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Updated List of Automatic Accounting Change Procedures Issued

Rev. Proc. 2025-23

The IRS has released guidance listing the specific changes in accounting method to which the automatic change procedures set forth in Rev. Proc. 2015-13, I.R.B. 2015-5, 419, apply. The latest guidance updates and supersedes the current list of automatic changes found in Rev. Proc. 2024-23, I.R.B. 2024-23.

Significant changes to the list of automatic changes made by this revenue procedure toRev. Proc. 2024-23 include:

(1) Section 6.22, relating to late elections under §168(j)(8), §168(l)(3)(D), and §181(a)(1), is removed because the section is obsolete;

(2) The following paragraphs, relating to the §481(a) adjustment, are clarified by adding the phrase "for any taxable year in which the election was made" to the second sentence: (a) Paragraph (2) of section 3.07, relating to wireline network asset maintenance allowance and units of property methods of accounting under Rev. Proc. 2011-27; (b) Paragraph (2) of section 3.08, relating to wireless network asset maintenance allowance and units of property methods of accounting under Rev. Proc. 2011-28; and (c) Paragraph (3)(a) of section 3.11, relating to cable network asset capitalization methods of accounting under Rev. Proc. 2015-12;

(3) Section 6.04, relating to a change in general asset account treatment due to a change in the use of MACRS property, is modified to remove section 6.04(2)(b), providing a temporary waiver of the eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13, because the provision is obsolete;

(4) Section 6.05, relating to changes in method of accounting for depreciation due to a change in the use of MACRS property, is modified to remove section 6.05(2) (b), providing a temporary waiver of the eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13, because the provision is obsolete;

(5) Section 6.13, relating to the disposition of a building or structural component (§168; §1.168(i)-8), is clarified by adding the parenthetical "including the taxable year immediately preceding the year of change" to sections 6.13(3)(b), (c), (d), and (e), regarding certain covered changes under section 6.13;

(6) Section 6.14, relating to dispositions of tangible depreciable assets (other than a building or its structural components) (§168; §1.168(i)-8), is clarified by adding the parenthetical "including the taxable year immediately preceding the year of change" to sections 6.14(3)(b), (c), (d), and (e), regarding certain covered changes under section 6.14;

(7) Section 7.01, relating to changes in method of accounting for SRE expenditures, is modified as follows. First, to remove section 7.01(3)(a), relating to changes in method of accounting for SRE expenditures for a year of change that is the taxpayer's first taxable year beginning after December 31, 2021, because the provision is obsolete. Second, newly redesignated section 7.01(3)(a) (formerly section 7.01(3)(b)) is modified to remove the references to a year of change later than the first taxable year beginning

after December 31, 2021, because the language is obsolete;

(8) Section 12.14, relating to interest capitalization, is modified to provide under section 12.14(1)(b) that the change under section 12.14 does not apply to a taxpayer that wants to change its method of accounting for interest to apply either: (1) current §§1.263A-11(e)(1)(ii) and (iii); or (2) proposed §§1.263A-8(d)(3) and 1.263A-11(e) and (f) (REG-133850-13), as published on May 15, 2024 (89 FR 42404) and corrected on July 24, 2024 (89 FR 59864);

(9) Section 15.01, relating to a change in overall method to an accrual method from the cash method or from an accrual method with regard to purchases and sales of inventories and the cash method for all other items, is modified by removing the first sentence of section 15.01(5), disregarding any prior overall accounting method change to the cash method implemented using the provisions of Rev. Proc. 2001-10, as modified by Rev. Proc. 2011- 14, or Rev. Proc. 2002-28, as modified by Rev. Proc. 2011-14, for purposes of the eligibility rule in section 5.01(e) of Rev. Proc. 2015-13, because the language is obsolete;

(10) Section 15.08, relating to changes from the cash method to an accrual method for specific items, is modified to add new section 15.08(1)(b)(ix) to provide that the change under section 15.08 does not apply to a change in the method of accounting for any foreign income tax as defined in §1.901-2(a);

(11) Section 15.12, relating to farmers changing to the cash method, is clarified to provide that the change under section 15.12 is only applicable to a taxpayer's trade or business of farming and not applicable to a non-farming trade or business the taxpayer might be engaged in;

(11) Section 12.01, relating to certain uniform capitalization (UNICAP) methods used by resellers and reseller-producers, is modified as follows. First, to provide that section 12.01 applies to a taxpayer that uses a historic absorption ratio election with the simplified production method, the modified simplified production method, or the simplified resale method and wants to change to a different method for determining the additional Code Sec. 263A costs that must be capitalized to ending inventories or other eligible property on hand at the end of the taxable year (that is, to a different simplified method or a facts-and-circumstances method). Second, to remove the transition rule in section 12.01(1)(b)(ii)(B) because this language is obsolete;

(12) Section 15.13, relating to nonshareholder contributions to capital under §118, is modified to require changes under section 15.13(1)(a)(ii), relating to a regulated public utility under §118(c) (as in effect on the day before the date of enactment of Public Law 115-97, 131 Stat. 2054 (Dec. 22, 2017)) ("former §118(c)") that wants to change its method of accounting to exclude from gross income payments or the fair market value of property received that are contributions in aid of construction under former §118(c), to be requested under the non-automatic change procedures provided in Rev. Proc. 2015-13. Specifically, section 15.13(1)(a)(i), relating to a regulated public utility under former §118(c) that wants to change its method of accounting to include in gross income payments received from customers as connection fees that are not contributions to the capital of the taxpayer under former §118(c), is removed. Section 15.13(1)(a)(ii), relating to a regulated public utility under former §118(c) that wants to change its method of accounting to exclude from gross income payments

IRS Reminds Taxpayers of June 16 Estimated Tax Deadline

The IRS has reminded individuals and corporations that the second quarter 2025 estimated tax payment is due Monday, June 16. Individuals, including sole proprietors, partners, and S corporation shareholders, must make estimated payments if they expect a tax liability of at least $1,000 for the tax year at issue. Corporations must pay if they expect to owe $500 or more.

Estimated tax payments are also required from individuals who earn income from gig work, freelance work, or from selling goods and services, even when reported on Form 1099-K, Payment Card and Third-Party Network Transactions. Individuals must use Form 1099-K along with other tax records to accurately report income.

Electronic payment is the most secure, fastest and easiest way to pay. Electronic payment options include IRS Online Account, Direct Pay, credit/debit card, digital wallet, Electronic Federal Tax Payment System (EFTPS) and the IRS2Go app. Paper payments must be sent with Form 1040-ES and Corporations must use EFTPS.

IR-2025-65

REFERENCE KEY

USTC references are to ***U.S. Tax Cases***
Dec references are to ***Tax Court Reports***

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or the fair market value of property received that are contributions in aid of construction under former §118(c), is removed. Section 15.13(2), relating to the inapplicability of the change under section 15.13(1) (a)(ii), is removed. Section 15.13(1)(b), relating to a taxpayer that wants to change its method of accounting to include in gross income payments or the fair market value of property received that do not constitute contributions to the capital of the taxpayer within the meaning of §118 and the regulations thereunder, is modified by removing "(other than the payments received by a public utility described in former §118(c) that are addressed in section 15.13(1)(a)(i) of this revenue procedure)" because a change under section 15.13(1)(a)(i) may now be made under newly redesignated section 15.13(1) of this revenue procedure;

(13) Section 16.08, relating to changes in the timing of income recognition under §451(b) and (c), is modified as follows. First, section 16.08 is modified to remove section 16.08(5)(a), relating to the temporary waiver of the eligibility rule in section 5.01(1) (f) of Rev. Proc. 2015-13 for certain changes under section 16.08, because the provision is obsolete. Second, section 16.08 is modified to remove section 16.08(4)(a)(iv), relating to special §481(a) adjustment rules when the temporary eligibility waiver applies, because the provision is obsolete. Third, section 16.08 is modified to remove sections 16.08(4)(a) (v) (C) and 16.08(4)(a)(v)(D), providing examples to illustrate the special §481(a) adjustment rules under section 16.08(4)(a) (iv), because the examples are obsolete;

(14) Section 19.01, relating to changes in method of accounting for certain exempt long-term construction contracts from the percentage-of-completion method of accounting to an exempt contract method described in §1.460-4(c), or to stop capitalizing costs under §263A for certain home construction contracts, is modified by removing the references to "proposed §1.460-3(b)(1)(ii)" in section 19.01(1), relating to the inapplicability of the change under section 19.01, because the references are obsolete;

(15) Section 19.02, relating to changes in method of accounting under §460 to rely on the interim guidance provided in section 8 of Notice 2023-63, 2023-39 I.R.B. 919, is modified to remove section 19.02(3)(a), relating to a change in the treatment of SRE expenditures under §460 for the taxpayer's first taxable year beginning after December 31, 2021, because the provision is obsolete;

(16) Section 20.07, relating to changes in method of accounting for liabilities for rebates and allowances to the recurring item exception under §461(h)(3), is clarified by adding new section 20.07(1)(b) (ii), providing that a change under section 20.07 does not apply to liabilities arising from reward programs;

(17) The following sections, relating to the inapplicability of the relevant change, are modified to remove the reference to "proposed §1.471-1(b)" because this reference is obsolete: (a) Section 22.01(2), relating to cash discounts; (b) Section 22.02(2), relating to estimating inventory "shrinkage"; (c) Section 22.03(2), relating to qualifying volume-related trade discounts; (d) Section 22.04(1)(b)(iii), relating to impermissible methods of identification and valuation of inventories; (e) Section 22.05(1)(b)(ii), relating to the core alternative valuation method; Bulletin No. 2025–24 1595 June 9, 2025 (f) Section 22.06(2), relating to replacement cost for automobile dealers' parts inventory; (g) Section 22.07(2), relating to replacement cost for heavy equipment dealers' parts inventory; (h) Section 22.08(2), relating to rotable spare parts; (i) Section 22.09(3), relating to the advanced trade discount method; (j) Section 22.10(1)(b)(iii), relating to permissible methods of identification and valuation of inventories; (k) Section 22.11(2), relating to a change in the official used vehicle guide utilized in valuing used vehicles; (l) Section 22.12(2), relating to invoiced advertising association costs for new vehicle retail dealerships; (m) Section 22.13(2), relating to the rolling-average method of accounting for inventories; (n) Section 22.14(2), relating to sales-based vendor chargebacks; (o) Section 22.15(2), relating to certain changes to the cost complement of the retail inventory method; (p) Section 22.16(2), relating to certain changes within the retail inventory method; and (q) Section 22.17(1)(b)(iii), relating to changes from currently deducting inventories to permissible methods of identification and valuation of inventories; and

(18) Section 22.10, relating to permissible methods of identification and valuation of inventories, is modified to remove section 22.10(1)(d).

Subject to a transition rule, this revenue procedure is effective for a Form 3115 filed on or after June 9, 2025, for a year of change ending on or after October 31, 2024, that is filed under the automatic change procedures of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, as clarified and modified by Rev. Proc. 2015-33, 2015-24 I.R.B. 1067, and as modified by Rev. Proc. 2021-34, 2021-35 I.R.B. 337, Rev. Proc. 2021-26, 2021-22 I.R.B. 1163, Rev. Proc. 2017-59, 2017-48 I.R.B. 543, and section 17.02(b) and (c) of Rev. Proc. 2016-1, 2016-1 I.R.B. 1.

Optional Simplified Method for CAMT Determination of Applicable Corporate Status; Relief from Certain Underpayments of Estimated Tax

Notice 2025-27

The IRS has provided interim guidance regarding the application of the corporate alternative minimum tax (CAMT) under Code Sec. 59(k), as added by the Inflation Reduction Act of 2022. This guidance provides an optional simplified method for determining applicable corporation status, and also waives certain additions to tax under Code Sec. 6655 with respect to a corporation's CAMT liability under Code Sec. 55.

For tax years beginning after 2022, a 15-percent CAMT is imposed on the adjusted financial statement income (AFSI) of an applicable corporation. An applicable corporation with respect to any tax year is a corporation with a three-year average annual income that exceeds $1 billion. S corporations, regulated investment companies (RICs), and real estate investment trusts (REITs), are not considered applicable corporations. Proposed Reg. §1.59-2 provides guidance for determining an applicable corporation status.

A corporation may apply the interim simplified method provided in this guidance to determine applicable corporation status using reduced thresholds, and calculate its AFSI using the adjustments described in Proposed Reg. §1.56A-12 plus certain other adjustments as described. This interim simplified method for determining applicable corporation status may be used for any tax year ending on or before the date that final regulation(s) adopting a simplified method under Code Sec. 59(k)(3)(A) are published if the corporation's original federal income tax return has not been filed as of that date.

Because so much of what is described above is based on guidance that is currently only in proposed form, the IRS will waive the addition to tax under Code Sec. 6655 with respect to a corporation's CAMT liability in any covered CAMT tax year that begins after December 31, 2024, and before January 1, 2026. Thus, for a covered CAMT year within that period, a corporation's required installments of estimated tax need not include amounts attributable to its CAMT liability to prevent the imposition of an addition to tax under Code Sec. 6655. Affected taxpayers desiring this relief must file Form 2220, *Underpayment of Estimated Tax by Corporation,* with their federal income tax return, even if they owe no estimated tax penalty. The Form 2220 must be completed without including the CAMT liability from Schedule J of Form 1120, *U.S. Corporation Income Tax Return.* Affected taxpayers must also include an amount of estimated tax penalty on Line 34 of their Form 1120 even if that amount is zero.

Reliance on Tax Software Can Support Reasonable Cause

J. Huang, DC Calif, 2025-1 ustc ¶50,171

A district court ruled that good faith reliance on tax software could support a reasonable cause defense against penalties for failure to report foreign gifts. The motion to dismiss the taxpayer's reasonable cause claim was denied and the claim was allowed to proceed on the merits.

The taxpayer received gifts from her nonresident foreign parents to support her permanent relocation to the U.S. and purchase a home. She relied on tax software to file her taxes which advised her not to report the gifts. Upon learning that she was obliged to file Form 3520 to report the gifts, she promptly filed the forms for the tax years at issue.

The court had jurisdiction because the taxpayer provided sufficient details in her complaint. She had appealed the denial of her reasonable cause letter, explaining why she believed her delay was justified. The taxpayer acted promptly to report gifts upon realizing the requirement. The court dismissed the taxpayer's lack of authority claim. The taxpayer's penalty was not outside the IRS's power to assess and collect.

Conservation Easement Donation Deduction Reduced; Penalty Imposed

Beaverdam Creek Holdings, LLC, TC, Dec. 62,666(M)

A limited liability company (LLC) classified as a TEFRA partnership was not entitled to its full claimed charitable contribution deduction under Code Sec. 170 for a conservation easement because the property was grossly overvalued and the appraisal failed to meet the requirements of Reg. §1.170A-13(c). The Tax Court sustained the IRS's dis-allowance of most of the deduction and imposed a gross valuation misstatement penalty under Code Sec. 6662(h).

Although a qualified appraisal was submitted with the return, the Tax Court concluded that the appraisal did

not satisfy the requirements of Reg. §1.170A-13(c)(3). Further, the Court found that the valuation methodology was speculative, and the Tax Court was persuaded by IRS's expert's sales comparison approach which resulted in a significantly lower valuation.

Because the Tax Court found that the reported value substantially exceeded the correct value and the taxpayer did not qualify for the reasonable cause exception under Code Sec. 6664(c), the Tax Court upheld the penalty under Code Sec. 6662(h).

Individuals Liable for Accuracy Related Penalty on Unreported Income

H.G. Ataya, TC, Dec. 62,668(M)

Two individual taxpayers were liable for accuracy-related penalties under Code Sec. 6662(a) for underpayments of tax in the tax years at issue. Based on unreported qualified dividends and improper Schedule C deductions, the Tax Court concluded that the underpayments were attributable to negligence.

The IRS reconstructed income using the bank deposits method and determined that the individuals, as shareholders of a C corporation, could not deduct business expenses on individual returns. Penalty determinations were timely approved in writing by a supervisor and the IRS met the burden of production. Further, the individuals failed to provide evidence establishing the professional qualifications of the return preparer or to demonstrate that necessary and accurate information had been supplied. Thus, the Tax Court was not persuaded that the accuracy-related penalties should be set aside under the reasonable cause exception in Code Sec. 6664(c).

Washington Round-up

IRS commissioner nomination advances. The Senate Finance Committee voted to advance the nomination of Billy Long as commissioner of the Internal Revenue Service to the full chamber for its consideration. The committee voted 14-13 along party lines to support the nomination on June 3, 2025. Prior to the vote, Committee Chairman Mike Crapo (R-Idaho) described Long, a former Republican congressman from Missouri, as being "uniquely suited to instill needed change at the IRS" while noting being encouraged by Long's commitment to not politicizing the agency. Ranking Member Ron Wyden (D-Ore.), in announcing his intent to vote against Long, noted allegations of tax fraud, specifically connections to White River energy, where he "got paid to promote fake tribal tax credits.… After White River's scheme got exposed as a fraud in a [news report] in mid-December, the company's CFO reassured panicky investors that everything would work out. They'd soon have friends at the IRS under Trump to take the heat off. He said he'd be able to use his contacts to obtain favors and special private rulings. We've got it on tape." At press time, a vote in the full upper chamber of Congress has not yet been scheduled.

Senate Democrats call for markup of budget reconciliation bill. Senate Minority Leader Charles Schumer (D-N.Y.), Finance Committee Ranking Member Ron Wyden (D-Ore.), and the Democratic members of the Senate Finance Committee in a June 6, 2025, letter to committee Chairman Mike Crapo (R-Idaho) are calling for a markup of the budget reconciliation bill. "We write to demand that you schedule a markup of the policies included in H.R. 1 in the Senate Finance Committee so that the members may serve their role in considering such legislation before it moves to the Senate floor," the letter states. "The American people deserve a chance to hear Republicans justify their economic agenda that would terminate health coverage for 16 million kids, seniors, people with disabilities, and families, while adding trillions of new debt—all to fund tax cuts for the rich and big corporations." At press time, there is no indication when or if a markup will be scheduled.

AICPA offers recommendations on the budget reconciliation bill. The American Institute of CPAs offers three specific recommendations to House and Senate committees of jurisdiction to modify the tax provisions. Specifically, the recommendations include retaining entity-level deductibility of state and local taxes for all pass-through entities; striking the contingency fee provision that would allow contingency fee arrangements for all tax preparation activities, including those involving the submission of an original return; and allowing excess business loss carryforwards to offset business and nonbusiness income. In the May 29 letter to the committees, AICPA notes that if the reconciliation bill is enacted as it is currently drafted and passed in the House, it "would damage certain pass-through entities that are the backbone of the American economy." A copy of this and other 2025 tax policy and advocacy comment letters can be found at https://www.aicpa-cima.com/advocacy/article/2025-tax-policy-and-advocacy-comment-letters.

TAX BRIEFS

Exempt Organizations

Seven organizations had their tax-exempt status either denied or revoked under Code Sec. 501. In the first case, organization had its tax-exempt status revoked as it failed to respond to repeated requests for information about its activities and financial records. In the second, third, fourth, and fifth cases, the organizations failed the operational test under Code Sec. 501(c)(3). In the sixth case, the organization did not maintain a common treasury. It was operated for its members' common benefit. In the seventh case, the organization failed the operational test under Code Sec. 501(c)(3) by serving private member interests through dues-funded financial assistance.

IRS Letter Ruling 202523004; IRS Letter Ruling 202523005; IRS Letter Ruling 202523006; IRS Letter Ruling 202523007; IRS Letter Ruling 202523008; IRS Letter Ruling 202523009; IRS Letter Ruling 202523010

Liens and Levies

The IRS did not abuse its discretion in sustaining a Notice of Federal Tax Lien (NFTL) against an individual who had entered into a direct debit installment agreement. The Tax Court granted summary judgment for the Commissioner, holding that the lien filing complied with applicable law and was not arbitrary or capricious under Code Secs. 6320 and 6330.

Horsham, TC, Dec. 62,669(M)

The IRS did not abuse its discretion in sustaining a proposed levy to collect civil fraud penalties assessed under Code Sec. 6663. The Tax Court held that the IRS satisfied all legal requirements under Code Sec. 6330(c)(3), including verification of the liability and proper consideration of collection alternatives.

Trembly, TC, Dec. 62,671(M)

Offer in Compromise

In a Collection Due Process case, the Tax Court ruled that the IRS's delay in considering an offer-in-compromise (OIC) was not an abuse of discretion. The taxpayer failed to provide the requested financial information to an IRS Appeals Officer. Moreover, his reasonable collection potential exceeded his offer. Finally, the levy balanced efficient tax collection with the taxpayer's concerns about intrusiveness.

Palli, TC, Dec. 62,667(M)

Unreported Income

Payments received by a married couple for labor and interest income were included in gross income. It is a well established precedent that taxes on income, including taxes on income from property, are indirect taxes that need not be apportioned.

French, TC, Dec. 62,670(M)

An individual taxpayer earned wages that were classified as gross income. The IRS provided biweekly earnings statements, consistent with Forms W-2, Wage and Tax Statement, as evidence of income-producing activities.

Huber, TC, Dec. 62,672(M)

Wages and a retirement distribution received by an individual for the tax year at issue were included in gross income under Code Sec. 61. The IRS prepared a substitute for return. A penalty under Code Sec. 6673(a)(1) was imposed for maintaining frivolous and groundless positions and causing undue delay in proceedings.

Fonda, TC, Dec. 62,673(M)