26 CFR 601.204: Changes in accounting periods and in methods of accounting.
(Also Part I, §§ 446, 1016; 1.446–1T, 1.1016–3T.)

Rev. Proc. 2004–11

SECTION 1. PURPOSE

This revenue procedure provides an automatic consent procedure allowing a taxpayer to make a change in method of accounting under § 446(e) of the Internal Revenue Code for depreciable or amortizable property after its disposition. This revenue procedure also waives the application of the two-year rule set forth in Rev. Rul. 90–38, 1990–1 C.B. 57, for certain changes in depreciation or amortization. Finally, this revenue procedure modifies Rev. Proc. 2002–9, 2002–1 C.B. 327 (as modified by Rev. Proc. 2002–54, 2002–2 C.B. 432, Rev. Proc. 2002–19, 2002–1 C.B. 696, Rev. Proc. 2002–33, 2002–1 C.B. 963, and as modified and clarified by Announcement 2002–17, 2002–1 C.B. 561), and other revenue procedures to conform with § 1.446–1T(e)(2)(ii)(*d*) of the temporary Income Tax Regulations.

SECTION 2. BACKGROUND

.01 Section 446(e) and § 1.446–1T(e) provide that, except as otherwise provided, a taxpayer must secure the consent of the Commissioner of Internal Revenue before changing a method of accounting for federal income tax purposes. Section 1.446–1T(e)(3)(ii) authorizes the Commissioner to prescribe administrative procedures setting forth the limitations, terms, and conditions deemed necessary to permit a taxpayer to obtain consent to change a method of accounting.

.02 Concurrently with the issuance of this revenue procedure, §§ 1.446–1T(e)(2)(ii)(*d*) and 1.1016–3T(h) have been promulgated. Section 1.446–1T(e)(2)(ii)(*d*) provides the changes in depreciation or amortization (hereinafter, both are referred to as "depreciation") that are (and are not) changes in method of accounting under § 446(e). Section 1.1016–3T(h) provides that the "allowed or allowable" rule under § 1016(a)(2) does not permanently affect a taxpayer's lifetime income for purposes of determining whether a change in depreciation or amortization is a change in method of accounting under § 446(e).

.03 If a taxpayer uses an impermissible method of determining depreciation for a depreciable or amortizable property, the taxpayer adopts that method of accounting for the property when the taxpayer treats the property in the same way in determining gross income or deductions in two or more consecutively filed federal tax returns. *See* Rev. Rul. 90–38. The Internal Revenue Service and Treasury Department recognize that this two-year rule increases administrative and compliance costs associated with changes in depreciation because many taxpayers changing from an impermissible to permissible method of accounting for depreciation used the impermissible method for depreciable or amortizable properties placed in service in two or more taxable years before the year of change as well as for depreciable and amortizable properties placed in service in the taxable year immediately preceding the year of change. Accordingly, in the interest of sound tax administration, the Service and Treasury Department have decided to waive the two-year rule in Rev. Rul. 90–38 for a change in depreciation to which § 1.446–1T(e)(2)(ii)(*d*) applies.

.04 If a depreciable or amortizable property is transferred in a transaction in which the transferee is treated as the transferor for purposes of computing the depreciation allowance for the property with respect to so much of the basis in the hands of the transferee as does not exceed the adjusted depreciable basis in the hands of the transferor (for example, in transactions subject to § 168(i)(7) or § 381(c)(6)), the transferee may file a Form 3115, *Application for Change in Accounting Method*, to change from an impermissible method of accounting adopted by the transferor for that portion of the basis of the property to a permissible method of accounting for depreciation for the same portion of the basis of the property, provided the impermissible method of accounting for that portion of the basis of the property has not been changed by the transferor (through filing, for example, a Form 3115 or an amended return) or by the Internal Revenue Service upon examination of the transferor's tax returns. In this case, the § 481 adjustment will include any necessary adjustments since the property's placed-in-service date by the transferor.

SECTION 3. METHOD CHANGE PROCEDURE FOR DISPOSED DEPRECIABLE OR AMORTIZABLE PROPERTY

.01 *Scope*.

(1) *Applicability*. Except as provided in section 3.01(2) of this revenue procedure, section 3 of this revenue procedure applies to a taxpayer that is changing from an impermissible method of accounting for depreciation to a permissible method of accounting for depreciation for any item of depreciable or amortizable property subject to § 1.446–1T(e)(2)(ii)(*d*):

(a) that has been disposed of by the taxpayer during the year of change (as defined in section 3.02(2)(b) of this revenue procedure); and

(b) for which the taxpayer did not take into account any depreciation allowance, or did take into account some depreciation but less than the depreciation allowable (hereinafter, both are referred to as "claimed less than the depreciation allowable"), in the year of change (as defined in section 3.02(2)(b) of this revenue procedure) or any prior taxable year.

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

(a) any property to which § 1016(a)(3) (regarding property held by a tax-exempt organization) applies;

(b) any property for which a taxpayer is revoking a timely valid depreciation election, or making a late depreciation election, under the Code or regulations thereunder, or under other guidance published in the Internal Revenue Bulletin (including under § 13261(g)(2) or (3) of the Revenue Reconciliation Act of 1993, 1993–3 C.B. 1, 128 (relating to amortizable § 197 intangibles));

(c) any property for which the taxpayer deducted the cost or other basis of the property as an expense; or

(d) any property disposed of by the taxpayer in a transaction to which a nonrecognition section of the Code applies

(for example, § 1031, transactions subject to § 168(i)(7)(B)(i)). However, this section 3.01(2)(d) does not apply to property disposed of by the taxpayer in a § 1031 or § 1033 transaction if the taxpayer elects to treat the entire basis (that is, both the carryover and excess basis) of the acquired MACRS property as property placed in service by the taxpayer at the time of replacement and treat the adjusted depreciable basis of the exchanged or involuntarily converted MACRS property as being disposed of by the taxpayer at the time of disposition.

.02 *Change in method of accounting*.

(1) *In general*. A taxpayer within the scope of section 3 of this revenue procedure may change from an impermissible method of accounting for depreciation to a permissible method of accounting for depreciation for any item of depreciable or amortizable property within the scope of section 3 of this revenue procedure, provided:

(a) the taxpayer files the original Form 3115 in accordance with section 3.02(2)(c) of this revenue procedure, prior to the expiration of the period of limitation for assessment under § 6501(a) for the taxable year in which the item of depreciable or amortizable property was disposed of by the taxpayer; and

(b) the taxpayer files an amended federal tax return for the year of change (as defined in section 3.02(2)(b) of this revenue procedure) that includes the adjustments to taxable income and any collateral adjustments to taxable income or tax liability (for example, adjustments to the amount or character of the gain or loss of the disposed depreciable or amortizable property) resulting from the change in method of accounting for depreciation made by the taxpayer under this section 3.

(2) *Application Procedures*. A taxpayer making a change in method of accounting under section 3 of this revenue procedure must follow the automatic change in method of accounting provisions in Rev. Proc. 2002–9 (or its successor), with the following modifications:

(a) The scope limitations in section 4.02 of Rev. Proc. 2002–9 do not apply. If the taxpayer is under examination, before an appeals office, or before a federal court at the time that a copy of the Form 3115 is filed with the national office, the taxpayer must provide a copy of the Form 3115 to the examining agent, appeals officer, or counsel for the government, as appropriate, at the time the copy of the Form 3115 is filed with the national office. The Form 3115 must contain the name(s) and telephone number(s) of the examining agent, appeals officer, or counsel for the government, as appropriate.

(b) The year of change is the taxable year in which the item of depreciable or amortizable property was disposed of by the taxpayer.

(c) Section 6.02(3)(a) of Rev. Proc. 2002–9 is modified to require the original of the Form 3115 to be attached to the taxpayer's timely filed amended federal tax return for the year of change and a copy (with signature) of the Form 3115 to be filed with the national office no later than when the original Form 3115 is filed with the amended federal tax return for the year of change.

(d) For purposes of section 6.02(4)(a) of Rev. Proc. 2002–9, the taxpayer should include on line 1a of the Form 3115 (revised December 2003) the designated automatic accounting method change number for the change in method of accounting for depreciation made under this section 3. This number for this method change is "9."

SECTION 4. WAIVER OF TWO-YEAR RULE IN REV. RUL. 90–38

.01 *In general*. Notwithstanding Rev. Rul. 90–38, a taxpayer may file a Form 3115 under Rev. Proc. 97–27, 1997–1 C.B. 680 (or its successor), or Rev. Proc. 2002–9, as applicable, to change from an impermissible method of accounting for depreciation to a permissible method of accounting for depreciation under § 1.446–1T(e)(2)(ii)(*d*) for any depreciable or amortizable property subject to § 1.446–1T(e)(2)(ii)(*d*) and placed in service by the taxpayer in the taxable year immediately preceding the year of change (as defined in section 5.02(2) of Rev. Proc. 97–27 or section 5.02 of Rev. Proc. 2002–9, as applicable) (hereinafter, this property is referred to as "1-year depreciable property"), provided the additional term and condition in section 4.02 of this revenue procedure is satisfied. Alternatively, the taxpayer may make the change from the impermissible depreciation method to the permissible depreciation method for the 1-year depreciable property by filing an amended federal tax return for the placed-in-service year prior to the date the taxpayer files its federal tax return for the taxable year succeeding the placed-in-service year.

.02 *Additional term and condition for filing a Form 3115*. In addition to the terms and conditions provided in Rev. Proc. 97–27 or Rev. Proc. 2002–9, as applicable, the § 481 adjustment reported on a Form 3115 that is filed by a taxpayer in accordance with section 4.01 of this revenue procedure to make a change in method of accounting for depreciation under § 1.446–1T(e)(2)(ii)(*d*) for any 1-year depreciable property, must include the amount of any adjustment attributable to all property (including the 1-year depreciable property) subject to the Form 3115.

SECTION 5. EFFECT ON OTHER DOCUMENTS

.01 Rev. Proc. 2002–9 is modified and amplified to include the accounting method change provided under section 3 of this revenue procedure in section 2.05 of the APPENDIX. See section 4 of the APPENDIX of this revenue procedure for the text of section 2.05 of the APPENDIX of Rev. Proc. 2002–9.

.02 The heading for section 2 of the APPENDIX of Rev. Proc. 2002–9 is modified to read as follows: "SECTION 2. DEPRECIATION OR AMORTIZATION (§ 56(a)(1), 56(g)(4)(A), 167, 168, 197, 1400I, OR 1400L, OR FORMER § 168)".

.03 Rev. Proc. 2002–9 (as modified by Rev. Proc. 2002–33) is modified by deleting sections 2.01, 2.02, and 2B of the APPENDIX and replacing them with the text in, respectively, sections 1, 2, and 3 of the APPENDIX of this revenue procedure.

.04 Section 6.03 of Rev. Proc. 2000–38, 2000–2 C.B. 310, 313, is modified by deleting "*See* § 1.446–1(e)(2)(ii)(*b*)." and replacing it with "*See* § 1.446–1T(e)(2)(ii)(*d*)(*3*)(*i*)."

.05 Section 8.01 of Rev. Proc. 2000–50, 2000–2 C.B. 601, is modified to read as follows: "A change in a taxpayer's treatment of costs paid or incurred to develop, purchase, lease, or license computer software to a method described in section 5, 6, or 7 of this revenue procedure is a change in method of accounting to which §§ 446 and 481 apply. Further, a change in useful life

under the method described in section 5.01(2) or 6.01(2) of this revenue procedure is a change in method of accounting. *See* § 1.446–1T(e)(2)(ii)(*d*)(*3*)(*i*) and, for the effective date, *see* § 1.446–1T(e)(4)(ii)(A)."

SECTION 6. EFFECTIVE DATE

.01 *In general*. Except as provided in section 6.02 of this revenue procedure, this revenue procedure is effective for a Form 3115 filed for taxable years ending on or after December 30, 2003.

.02 *Transition rule for previously filed Forms 3115 for automatic consent*.

(1) For a taxable year ending on or after December 30, 2003, a taxpayer may make a change in method of accounting previously authorized in section 2.01, 2.02, or 2B of the APPENDIX of Rev. Proc. 2002–9 before any amendments were made to those sections by this revenue procedure if:

(a) before December 30, 2003, the taxpayer filed a completed Form 3115 with the national office to make that change in method of accounting; and

(b) the taxpayer makes that change in method of accounting in compliance with all the applicable provisions of Rev. Proc. 2002–9 for the requested year of change (as defined in section 5.02 of Rev. Proc. 2002–9) on that Form 3115.

(2) If a taxpayer filed a Form 3115 with the national office to make a change in method of accounting previously authorized in section 2.01, 2.02, or 2B of the APPENDIX of Rev. Proc. 2002–9 before any amendments were made to those sections by this revenue procedure for a year of change for which this revenue procedure is effective (see section 6.01 of this revenue procedure) and the taxpayer's original federal tax return for that year of change was not filed before December 30, 2003, the taxpayer may make the change in method of accounting authorized under section 2.01, 2.02, or 2B, as applicable, of the APPENDIX of Rev. Proc. 2002–9 as revised by this revenue procedure. However, the Service will process the Form 3115 in accordance with the section of the APPENDIX of Rev. Proc. 2002–9 in effect on the date on which the Form 3115 was filed with the national office by the taxpayer unless on or before the due date (including extensions) of the taxpayer's federal tax return for the requested year of change (as defined in section 5.02 of Rev. Proc. 2002–9) on that Form 3115, the taxpayer completes a new Form 3115 to make the change under section 2.01, 2.02, or 2B, as applicable, of the APPENDIX of Rev. Proc. 2002–9 as revised by this revenue procedure and files this newly completed Form 3115 in duplicate in accordance with section 6.02(3)(a) of Rev. Proc. 2002–9. Additionally, the newly completed Form 3115 must include the statement: "Section *[insert, as appropriate: 2.01, 2.02, or 2B]* of the APPENDIX of Rev. Proc. 2002–9 as revised by Rev. Proc. 2004–11." This statement must be legibly printed or typed on the appropriate line on, or at the top of page 1 of, the Form 3115.

SECTION 7. DRAFTING INFORMATION

The principal author of this revenue procedure is Sara Logan of the Office of Associate Chief Counsel (Passthroughs and Special Industries). For further information regarding this revenue procedure, contact Ms. Logan or Douglas Kim at (202) 622–3110 (not a toll-free call).

APPENDIX

SECTION 1. Section 2.01 of the APPENDIX of Rev. Proc 2002–9 is deleted and replaced with the following:

".01 *Impermissible to permissible method of accounting for depreciation or amortization*.

(1) *Description of change and scope*.

(a) *Applicability*. This change applies to a taxpayer that wants to change from an impermissible to a permissible method of accounting for depreciation or amortization (depreciation) for any item of depreciable or amortizable property:

(i) for which the taxpayer used the impermissible method of accounting in at least the two taxable years immediately preceding the year of change (but see section 2.01(1)(b) of this APPENDIX for property placed in service in the taxable year immediately preceding the year of change);

(ii) for which the taxpayer is making a change in method of accounting under § 1.446–1T(e)(2)(ii)(*d*);

(iii) for which depreciation is determined under § 56(a)(1), § 56(g)(4)(A), § 167, § 168, § 197, § 1400I, § 1400L(b), or § 1400L(c), or under § 168 prior to its amendment in 1986 (former § 168); and

(iv) that is owned by the taxpayer at the beginning of the year of change (but see section 2.05 of this APPENDIX for property disposed of before the year of change).

(b) *Taxpayer has not adopted a method of accounting for the item of property*. If a taxpayer does not satisfy section 2.01(1)(a)(i) of this APPENDIX for an item of depreciable or amortizable property because this item of property is placed in service by the taxpayer in the taxable year immediately preceding the year of change ("1-year depreciable property"), the taxpayer may change from the impermissible depreciation method to the permissible depreciation method for the 1-year depreciable property by filing a Form 3115 for this change, provided the § 481 adjustment reported on the Form 3115 includes the amount of any adjustment that is attributable to all property (including the 1-year depreciable property) subject to the Form 3115. Alternatively, the taxpayer may change from the impermissible depreciation method to the permissible depreciation method for a 1-year depreciable property by filing an amended federal tax return for the property's placed-in-service year prior to the date the taxpayer files its federal tax return for the taxable year succeeding the placed-in-service year.

(c) *Certain scope limitations inapplicable*. The scope limitations in sections 4.02(7) and 4.02(8) of this revenue procedure are not applicable to this change.

(d) *Inapplicability*. This change does not apply to:

(i) any property to which § 1016(a)(3) (regarding property held by a tax-exempt organization) applies;

(ii) any taxpayer that is subject to § 263A and that is required to capitalize the costs with respect to which the taxpayer wants to change its method of accounting under section 2.01 of this APPENDIX, if the taxpayer is not capitalizing the costs as required;

(iii) any property for which a taxpayer is making a change in depreciation under § 1.446–1T(e)(2)(ii)(*d*)(*2*)(*vi*) or (*vii*);

(iv) any property subject to § 167(g) (regarding property depreciated under the income forecast method);

(v) any § 1250 property that a taxpayer is reclassifying to an asset class of Rev. Proc. 87–56, 1987–2 C.B. 674, or Rev. Proc. 83–35, 1983–1 C.B. 745, as appropriate, that does not explicitly include § 1250 property (for example, asset class 57.0, Distributive Trades and Services);

(vi) any property for which a taxpayer is revoking a timely valid election, or making a late election, under § 167, § 168, § 1400I, § 1400L, former § 168, or § 13261(g)(2) or (3) of the Revenue Reconciliation Act of 1993 (1993 Act), 1993–3 C.B. 1, 128 (relating to amortizable § 197 intangibles). A taxpayer may request consent to revoke or make the election by submitting a request for a letter ruling under Rev. Proc. 2003–1, 2003–1 I.R.B. 1 (or any successor). *See* § 1.446–1T(e)(2)(ii)(*d*)(*3*)(*iii*);

(vii) any property for which depreciation is determined under § 56(g)(4)(A) or § 167 (other than under § 168, § 1400I, § 1400L, or former § 168) and a taxpayer is changing the useful life of the property. A change in the useful life of property is corrected by adjustments in the applicable taxable year provided under § 1.446–1T(e)(2)(ii)(*d*)(*3*)(*i*). However, this section 2.01(1)(d)(vii) of this APPENDIX does not apply if the taxpayer is changing to or from a useful life, recovery period, or amortization period that is specifically assigned by the Internal Revenue Code (for example, § 167(f)(1), § 168(c)), the regulations thereunder, or other guidance published in the Internal Revenue Bulletin and, therefore, this change is a change in method of accounting (unless section 2.01(1)(d)(xv) of this APPENDIX applies). See § 1.446–1T(e)(2)(ii)(*d*)(*3*)(*i*);

(viii) any depreciable property for which the use changes in the hands of the same taxpayer. *See* § 1.446–1T(e)(2)(ii)(*d*)(*3*)(*ii*);

(ix) any property for which depreciation is determined in accordance with § 1.167(a)–11 (regarding the Class Life Asset Depreciation Range System (ADR));

(x) any change in method of accounting involving a change from deducting the cost or other basis of any property as an expense to capitalizing and depreciating the cost or other basis;

(xi) any change in method of accounting involving a change from one permissible method of accounting for the property to another permissible method of accounting for the property. For example:

(A) a change from the straight-line method of depreciation to the income forecast method of depreciating for videocassettes. *See* Rev. Rul. 89–62, 1989–1 C.B. 78; or

(B) a change from charging the depreciation reserve with costs of removal and crediting the depreciation reserve with salvage proceeds to deducting costs of removal as an expense (provided the costs of removal are not required to be capitalized under any provision of the Code, such as, § 263(a)) and including salvage proceeds in taxable income (see section 2.02 of this APPENDIX for making this change for property for which depreciation is determined under § 167);

(xii) any change in method of accounting involving both a change from treating the cost or other basis of the property as nondepreciable or nonamortizable property to treating the cost or other basis of the property as depreciable or amortizable property and the adoption of a method of accounting for depreciation requiring an election under § 167, § 168, § 1400I, § 1400L(b), former § 168, or § 13261(g)(2) or (3) of the 1993 Act (for example, a change in the treatment of the space consumed in landfills placed in service in 1990 from nondepreciable to depreciable property (assuming section 2.01(1)(d)(xiii) of the APPENDIX does not apply) and the making of an election under § 168(f)(1) to depreciate this property under the unit of production method of depreciation under § 167);

(xiii) any change in method of accounting for any item of income or deduction other than depreciation, even if the change results in a change in computing depreciation under § 1.446–1T(e)(2)(ii)(*d*)(*2*)(*i*), (*ii*), (*iii*), (*iv*), (*v*), (*vi*), (*vii*), or (*viii*). For example, a change in method of accounting involving:

(A) a change in inventory costs (for example, when property is reclassified from inventory property to depreciable property, or vice versa) (but see section 3.02 of this APPENDIX for making a change from inventory property to depreciable property for unrecoverable line pack gas or unrecoverable cushion gas); or

(B) a change in the character of a transaction from sale to lease, or vice versa (but see section 2.03 of this APPENDIX for making this change);

(xiv) a change from determining depreciation under § 168 to determining depreciation under former § 168 for any property subject to the transition rules in § 203(b) or 204(a) of the Tax Reform Act of 1986, 1986–3 (Vol. 1) C.B. 1, 60–80; or

(xv) any change in the placed-in-service date of a depreciable or amortizable property. This change is corrected by adjustments in the applicable taxable year provided under § 1.446–1T(e)(2)(ii)(*d*)(*3*)(*v*).

(2) *Additional requirements*. A taxpayer also must comply with the following:

(a) *Permissible method of accounting for depreciation*. A taxpayer must change to a permissible method of accounting for depreciation for the item of depreciable or amortizable property. The permissible method of accounting is the same method that determines the depreciation allowable for the item of property (as provided in section 2.01(5) of this APPENDIX).

(b) *Statements required*. A taxpayer must provide the following statements, if applicable, and attach them to the completed application:

(i) a detailed description of the former and new methods of accounting. A general description of these methods of accounting is unacceptable (for example, MACRS to MACRS, erroneous method to proper method, claiming less than the depreciation allowable to claiming the depreciation allowable);

(ii) to the extent not provided elsewhere on the application, a statement describing the taxpayer's business or income-producing activities. Also, if the taxpayer has more than one business or income-producing activity, a statement describing the taxpayer's business or income-producing activity in which the item of property at issue is primarily used by the taxpayer;

(iii) to the extent not provided elsewhere on the application, a statement of the facts and law supporting the new method of accounting, new classification of the item of property, and new asset class in, as appropriate, Rev. Proc. 87–56 or Rev. Proc. 83–35. If the taxpayer is the owner and lessor of the item of property at issue, the statement of the facts and law supporting the new asset class also must describe

the business or income-producing activity in which that item of property is primarily used by the lessee;

(iv) to the extent not provided elsewhere on the application, a statement identifying the year in which the item of property was placed in service;

(v) if the item of property is depreciated under former § 168, a statement identifying the asset class in Rev. Proc. 83–35 that applies under the taxpayer's former and new methods of accounting (if none, state and explain);

(vi) if any item of property is public utility property within the meaning of § 168(i)(10) or former § 167(l)(3)(A), as applicable, a statement providing that the taxpayer agrees to the following additional terms and conditions:

(A) a normalization method of accounting (within the meaning of former § 167(l)(3)(G), former § 168(e)(3)(B), or § 168(i)(9), as applicable) will be used for the public utility property subject to the application;

(B) as of the beginning of the year of change, the taxpayer will adjust its deferred tax reserve account or similar reserve account in the taxpayer's regulatory books of account by the amount of the deferral of federal income tax liability associated with the § 481(a) adjustment applicable to the public utility property subject to the application; and

(C) within 30 calendar days of filing the federal income tax return for the year of change, the taxpayer will provide a copy of the completed application to any regulatory body having jurisdiction over the public utility property subject to the application;

(vii) if the taxpayer is changing the classification of an item of § 1250 property placed in service after August 19, 1996, to a retail motor fuels outlet under § 168(e)(3)(E)(iii), a statement containing the following representation: "For purposes of § 168(e)(3)(E)(iii) of the Internal Revenue Code, the taxpayer represents that (A) 50 percent or more of the gross revenue generated from the item of § 1250 property is from the sale of petroleum products (not including gross revenue from related services, such as the labor cost of oil changes and gross revenue from the sale of nonpetroleum products such as tires and oil filters), (B) 50 percent or more of the floor space in the item of property is devoted to the sale of petroleum products (not including floor space devoted to related services, such as oil changes and floor space devoted to nonpetroleum products such as tires and oil filters), or (C) the time of § 1250 property is 1,400 square feet or less."; and

(viii) if the taxpayer is changing the classification of an item of property from § 1250 property to § 1245 property under § 168 or former § 168, a statement of the facts and law supporting the new § 1245 property classification, and a statement containing the following representation: "Each item of depreciable property that is the subject of the application filed under section 2.01 of the APPENDIX of Rev. Proc. 2002–9 for the year of change beginning *[Insert the date]*, and that is reclassified from *[Insert, as appropriate: nonresidential real property, residential rental property, 19-year real property, 18-year real property, or 15-year real property]* to an asset class of *[Insert, as appropriate, either: Rev. Proc. 87–56, 1987–2 C.B. 674, or Rev. Proc. 83–35, 1983–1 C.B. 745]* that does not explicitly include § 1250 property, is § 1245 property for depreciation purposes."

(3) *Section 481(a) adjustment*. Because the adjusted basis of the property is changed as a result of a method change made under section 2.01 of this APPENDIX (*see* section 2.01(4) of this APPENDIX), items are duplicated or omitted. Accordingly, this change is made with a § 481(a) adjustment. This adjustment may result in either a negative § 481(a) adjustment (a decrease in taxable income) or a positive § 481(a) adjustment (an increase in taxable income) and may be a different amount for regular tax, alternative minimum tax, and adjusted current earnings purposes. This § 481(a) adjustment equals the difference between the total amount of depreciation taken into account in computing taxable income for the property under the taxpayer's former method of accounting (including the amount attributable to any property described in section 2.01(1)(b) of this APPENDIX that is included in the taxpayer's Form 3115), and the total amount of depreciation allowable for the property under the taxpayer's new method of accounting (as determined under section 2.01(5) of this APPENDIX, and including the amount attributable to any property described in section 2.01(1)(b) of this APPENDIX that is included in the taxpayer's Form 3115), for open and closed years prior to the year of change. However, the amount of the § 481(a) adjustment must be adjusted to account for the proper amount of the depreciation allowable that is required to be capitalized under any provision of the Code (for example, § 263A) at the beginning of the year of change.

(4) *Basis adjustment*. As of the beginning of the year of change, the basis of depreciable property to which section 2.01 of this APPENDIX applies must reflect the reductions required by § 1016(a)(2) for the depreciation allowable for the property (as determined under section 2.01(5) of this APPENDIX).

(5) *Meaning of depreciation allowable*.

(a) *In general*. Section 2.01(5) of this APPENDIX provides the amount of the depreciation allowable determined under § 56(a)(1), § 56(g)(4)(A), § 167, § 168, § 197, § 1400I, or § 1400L(c), or former § 168. This amount, however, may be limited by other provisions of the Code (for example, § 280F).

(b) *Section 56(a)(1) property*. The depreciation allowable for any taxable year for property for which depreciation is determined under § 56(a)(1) is determined by using the depreciation method, recovery period, and convention provided for under § 56(a)(1) that applies for the property's placed-in-service date.

(c) *Section 56(g)(4)(A) property*. The depreciation allowable for any taxable year for property for which depreciation is determined under § 56(g)(4)(A) is determined by using the depreciation method, recovery period or useful life, as applicable, and convention provided for under § 56(g)(4)(A) that applies for the property's placed-in-service date.

(d) *Section 167 property*. Generally, for any taxable year, the depreciation allowable for property for which depreciation is determined under § 167, is determined either:

(i) under the depreciation method adopted by a taxpayer for the property; or

(ii) if that depreciation method does not result in a reasonable allowance for depreciation or a taxpayer has not adopted a depreciation method for the property, under the straight-line depreciation method.

For determining the estimated useful life and salvage value of the property, see § 1.167(a)–1(b) and (c), respectively.

The depreciation allowable for any taxable year for property subject to § 167(f) (regarding certain property excluded from § 197) is determined by using the depreciation method and useful life prescribed in § 167(f). If computer software is depreciated under § 167(f)(1) and is qualified property (as defined in § 168(k)(2) and § 1.168(k)–1T of the temporary Income Tax Regulations), 50-percent bonus depreciation property (as defined in § 168(k)(4) and § 1.168(k)–1T), or qualified New York Liberty Zone (Liberty Zone) property (as defined in § 1400L(b)(2) and § 1.1400L(b)–1T), the depreciation allowable for that computer software under § 167(f)(1) is also determined by taking into account the additional first year depreciation deduction provided by § 168(k) or § 1400L(b), as applicable, unless the taxpayer made a timely valid election not to deduct any additional first year depreciation for the computer software.

(e) *Section 168 property*. The depreciation allowable for any taxable year for property for which depreciation is determined under § 168, is determined as follows:

(i) by using either:

(A) the general depreciation system in § 168(a); or

(B) the alternative depreciation system in § 168(g) if the property is required to be depreciated under the alternative depreciation system pursuant to § 168(g)(1) or other provisions of the Code (for example, property described in § 263A(e)(2)(A) or § 280F(b)(1)). Property required to be depreciated under the alternative depreciation system pursuant to § 168(g)(1) includes property in a class (as set out in § 168(e)) for which the taxpayer made a timely valid election under § 168(g)(7); and

(ii) if the property is qualified property, 50-percent bonus depreciation property, or Liberty Zone property, by taking into account the additional first year depreciation deduction provided by § 168(k) or § 1400L(b), as applicable, unless the taxpayer made a timely valid election not to deduct the additional first year depreciation (or made a deemed election not to deduct the additional first year depreciation; for further guidance, see Rev. Proc. 2002–33, 2002–1 C.B. 963, or Rev. Proc. 2003–50, 2003–29 I.R.B. 119) for the class of property (as defined in § 1.168(k)–1T(e)(2) or § 1.1400L(b)–1T(e)(2), as applicable) in which that property is included.

(f) *Section 197 property*. The depreciation allowable for any taxable year for an amortizable § 197 intangible (including any property for which a timely election under § 13261(g)(2) of the 1993 Act was made) is determined in accordance with § 1.197–2(f).

(g) *Former § 168 property*. The depreciation allowable for any taxable year for property subject to former § 168 is determined by using either:

(i) the accelerated method of cost recovery applicable to the property (for example, for 5-year property, the recovery method under former § 168(b)(1)); or

(ii) the straight-line method applicable to the property if the property is required to be depreciated under the straight-line method (for example, property described in former § 168(f)(12) or former § 280F(b)(2)) or if the taxpayer elected to determine the depreciation allowance under the optional straight-line percentage (for example, the straight-line method in former § 168(b)(3)).

(h) *Qualified revitalization building*. The depreciation allowable for any taxable year for any qualified revitalization building (as defined in § 1400I(b)(1)) for which the taxpayer has made a timely valid election under § 1400I(a) is determined as follows:

(i) if the taxpayer elected to deduct one-half of any qualified revitalization expenditures (as defined in § 1400I(b)(2)) chargeable to a capital account with respect to the qualified revitalization building for the taxable year in which the building is placed in service by the taxpayer, the depreciation allowable for the property's placed-in-service year is equal to one-half of the qualified revitalization expenditures for the property and the depreciation allowable for the remaining recovery period of the property is determined using the general depreciation system of § 168(a) or the alternative depreciation system of § 168(g), as applicable; or

(ii) if the taxpayer elected to amortize all of the qualified revitalization expenditures chargeable to a capital account with respect to the qualified revitalization building ratably over the 120-month period beginning with the month in which the building is placed in service, the depreciation allowable is determined in accordance with this election.

(i) *Qualified New York Liberty Zone leasehold improvement property*. The depreciation allowable for any taxable year for qualified New York Liberty Zone leasehold improvement property (as defined in § 1400L(c)(2)) is determined by using the depreciation method and recovery period prescribed in § 1400L(c)."

SECTION 2. Section 2.02 of the APPENDIX of Rev. Proc. 2002–9 is deleted and replaced with the following:

".02 *Permissible to permissible method of accounting for depreciation*.

(1) *Description of change*. This change applies to a taxpayer that wants to change from a permissible method of accounting for depreciation under § 56(g)(4)(A)(iv) or § 167 to another permissible method of accounting for depreciation under § 56(g)(4)(A)(iv) or § 167. Pursuant to § 1.167(a)–7(a) and (c), a taxpayer may account for depreciable property either by treating each individual asset as an account or by combining two or more assets in a single account and, for each account, depreciation allowances are computed separately.

(2) *Scope*.

(a) *Applicability*. This change applies to any taxpayer wanting to make a change in method of accounting for depreciation specified in section 2.02(3) of this APPENDIX for the property in an account:

(i) for which the present and proposed methods of accounting for depreciation specified in section 2.02(3) of this APPENDIX are permissible methods for the property under § 56(g)(4)(A)(iv) or § 167; and

(ii) that is owned by the taxpayer at the beginning of the year of change.

(b) *Certain scope limitations inapplicable*. The scope limitations in sections 4.02(7) and 4.02(8) of this revenue procedure are not applicable to this change.

(c) *Inapplicability*. This change does not apply to:

(i) any taxpayer that is subject to § 263A and that is required to capitalize the costs with respect to which the taxpayer wants

to change its method of accounting under section 2.02 of this APPENDIX, if the taxpayer is not capitalizing the costs as required;

(ii) any property to which § 1016(a)(3) (regarding property held by a tax-exempt organization) applies;

(iii) any property described in § 167(f) (regarding certain property excluded from § 197);

(iv) any property subject to § 167(g) (regarding property depreciated under the income forecast method);

(v) any property for which depreciation is determined under § 56(a)(1), § 56(g)(4)(A)(i), (ii), (iii), or (v), § 168, § 1400I, § 1400L(b), or § 1400L(c), or § 168 prior to its amendment in 1986 (former § 168);

(vi) any property that the taxpayer elected under § 168(f)(1) or former § 168(e)(2) to exclude from the application of, respectively, § 168 or former § 168;

(vii) any property for which depreciation is determined in accordance with § 1.167(a)–11 (regarding the Class Life Asset Depreciation Range System (ADR));

(viii) any depreciable property for which the taxpayer is changing the depreciation method pursuant to § 1.167(e)–1T(b) of the temporary Income Tax Regulations (change from declining-balance method to straight-line method), § 1.167(e)–1T(c) (certain changes for § 1245 property), or § 1.167(e)–1T(d) (certain changes for § 1250 property). These changes must be made prospectively and are not permitted under the cited regulations for property for which the depreciation is determined under § 168, § 1400I, § 1400L, or former § 168; or

(ix) any distributor commissions (as defined by section 2 of Rev. Proc. 2000–38, 2000–2 C.B. 310) for which the taxpayer is changing the useful life under the distribution fee period method or the useful life method (both described in Rev. Proc. 2000–38). A change in this useful life is corrected by adjustments in the applicable taxable year provided under § 1.446–1T(e)(2)(ii)(*d*)(*3*)(*i*).

(3) *Changes covered.* Section 2.02 of this APPENDIX only applies to the following changes in methods of accounting for depreciation:

(a) a change from the straight-line method to the sum-of-the-years-digits method, the sinking fund method, the unit-of-production method, or the declining-balance method using any proper percentage of the straight-line rate;

(b) a change from the declining-balance method using any percentage of the straight-line rate to the sum-of-the-years-digits method, the sinking fund method, or the declining-balance method using a different proper percentage of the straight-line rate;

(c) a change from the sum-of-the-years-digits method to the sinking fund method, the declining-balance method using any proper percentage of the straight-line rate, or the straight-line method;

(d) a change from the unit-of-production method to the straight-line method;

(e) a change from the sinking fund method to the straight-line method, the unit-of-production method, the sum-of-the-years-digits method, or the declining-balance method using any proper percentage of the straight-line rate;

(f) a change in the interest factor used in connection with a compound interest method or sinking fund method;

(g) a change in averaging convention as set forth in § 1.167(a)–10(b). However, as specifically provided in § 1.167(a)–10(b), in any taxable year in which an averaging convention substantially distorts the depreciation allowance for the taxable year, it may not be used (*see* Rev. Rul. 73–202, 1973–1 C.B. 81);

(h) a change from charging the depreciation reserve with costs of removal and crediting the depreciation reserve with salvage proceeds to deducting costs of removal as an expense and including salvage proceeds in taxable income as set forth in § 1.167(a)–8(e)(2). *See* Rev. Rul. 74–455, 1974–2 C.B. 63. This change, however, may be made under this revenue procedure only if:

(i) the change is applied to all items in the account for which the change is being made; and

(ii) the removal costs are not required to be capitalized under any provision of the Code (for example, § 263(a), 263A, or 280B);

(i) a change from crediting the depreciation reserve with the salvage proceeds realized on normal retirement sales to computing and recognizing gains and losses on the sales (*see* Rev. Rul. 70–165, 1970–1 C.B. 43);

(j) a change from crediting ordinary income (including the combination method of crediting the lesser of estimated salvage value or actual salvage proceeds to the depreciation reserve, with any excess of salvage proceeds over estimated salvage value credited to ordinary income) with the salvage proceeds realized on normal retirement sales, to computing and recognizing gains and losses on the sales (*see* Rev. Rul. 70–166, 1970–1 C.B. 44);

(k) a change from item accounting for specific assets to multiple asset accounting for the same assets, or vice versa;

(l) a change from one type of multiple asset accounting (pooling) for specific assets to a different type of multiple asset accounting (pooling) for the same assets;

(m) a change from one method described in Rev. Proc. 2000–38 for amortizing distributor commissions (as defined by section 2 of Rev. Proc. 2000–38, 2000–2 C.B. 310) to another method described in Rev. Proc. 2000–38 for amortizing distributor commissions; or

(n) a change from pooling to a single asset, or vice versa, for distributor commissions (as defined by section 2 of Rev. Proc. 2000–38, 2000–2 C.B. 310) for which the taxpayer is using the distribution fee period method or the useful life method (both described in Rev. Proc. 2000–38).

(4) *Additional requirements.* A taxpayer also must comply with the following:

(a) *Basis for depreciation.* At the beginning of the year of change, the basis for depreciation of property to which this change applies is the adjusted basis of the property as provided in § 1011 at the end of the taxable year immediately preceding the year of change (determined under the taxpayer's present method of accounting for depreciation). If applicable under the taxpayer's proposed method of accounting for depreciation, this adjusted basis is reduced by the estimated salvage value of the property (for example, a change to the straight-line method).

(b) *Rate of depreciation.* The rate of depreciation for property changed to:

(i) the straight-line or the sum-of-the-years-digits method of depreciation must be based on the remaining useful life of the property as of the beginning of the year of change; or

(ii) the declining-balance method of depreciation must be based on the useful life of the property measured from the placed-in-service date, and not the expected remaining life from the date the change becomes effective.

(c) *Regulatory requirements*. For changes in method of depreciation to the sum-of-the-years-digits or declining-balance method, the property must meet the requirements of § 1.167(b)–0 or 1.167(c)–1, as appropriate.

(d) *Public utility property*. If any item of property is public utility property within the meaning of former § 167(l)(3)(A), the taxpayer must attach to the application a statement providing that the taxpayer agrees to the following additional terms and conditions:

(i) a normalization method of accounting within the meaning of former § 167(l)(3)(G) will be used for the public utility property subject to the application; and

(ii) within 30 calendar days of filing the federal income tax return for the year of change, the taxpayer will provide a copy of the completed application to any regulatory body having jurisdiction over the public utility property subject to the application.

(5) *Section 481(a) adjustment*. Because the adjusted basis of the property is not changed as a result of a method change made under section 2.02 of this APPENDIX, no items are being duplicated or omitted. Accordingly, no § 481(a) adjustment is required or necessary."

SECTION 3. Section 2B of the APPENDIX of Rev. Proc. 2002–9 is deleted and replaced with the following:

"SECTION 2B. COMPUTER SOFTWARE EXPENDITURES (§§ 162, 167, AND 197)

.01 *Description of change*. This change applies to a taxpayer that wants to change its method of accounting for the costs of computer software to a method described in Rev. Proc. 2000–50, 2000–2 C.B. 601. Section 5 of Rev. Proc. 2000–50 describes the methods applicable to the costs of developing computer software. Section 6 of Rev. Proc. 2000–50 describes the method applicable to the costs of acquired computer software. Section 7 of Rev. Proc. 2000–50 describes the method applicable to leased or licensed computer software. If a taxpayer treats the costs of computer software in accordance with the applicable method described in Rev. Proc. 2000–50, the Service will not disturb the taxpayer's treatment of its costs of computer software.

.02 *Scope*. This change applies to all costs of computer software as defined in section 2 of Rev. Proc. 2000–50. However, this change does not apply to any computer software that is subject to amortization as an "amortizable section 197 intangible" as defined in § 197(c) and the regulations thereunder, or to costs that a taxpayer has treated as research and experimentation expenditures under § 174.

.03 *Statement required*. If a taxpayer is changing to the method described in section 5.01(2) of Rev. Proc. 2000–50, the taxpayer must attach to the application a statement providing the information required in section 8.02(2) of Rev. Proc. 2000–50."

SECTION 4. Section 2.05 of the APPENDIX of Rev. Proc. 2002–9 is added to read as follows:

".05 *Impermissible to permissible method of accounting for depreciation or amortization for disposed depreciable or amortizable property*.

(1) *Description of change*. This change applies to a taxpayer that wants to make the change in method of accounting for depreciation or amortization (depreciation) provided under section 3 of Rev. Proc. 2004–11, 2004–3 I.R.B. 311, for an item of depreciable or amortizable property that has been disposed of by the taxpayer. Section 3 of Rev. Proc. 2004–11 allows a taxpayer to make a change in method of accounting for depreciation for the disposed property if the taxpayer used an impermissible method of accounting for depreciation for the property under which the taxpayer did not take into account any depreciation allowance, or did take into account some depreciation but less than the depreciation allowable, in the year of change (as defined in section 2.05(3) of this APPENDIX) or any prior taxable year.

(2) *Scope*. This change applies to a taxpayer and an item of depreciable or amortizable property that are within the scope of section 3.01 of Rev. Proc. 2004–11, provided:

(a) the taxpayer files the original Form 3115 with the taxpayer's amended federal tax return for the year of change (as defined in section 2.05(3) of this APPENDIX) prior to the expiration of the period of limitation for assessment under § 6501(a) for the taxable year in which the item of depreciable or amortizable property was disposed of by the taxpayer; and

(b) the taxpayer's amended federal tax return for the year of change (as defined in section 2.05(3) of this APPENDIX) includes the adjustments to taxable income and any collateral adjustments to taxable income or tax liability (for example, adjustments to the amount or character of the gain or loss of the disposed depreciable or amortizable property) resulting from the change in method of accounting for depreciation made by the taxpayer under section 2.05 of this APPENDIX.

(3) *Year of change*. The year of change for this change is the taxable year in which the item of depreciable or amortizable property was disposed of by the taxpayer.

(4) *Scope limitations inapplicable*. The scope limitations in section 4.02 of this revenue procedure do not apply. If the taxpayer is under examination, before an appeals office, or before a federal court at the time that a copy of the Form 3115 is filed with the national office, the taxpayer must provide a copy of the Form 3115 to the examining agent, appeals officer, or counsel for the government, as appropriate, at the time the copy of the Form 3115 is filed with the national office. The Form 3115 must contain the name(s) and telephone number(s) of the examining agent, appeals officer, or counsel for the government, as appropriate.

(5) *Filing requirements*. Notwithstanding section 6.02(3)(a) of this revenue procedure, a taxpayer making this change must attach the original Form 3115 to the taxpayer's timely filed amended federal tax return for the year of change and must file the required copy (with signature) of the Form 3115 with the national office no later than when the original Form 3115 is filed with the amended federal tax return for the year of change.

(6) *Section 481(a) adjustment period*. A taxpayer must take the § 481(a) adjustment into account in the year of change."