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Changes to Form 3115 and Instructions (revised December 2015)

The IRS on January 19, 2016, posted on its website a revised Form 3115, Application for Change in Accounting Method, and Instructions (with a revision date of December 2015) to incorporate changes to the revised procedures for requesting accounting method changes made by Rev. Proc. 2015-13. Form 3115 has been slightly reorganized—a few questions on the prior version of Form 3115 have been removed; and several new questions have been added. The Instructions contain more helpful material and guidance on information needed to respond fully to the questions on the form than the prior version of the instructions.

28 January 2016

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Form 3115, application for accounting method changes

IRS revised Form 3115 and Instructions (rev. December 2015)

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The following discussion provides a detailed list of the important changes to the documents.

- Read [Form 3115 \[PDF 315 KB\]](#)
- Read the [Instructions \[PDF 332 KB\]](#) to Form 3115

Part I – Information for Automatic Change Request

- Question 1 now provides a separate line for each accounting method change number for filings that include multiple automatic method changes in a single application.
- A new Question 3 asks the filer if it provided all the information and statements required (a) on the Form and (b) by the “List of Automatic Changes” for the change the applicant is requesting. To assist with compliance, the IRS has added Tables A and B on pages 4 and 5 of the Instructions. The tables provide guidance on which portions of the Form 3115 need to be completed for an automatic versus a non-automatic change, and the Form 3115 Schedules to be completed for common method change requests.

Part II – Information for All Requests

- It is no longer necessary to explain the details of any section 381(a) transactions in the year of change because there is no longer a restriction on making method changes in the year of a section 381(a) transaction. New Question 5 asks if the applicant is requesting to change to the principal method in the tax year of change under Reg. section 1.381(c)(4)-1(d)(1) or 1.381(c)(5)-1(d)(1), and if so, notes that the applicant cannot file a Form 3115 to make that change.
- Question 7 (previously Question 8) asks if audit protection applies to the change in method of accounting. If it does, the applicant

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must check the appropriate box to indicate why it receives audit protection. This change incorporates the new audit protection rules in Section 8 of Rev. Proc. 2015-13. In certain circumstances, an additional statement or explanation will need to be attached.

- In addition to providing descriptions of the item being changed and the present and proposed methods under Question 14 (previously Question 12), the Instructions state that an applicant is required to provide a statement as to whether or not the applicant has claimed any federal tax credit relating to the item(s) being changed.
- Filers no longer need to provide the "Principal Business Activity Code" for the applicants under Question 15 (previously Question 13), but the trade or business must still be described in detail.
- Question 16 (previously Question 19) asks for an explanation of the legal basis supporting the proposed method. While this section was historically required for non-automatic method changes only, the new version of Form 3115 now requires this legal basis analysis to be completed for certain automatic method changes as well. The legal basis must include a detailed and complete description of the facts that explains how the law specifically applies to the applicant's situation and demonstrates that the applicant is authorized to use the proposed method.

Based on informal comments made by IRS representatives at an AICPA meeting in November, 2015, it appears that this new requirement arose out of situations where the IRS observed certain automatic method changes filed with insufficient information to confirm whether the proposed accounting method was an appropriate method.

The following automatic changes must provide the legal basis supporting the proposed method:

Designated Automatic Accounting Method Change	Description of Automatic Change
6	bad debt conformity for banks (section 166)
7	impermissible to permissible depreciation or amortization (sections 56, 167, 168, 197, 280F, 1400I, 1400L, 1400N, and former section 168)
28	bonus or vacation pay deferred compensation (section 404)
51	small taxpayer inventory exception (section 471)

54	impermissible methods of inventory identification and valuation (section 471)
55	core alternative valuation method for remanufactured and rebuilt motor vehicle parts (section 471)
64	mark-to-market (section 475)
65	dealer status changes (section 475)
82	credit card late fees (section 451)
94	credit card cash advance fees (section 451)
108	change by bank for uncollected interest (section 446)
111	advance trade discount method (section 471)
114	rolling-average method of accounting for inventories (sections 471 and 472)
127	change to overall cash/hybrid method for certain banks (section 446)
194	change to a reasonable allocation method for self-constructed assets (section 263A)

200 (only for certain changes)	permissible to permissible depreciation of MACRS property (section 168)
205 (only for certain changes)	dispositions of a building or structural component (section 168)
206 (only for certain changes)	dispositions of tangible depreciable assets other than a building or its structural components (section 168)
207 (only for certain changes)	dispositions of tangible depreciable assets in a general asset account (section 168)
211	bad debt conformity election by bank after previous election automatically revoked (section 166)
218	change from the mark-to-market method of accounting to a realization method (section 475)

- Question 19 (previously Question 17) which requires that three prior years of gross receipts be provided for certain method changes, adds a new subpart “b” asking for the fourth year of gross receipts for changes in method of accounting for any long-term contracts subject to section 460.

Part IV – Section 481(a) Adjustment

- The question asking if an applicant is required to implement the method change on a cut-off basis (Question 25, previously Question 24) has been modified to also ask if the applicant is permitted to make the change using a cut-off method, and an explanation must be attached.
- Question 27 (previously Question 26) which asks if the applicant will take its entire section 481(a) adjustment into account in the year of change, has been modified to provide boxes for the applicant to check to indicate whether it is picking up its section 481(a) adjustment in the year of change under the \$50,000 de minimis election or under the eligible acquisition transaction election.

Schedule A – Change in Overall Method of Accounting: Part I – Change in Overall Method

- For changes in an overall accounting method, new Question 5 has been added requiring a change to the overall cash method under designated automatic accounting method change number 33 to provide the applicant's NAICS code.

Schedule D – Change in the Treatment of Long-Term Contracts Under Section 460, Inventories, or Other Section 263A Assets: Part I – Change in Reporting Income from Long-Term Contracts

- A new Question 2d has been added asking if the applicant will use the cost-to-cost method or the simplified cost-to-cost method for its long-term contracts.

Schedule E – Change in Depreciation or Amortization

- Question 3 has been modified to also ask if the applicant has made a disposition election for the depreciable or amortizable property included in the method change, as well as asking whether a depreciation, amortization, or expense election has been made.
- A new Question 7h has been added to ask whether the depreciable property was or will be in a single asset account, a multiple asset account, or a general asset account.

Instructions

- Effective January 2016, the duplicate copy of an automatic consent accounting method change is now required to be sent to the following address in Covington, KY, instead of Ogden, UT:

Internal Revenue Service
201 West Rivercenter Blvd.
PIN Team Mail Stop 97
Covington, KY 41011-1424

- This change in address was also included in section 9.05(2) of Rev. Proc. 2016-1. Note that non-automatic accounting method changes will still continue to be filed with IRS National Office in Washington, DC.
- The Instructions state that a preparer other than filer / applicant must sign the original and copies of Form 3115. However, an original Form 3115 that is e-filed does not need to be signed by the preparer or filer, but the e-filed Form 3115 must have the preparer information completed.
- The Instructions contain a definition of a "year of change," which is the first tax year the applicant uses the proposed method of accounting, even if no affected items are taken into account for that year.
- Form 3115 and the Instructions use a new acronym—DCN—which is defined as "designated automatic accounting method change."
- The draft Instructions from September 30, 2015, indicated that a listing of all the automatic changes and their designated change number would be maintained on the IRS website to allow for more timely updates. However, this plan was not implemented, as the final Instructions make no reference to a website listing the automatic changes, and a list of the automatic

accounting method changes is provided at the end of the Instructions.

For more information, contact a tax professional with KPMG's Washington National Tax:

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