragraph .06 to read as follows:

.06 *Definition of “Cost-offset related inventory method change.”* A “cost-offset related inventory method change” is any change in method of accounting for inventory or any change in method of accounting for a liability, as defined in § 1.446-1(c)(1)(ii)(B), that affects or could affect the taxpayer’s cost of goods in progress offset under § 1.451-3(c) and/or § 1.451-8(e). For example, a cost-offset related inventory method change includes:

(1) a change in method of accounting for one or more costs that the taxpayer currently references to determine its cost of goods in progress offset under its present AFS cost offset method and/or its present advance payment cost offset method, including costs the taxpayer has impermissibly capitalized and/or allocated under its present method of accounting for inventory;

(2) a change in method of accounting for one or more costs that the taxpayer is required by § 1.451-3(c)(5)(ii) and/or § 1.451-8(e)(8)(ii) to reference to determine its cost of goods in progress offset under § 1.451-3(c) and/or § 1.451-8(e), regardless of whether the taxpayer currently references such cost under its present AFS cost offset method and/or its present advance payment cost offset method;

(3) a change in method of identifying inventories; or

(4) a change in method of valuing inventories.

.03 *Modification to section 6.03(1)(b) of Rev. Proc. 2015-13, relating to certain concurrent changes in method of accounting for an automatic change.* Section 6.03(1)(b) of Rev. Proc. 2015-13 is modified by moving the existing text within subparagraph (b) to a new division (i) with the heading “*In general.*”, and adding a new division (ii) to read as follows:

(ii) *Concurrent cost offset change and cost-offset related inventory method change.* A taxpayer that makes one or more changes under section 16.12(2)(a)(iii)(E), (a)(iv)(F), or (b)(ii)(E) of Rev. Proc. 2019-43, 2019-48 I.R.B. 1107, (or successor) to comply with § 1.451-3(c)(5)(ii) and/or § 1.451-8(e)(8)(ii) of TD 9941, 86 FR 810, corrected by 86 FR 126 and 86 FR 2974, as applicable, and one or more cost-offset related inventory method changes, as defined in SECTION 5.06, that are described in the List of Automatic Changes for the same year of change should file a single Form 3115 for such changes and put the designated automatic accounting change numbers for such changes on the appropriate line of that Form 3115. As provided in section 16.12(7)(b) of Rev. Proc. 2019-43, a taxpayer is required to implement the cost-offset related inventory method change(s), as defined in SECTION 5.06, before it implements the change(s) under section 16.12(2)(a)(iii)(E), (a)(iv)(F), or (b)(ii)(E) of Rev. Proc. 2019-43, as applicable.

## SECTION 5. EFFECTIVE DATE

.01 *In general.* Except as provided in section 5.02 of this revenue procedure, this revenue procedure is effective for a Form 3115 filed on or after August 12, 2021.

.02 *Return of Form 3115 filed under the non-automatic change procedures.*

(1) The National Office will return any Form 3115 requesting a change in method of accounting that was filed with the National Office on or before August 12, 2021, under the non-automatic procedures of Rev. Proc. 2015-13 for a taxable year beginning after December 31, 2017, that is pending with the National Office on August 12, 2021, and that is eligible for the automatic change procedures as described in section 3 of this revenue procedure. The

National Office will send a letter to notify the taxpayer of the return of the Form 3115 and will return the user fee submitted with the Form 3115.

(2) A taxpayer that resubmits the Form 3115 under the automatic change procedures for a change in method of accounting described in this revenue procedure must resubmit the Form 3115 that conforms to the automatic change procedures to the IRS in Ogden, UT, by the earlier of (a) the 60th calendar day after the date of the National Office’s letter acknowledging the return of the Form 3115, or (b) the date the taxpayer is required to file the duplicate copy of the Form 3115 under section 6.03(1)(a)(i)(B) of Rev. Proc. 2015-13. See section 6.03(3) of Rev. Proc. 2015-13 regarding additional required copies of Form 3115.

(3) For the rules of Rev. Proc. 2015-13, the timely resubmitted Form 3115 will be considered filed as of the date the taxpayer originally filed the Form 3115 under the non-automatic change procedures in Rev. Proc. 2015-13. This section 5.02 does not extend the date the taxpayer must file the original (returned) Form 3115 under section 6.03(1)(a)(i)(A) of Rev. Proc. 2015-13.

.03 *Forms 3115 for changes in methods of accounting that can no longer be filed under the automatic change procedures of Rev. Proc. 2015-13, as a result of modifications made by sections 3 and 4 of this revenue procedure.* If before August 12, 2021, a taxpayer properly filed the duplicate copy of a Form 3115 under the automatic change procedures in Rev. Proc. 2015-13 before modification by this revenue procedure, for a change in method of accounting that can no longer be filed under the automatic change procedures of Rev. Proc. 2015-13 as a result of modifications made by this revenue procedure, the taxpayer may make that change in method of accounting under the automatic change procedures in Rev. Proc. 2015-13 before modification by this revenue procedure.

## SECTION 6. EFFECT ON OTHER DOCUMENTS

.01 This revenue procedure modifies and amplifies Rev. Proc. 2019-43.

.02 Rev. Proc. 2015-13 is modified.

## SECTION 7. PAPERWORK REDUCTION ACT

The collection of information contained in this revenue procedure has been submitted to the Office of Management and Budget for review under OMB control number 1545-0123 in accordance with the Paperwork Reduction Act (44 U.S.C. 3507(d)). An agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless the collection of information displays a valid OMB control number. The collection of information in this revenue procedure is in sections 3.03(1) and 3.07. This information is necessary and will be used to determine whether the taxpayer properly changed to a permitted method of accounting. The collections of information are required for the taxpayer to obtain consent to change its method of accounting.

## SECTION 8. DRAFTING INFORMATION

The principal author of this revenue procedure is Jo Lynn L. Ricks of the Office of the Associate Chief Counsel (Income Tax & Accounting). For further information regarding this revenue procedure, contact Douglas Kim at (202) 317-7003 (not a toll free number).

*26 CFR 601.601: Rules and regulations.  
(Also Part I, Section 1272(a)(6).)*

## Rev. Proc. 2021-35

### SECTION 1. PURPOSE

Rev. Proc. 2013-26, 2013-22 I.R.B. 1160, allows a taxpayer to use a safe harbor method of accounting for original issue discount (OID) on a pool of credit card receivables for purposes of § 1272(a)(6) of the Internal Revenue Code (Code)—the “proportional method.” This revenue procedure modifies Rev. Proc. 2013-26 to reflect changes made to the treatment of certain credit card fees by § 451(b) of the Code, as amended by section 13221 of Public Law 115-97 (131 Stat. 2054), commonly referred to as the Tax Cuts and Jobs Act (TCJA), and §§ 1.451-3 and 1.1275-

2(l) of the Income Tax Regulations (T.D. 9941, 86 FR 810 (January 6, 2021)).

### SECTION 2. BACKGROUND

.01 The Department of Treasury (Treasury Department) and the Internal Revenue Service (IRS) allowed the use of the proportional method in Rev. Proc. 2013-26 to reduce administrative burdens and controversy for taxpayers and the IRS in computing OID accruals on a pool of credit card receivables under § 1272(a)(6). The proportional method generally produces the same results as the statutory method of calculating OID accruals under § 1272(a)(6). The proportional method generally allocates to an accrual period an amount of unaccrued OID for the pool that is proportional to the amount of the stated redemption price at maturity (SRPM) of the pool that is paid by cardholders during the accrual period.

.02 Prior to the enactment of the TCJA, the Treasury Department and the IRS accepted the treatment of certain credit card fees associated with pools of credit card receivables as creating or increasing OID on those pools. See Rev. Proc. 2004-33, 2004-1 C.B. 989 (the IRS will not challenge the treatment of late fees as creating or increasing OID); Rev. Proc. 2005-47, 2005-2 C.B. 269 (the IRS will not challenge the treatment of cash advance fees as creating or increasing OID); and Chief Counsel Notice CC-2010-018, Sept. 27, 2010 (as a result of the Tax Court’s decision in *Capital One Financial Corp. and Subsidiaries v. Commissioner*, 133 T.C. 136 (2009), the IRS will no longer challenge or litigate the issue of whether interchange fee income creates or increases OID). Accordingly, for purposes of Rev. Proc. 2013-26, a taxpayer could have treated as OID amounts attributable to certain credit card fees associated with pools of credit card receivables, including credit card late fees, credit card cash advance fees, and interchange fees. In certain circumstances, for purposes of Rev. Proc. 2013-26, a taxpayer may treat as OID certain amounts that would not otherwise be treated as OID (for example, market discount or bond premium). See section 4.02 of Rev. Proc. 2013-26.

.03 On December 22, 2017, § 451(b) was amended by the TCJA to provide that,

for an accrual method taxpayer, the all events test for an item of gross income, or portion thereof, is met no later than when the item, or portion thereof, is included as revenue in an applicable financial statement (AFS) (AFS Income Inclusion Rule). With the amendment of § 451(b), Congress overturned the historical Federal income tax treatment of credit card late fees, credit card cash advance fees, and interchange fees by subjecting these fees to the AFS Income Inclusion Rule instead of the timing rules for OID. In particular, the legislative history for the amendment describes credit card late fees, credit card cash advance fees, and interchange fees as examples of amounts to which § 451(b), as amended by the TCJA, would apply. H.R. Rep. No. 115-466, at 429 (2017) (Conf. Rep.).

.04 Section 451(b), as amended by the TCJA, generally applies to taxable years beginning after December 31, 2017. However, in the case of income from a debt instrument having OID, § 451(b), as amended by the TCJA, applies to taxable years beginning after December 31, 2018. In addition, if a taxpayer makes a qualified change in method of accounting as defined in section 13221(d)(2) of the TCJA for income from a debt instrument having OID to comply with § 451(b), as amended by the TCJA, for the taxpayer’s first taxable year beginning after December 31, 2018, the § 481(a) adjustment period for the change is six taxable years. See section 13221(e) of the TCJA.

.05 On January 6, 2021, the Treasury Department and the IRS published in the Federal Register (86 FR 810) final regulations under §§ 451(b) and 1275(d). See §§ 1.451-3 and 1.1275-2(l) (final regulations). In general, under the AFS Income Inclusion Rule in § 1.451-3, an item of income, or portion thereof, may not be included in income later than when that item, or portion thereof, is treated as taken into account as AFS revenue, as determined under § 1.451-3(b)(2). The AFS Income Inclusion Rule, however, does not apply to any item of gross income the recognition of which is determined using a special method of accounting as defined in § 1.451-3(b)(13), which includes, except as otherwise provided in § 1.451-3(j), the timing rules for OID. Section 1.451-

3(j) provides that if a fee is not spread over a period of time as discount or as an adjustment to the yield of a debt instrument (such as points) in the taxpayer's AFS, and, but for §§ 1.451-3(j) and 1.1275-2(l), would be treated as creating or increasing OID for Federal income tax purposes (specified fee), then the rules in § 1.451-3 apply before the rules in §§ 1271 through 1275 and the regulations thereunder (the OID rules). Section 1.451-3(j)(2) provides three examples of specified fees: credit card late fees, credit card cash advance fees, and interchange fees (specified credit card fees). To coordinate the OID rules with § 451(b), as amended by the TCJA, and § 1.451-3, § 1.1275-2(l) provides that if, and to the extent, a taxpayer's item of income with respect to a debt instrument is subject to the timing rules in § 1.451-3 because the item of income is a specified fee (including specified credit card fees), then the taxpayer does not take the item into account in determining whether the debt instrument has any OID. As a result, the taxpayer does not treat the item as creating or increasing any OID on the debt instrument. The final regulations do not affect the application of the OID rules to any item that is not a specified fee.

.06 Sections 1.451-3 and 1.1275-2(l) generally apply to taxable years beginning on or after January 1, 2021. However, in the case of a specified fee other than a specified credit card fee, those sections apply to taxable years beginning on or after January 6, 2022. For a taxable year beginning after December 31, 2018, and before January 1, 2021, a taxpayer and its related parties, within the meaning of §§ 267(b) and 707(b), may choose to apply both §§ 1.451-3 and 1.1275-2(l), in their entirety and in a consistent manner, to all specified credit card fees subject to § 1.451-3, provided that, once applied to a taxable year, the rules in § 1.1275-2(l) and the rules in § 1.451-3 that apply to specified credit card fees, are applied in their entirety and in a consistent manner for all subsequent taxable years.

.07 Based on § 451(b) and the final regulations, Rev. Proc. 2004-33, Rev. Proc. 2005-47, and Chief Counsel Notice CC-2010-018 no longer provide current

guidance on the treatment of the specified credit card fees. Accordingly, the Treasury Department and the IRS obsoleted these items as of January 1, 2021. See 86 FR 810, 824 (January 6, 2021).

.08 Because, under § 1.1275-2(l), OID no longer includes an item of income (or portion thereof) that is subject to the timing rules of § 1.451-3 because the item (or portion thereof) is a specified fee, such as a specified credit card fee, Rev. Proc. 2013-26 is modified to avoid confusion as to whether such items (or portions thereof) are fees that are properly treated as OID. Under Rev. Proc. 2013-26, as modified by this revenue procedure, a taxpayer that wants to use the proportional method for calculating OID accruals on a pool of credit card receivables under § 1272(a) (6) may treat as OID only fees or charges that are not subject to the timing rules of § 1.451-3 (for example, promotional discount) and certain amounts that would not otherwise be treated as OID (for example, market discount or bond premium). See section 4.02 of Rev. Proc. 2013-26.

.09 On December 17, 2018, the Treasury Department and the IRS published Rev. Proc. 2018-60, 2018-51 I.R.B. 1045, which added section 16.12 to the List of Automatic Changes in Rev. Proc. 2018-31, 2018-22 I.R.B. 637, for a taxpayer to change its method of accounting for the timing of income recognition for Federal income tax purposes to comply with § 451(b), as amended by section 13221 of the TCJA, for taxable years beginning after December 31, 2017 (or, in the case of income from a debt instrument having OID, beginning after December 31, 2018). On September 23, 2019, the Treasury Department and the IRS published Rev. Proc. 2019-37, 2019-39 I.R.B. 731, which modified section 16.12 in the List of Automatic Changes in Rev. Proc. 2018-31 to provide procedures for a taxpayer to obtain the automatic consent of the Commissioner of Internal Revenue or his delegate (Commissioner) to make a method change to comply with § 451(b) and proposed § 1.451-3, including changes with respect to specified credit card fees. Concurrent with the release of this revenue procedure, the Treasury Department and the IRS are issuing Rev. Proc. 2021-34, 2021-35 I.R.B. 337, which modifies Rev.

Proc. 2019-43, 2019-48 I.R.B. 1107, to provide procedures for a taxpayer to obtain the automatic consent of the Commissioner to change methods of accounting to comply with §§ 1.451-3 and 1.1275-2(l), including a change to exclude items of income that are subject to the timing rules of § 1.451-3 because the items are specified fees, such as the specified credit card fees, from the proportional method. Compliant taxpayers that had been using the proportional method for specified credit card fees generally should have made a change in method of accounting for the specified credit card fees under either Rev. Proc. 2018-60 or Rev. Proc. 2019-37. Taxpayers using the proportional method that have not made the required method change may use the procedures provided in Rev. Proc. 2019-43, as modified by Rev. Proc. 2021-34, for changes with respect to specified credit card fees.

### **SECTION 3. MODIFICATIONS TO REV. PROC. 2013-26**

.01 *Modification to section 2.06 of Rev. Proc. 2013-26.* Section 2.06 of Rev. Proc. 2013-26 is modified to read as follows:

.06 Under § 1.1275-2(l), if, and to the extent, a taxpayer's item of income (or portion thereof) with respect to a debt instrument is subject to the timing rules in § 1.451-3 because the item is a specified fee as defined in § 1.451-3(j) (including credit card late fees, credit card cash advance fees, and interchange fees), then the taxpayer does not take the item (or portion thereof) into account to determine whether the debt instrument has any OID. As a result, the taxpayer does not treat the item (or portion thereof) as creating or increasing OID on the pool of credit card receivables to which the item relates. In addition, there are other credit card fees that do not create or increase the amount of OID on the pool of credit card receivables to which the fees relate. See, for example, Rev. Rul. 2004-52, 2004-1 C.B. 973 (credit card annual fees do not result in OID). Certain credit card fees, however, are not subject to the timing rules in § 1.451-3 because they are not specified fees and create or increase the amount of OID

on the pool of credit card receivables to which the fees relate. An example of such a fee is promotional discount, which a merchant pays to a credit card issuer in compensation for a low or zero interest rate on a credit card receivable during a promotional period.

.02 *Modification to section 4.01 of Rev. Proc. 2013-26.* Section 4.01 of Rev. Proc. 2013-26 is modified by inserting the following two sentences at the end of that section: For purposes of this revenue procedure, OID and SRPM do not include an item of income (or portion thereof) that is subject to the timing rules of § 1.451-3 because the item (or portion thereof) is a specified fee, including a specified credit card fee. See § 1.1275-2(l).

.03 *Modification to section 4.02 of Rev. Proc. 2013-26.* Section 4.02 of Rev. Proc. 2013-26 is modified by replacing the parenthetical “(such as finance charges that are qualified stated interest)” in the first sentence of that section with the parenthetical “(such as finance charges that are qualified stated interest and specified fees as defined in § 1.451-3(j))”.

.04 *Modification to section 4.03 of Rev. Proc. 2013-26.* Section 4.03 of Rev. Proc. 2013-26 is modified to read as follows:

.03 A taxpayer changing its method of accounting for OID on a pool of credit card receivables to the proportional method must use the automatic change in method procedures of Rev. Proc. 2019-43, 2019-48 I.R.B. 1107, or its successor, to make the change on a timely filed (including extensions) original Federal income tax return for the year of change. If a taxpayer changes to the proportional method, the unaccrued OID for the pool as of the beginning of the first period in the year of change is equal to the unaccrued OID for the pool as of the end of the preceding year under the taxpayer’s previous method of accounting for OID on the pool, reduced by any amounts representing charges or fees that are not properly treated as OID (such as credit card late fees, credit card cash advance fees, and interchange fees). See section 4.01 of this revenue procedure. If a taxpayer does not already have a method of accounting for OID on any pool of credit card receivables, the taxpayer

may adopt the proportional method by using it on a timely filed (including extensions) original Federal income tax return for the first taxable year the taxpayer must account for OID on a pool of credit card receivables.

.05 *Modification to section 5.02(1) of Rev. Proc. 2013-26.* Section 5.02(1) of Rev. Proc. 2013-26 is modified to read as follows:

(1) The SRPM as of the beginning of the period (“Beginning SRPM”), which is equal to the aggregate balance owed on all credit card receivables included in the pool at the beginning of such period, other than amounts representing charges or fees that are not properly treated as OID (such as finance charges that are qualified stated interest or specified fees as defined in § 1.451-3(j)).

.06 *Modification to section 7 of Rev. Proc. 2013-26.* Section 7 of Rev. Proc. 2013-26 is modified by adding a second sentence to read as follows: The modifications to this revenue procedure by Rev. Proc. 2021-35 are effective on August 12, 2021.

.07 *Modification to section 8 of Rev. Proc. 2013-26.* Section 8 of Rev. Proc. 2013-26 is modified to read as follows:

## **SECTION 8. AUTOMATIC CHANGE PROCEDURES**

Section 30.02 of Rev. Proc. 2019-43, as modified by Rev. Proc. 2021-34, 2021-35 I.R.B. 337, provides procedures for a taxpayer to obtain the automatic consent of the Commissioner to change the taxpayer’s method of accounting for OID on a pool of credit card receivables to the proportional method described in this revenue procedure.

## **SECTION 4. EFFECTIVE DATE**

The modifications to Rev. Proc. 2013-26 in section 3 of this revenue procedure are effective on August 12, 2021.

## **SECTION 5. EFFECT ON OTHER DOCUMENTS**

This revenue procedure modifies Rev. Proc. 2013-26.

## **SECTION 6. DRAFTING INFORMATION**

The principal author of this revenue procedure is Deepan Patel of the Office of Associate Chief Counsel (Financial Institutions & Products). For further information regarding this revenue procedure, contact Mr. Patel on (202) 317-3423 (not a toll-free number).

*26 CFR 601.105: Examination of returns and claims for refund, credit, or abatement; determination of correct tax liability. (Also Part 1, §§ 36B, 1.36B-2, 1.36B-3.)*

## **Rev. Proc. 2021-36**

### **SECTION 1. PURPOSE**

This revenue procedure provides the applicable percentage table (Applicable Percentage Table) in § 36B(b)(3)(A) of the Internal Revenue Code (Code) for taxable years beginning in calendar year 2022. This table is used to calculate an individual’s premium tax credit under § 36B. This revenue procedure also provides the indexing adjustment for the required contribution percentage (Required Contribution Percentage) in § 36B(c)(2)(C)(i)(II) for plan years beginning in calendar year 2022. This percentage is used to determine whether an individual is eligible for affordable employer-sponsored minimum essential coverage.

### **SECTION 2. ADJUSTED ITEMS**

.01 *Applicable Percentage Table for 2022.* Section 9661 of the American Rescue Plan Act of 2021, Pub. L. No. 117-2 (ARP), added § 36B(b)(3)(A)(iii) to the Code to provide an Applicable Percentage Table that applies for taxable years beginning in calendar years 2021 and 2022. For taxable years beginning in calendar year 2022, the Applicable Percentage Table for purposes of § 36B(b)(3)(A) and § 1.36B-3(g) of the Income Tax Regulations is:

Household income percentage of Federal poverty line:	Initial percentage	Final percentage
Less than 150%	0.00%	0.00%
At least 150% but less than 200%	0.00%	2.00%
At least 200% but less than 250%	2.00%	4.00%
At least 250% but less than 300%	4.00%	6.00%
At least 300% but less than 400%	6.00%	8.50%
At least 400% and higher	8.50%	8.50%

*.02 Required Contribution Percentage for 2022.*

(1) Section 9661 of the ARP did not amend the indexing rules under § 36B(c)(2)(C)(iv) relating to the Required Contribution Percentage. *See* § 36B(b)(3)(A)(iii)(I). The Required Contribution Percentage for plan years beginning in calendar year 2022 is indexed based on the rates of premium growth relative to the rates of income growth in the Department of Health and Human Services (HHS) Notice of Benefit and Payment Parameters for 2022 and Pharmacy Benefit Manager Standards (86 F. R. 24140; May 5, 2021). In addition, the additional adjustment provided in § 36B(b)(3)(A)(ii)(II) is not required

for plan years beginning in 2022 because the Department of the Treasury and the Internal Revenue Service have determined that the failsafe exception described in § 36B(b)(3)(A)(ii)(III) applies for plan years beginning in calendar year 2022.

(2) For plan years beginning in calendar year 2022, the Required Contribution Percentage for purposes of § 36B(c)(2)(C)(i)(II) and § 1.36B-2(c)(3)(v)(C) is 9.61%.

**SECTION 3. EFFECT ON OTHER DOCUMENTS**

Rev. Proc. 2014-37, 2014-2 C.B. 363, is supplemented.

**SECTION 4. EFFECTIVE DATE**

This revenue procedure is effective for taxable years and plan years beginning in calendar year 2022.

**SECTION 5. DRAFTING INFORMATION**

The principal author of this revenue procedure is Bill Ruane of the Office of Associate Chief Counsel (Income Tax and Accounting). For further information regarding this revenue procedure, contact Mr. Ruane at (202) 317-4718 (not a toll-free number).

# Definition of Terms

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

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

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

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

*Modified* is used where the substance of a previously published position is being changed. Thus, if a prior ruling held that a principle applied to A but not to B, and the

new ruling holds that it applies to both A and B, the prior ruling is modified because it corrects a published position. (Compare with *amplified* and *clarified*, above).

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

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

*Superseded* describes a situation where the new ruling does nothing more than restate the substance and situation of a previously published ruling (or rulings). Thus, the term is used to republish under the 1986 Code and regulations the same position published under the 1939 Code and regulations. The term is also used when it is desired to republish in a single ruling a series of situations, names, etc., that were previously published over a period of time in separate rulings. If the

new ruling does more than restate the substance of a prior ruling, a combination of terms is used. For example, *modified* and *superseded* describes a situation where the substance of a previously published ruling is being changed in part and is continued without change in part and it is desired to restate the valid portion of the previously published ruling in a new ruling that is self contained. In this case, the previously published ruling is first modified and then, as modified, is superseded.

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

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

## Abbreviations

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

A—Individual.  
Acq.—Acquiescence.  
B—Individual.  
BE—Beneficiary.  
BK—Bank.  
B.T.A.—Board of Tax Appeals.  
C—Individual.  
C.B.—Cumulative Bulletin.  
CFR—Code of Federal Regulations.  
CI—City.  
COOP—Cooperative.  
Ct.D.—Court Decision.  
CY—County.  
D—Decedent.  
DC—Dummy Corporation.  
DE—Donee.  
Del. Order—Delegation Order.  
DISC—Domestic International Sales Corporation.  
DR—Donor.  
E—Estate.  
EE—Employee.  
E.O.—Executive Order.  
ER—Employer.

ERISA—Employee Retirement Income Security Act.  
EX—Executor.  
F—Fiduciary.  
FC—Foreign Country.  
FICA—Federal Insurance Contributions Act.  
FISC—Foreign International Sales Company.  
FPH—Foreign Personal Holding Company.  
FR—Federal Register.  
FUTA—Federal Unemployment Tax Act.  
FX—Foreign corporation.  
G.C.M.—Chief Counsel’s Memorandum.  
GE—Grantee.  
GP—General Partner.  
GR—Grantor.  
IC—Insurance Company.  
I.R.B.—Internal Revenue Bulletin.  
LE—Lessee.  
LP—Limited Partner.  
LR—Lessor.  
M—Minor.  
Nonacq.—Nonacquiescence.  
O—Organization.  
P—Parent Corporation.  
PHC—Personal Holding Company.  
PO—Possession of the U.S.  
PR—Partner.  
PRS—Partnership.

PTE—Prohibited Transaction Exemption.  
Pub. L.—Public Law.  
REIT—Real Estate Investment Trust.  
Rev. Proc.—Revenue Procedure.  
Rev. Rul.—Revenue Ruling.  
S—Subsidiary.  
S.P.R.—Statement of Procedural Rules.  
Stat.—Statutes at Large.  
T—Target Corporation.  
T.C.—Tax Court.  
T.D.—Treasury Decision.  
TFE—Transferee.  
TFR—Transferor.  
T.I.R.—Technical Information Release.  
TP—Taxpayer.  
TR—Trust.  
TT—Trustee.  
U.S.C.—United States Code.  
X—Corporation.  
Y—Corporation.  
Z—Corporation.

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<sup>1</sup> A cumulative list of all revenue rulings, revenue procedures, Treasury decisions, etc., published in Internal Revenue Bulletins 2021–27 through 2021–52 is in Internal Revenue Bulletin 2021–52, dated December 27, 2021.



## **Finding List of Current Actions on Previously Published Items<sup>1</sup>**

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<sup>1</sup> A cumulative list of all revenue rulings, revenue procedures, Treasury decisions, etc., published in Internal Revenue Bulletins 2021–27 through 2021–52 is in Internal Revenue Bulletin 2021–52, dated December 27, 2021.

# **Internal Revenue Service**

## **Washington, DC 20224**

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## **INTERNAL REVENUE BULLETIN**

The Introduction at the beginning of this issue describes the purpose and content of this publication. The weekly Internal Revenue Bulletins are available at [www.irs.gov/irb/](http://www.irs.gov/irb/).

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## **We Welcome Comments About the Internal Revenue Bulletin**

If you have comments concerning the format or production of the Internal Revenue Bulletin or suggestions for improving it, we would be pleased to hear from you. You can email us your suggestions or comments through the IRS Internet Home Page ([www.irs.gov](http://www.irs.gov)) or write to the Internal Revenue Service, Publishing Division, IRB Publishing Program Desk, 1111 Constitution Ave. NW, IR-6230 Washington, DC 20224.