

INTERNAL REVENUE BULLETIN



HIGHLIGHTS OF THIS ISSUE

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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.

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EMPLOYEE PLANS

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Rev. Proc. 2024-9, page 628.

Revenue Procedure 2024-9 provides procedures for obtaining automatic consent to change methods of accounting for specified research or experimental expenditures under § 174 paid or incurred in taxable years beginning after December 31, 2021. Revenue Procedure 2024-9 also clarifies section 9 of Revenue Procedure 2023-24 to provide that section 5 of Revenue Procedure 2000-50 is obsolete for costs of developing computer software paid or incurred in any taxable year beginning after December 31, 2021, and continues to apply to costs of developing computer software paid or incurred in any taxable year beginning on or before December 31, 2021.

TAX CONVENTIONS

[REDACTED]

revenue procedure to “former § 174” refer to that section as in effect for research or experimental expenditures paid or incurred in taxable years beginning before January 1, 2022, that is, prior to the effective date of the amendments made to § 174 by § 13206(a) of Public Law 115-97, 131 Stat. 2054 (Dec. 22, 2017), commonly referred to as the Tax Cuts and Jobs Act (TCJA). References to “§ 174” in this revenue procedure refer to § 174 as amended by the TCJA.

SECTION 2. BACKGROUND

.01 Treatment of research and experimental expenditures under former § 174.

Former § 174 allowed taxpayers to elect to deduct research or experimental expenditures paid or incurred in connection with a trade or business as current expenses, to capitalize and amortize such expenditures over a period of not less than 60 months, or to charge such expenditures to capital account.

.02 Treatment of SRE expenditures under § 174.

(1) Section 13206(a) of the TCJA amended former § 174 for amounts paid or incurred in taxable years beginning after December 31, 2021. For amounts paid or incurred in taxable years beginning after December 31, 2021, that meet the definition of specified research or experimental (SRE) expenditures under § 174(b), § 174(a)(1) disallows deductions for such amounts, except as provided in § 174(a)(2). Section 174(a)(2) requires taxpayers to charge SRE expenditures to capital account and allows amortization deductions of such capitalized expenditures ratably over the applicable § 174 amortization period, beginning with the midpoint of the taxable year in which such expenditures are paid or incurred. As used in this revenue procedure, the term “applicable § 174 amortization period” refers to a 5-year period in the case of SRE expenditures attributable to domestic research, or a 15-year period in the case of SRE expenditures attributable to foreign research. Section 13206(a) of the TCJA also made other amendments to former § 174, including amendments to treat

any cost to develop computer software as an SRE expenditure and to prevent the accelerated recovery of unamortized SRE expenditures on account of the disposition, retirement, or abandonment of property with respect to which such expenditures were paid or incurred. For additional background on former § 174 and the TCJA amendments to former § 174, see section 2 of Notice 2023-63.

(2) Section 13206(b) of the TCJA requires taxpayers to treat the amendments made by section 13206(a) of the TCJA as a change in method of accounting for purposes of § 481 that is (i) initiated by the taxpayer, (ii) made with the consent of the Secretary of the Treasury or her delegate, and (iii) applied on a cut-off basis to SRE expenditures paid or incurred in taxable years beginning after December 31, 2021. Thus, no adjustments under § 481(a) are required or permitted with respect to research or experimental expenditures paid or incurred in taxable years beginning before January 1, 2022.

.03 Treatment of SRE expenditures under § 460. Section 460(a) generally requires use of the percentage-of-completion method (PCM) to account for taxable income from a long-term contract. Section 1.460-4(b)(2)(i) provides that under the PCM, the portion of the contract price a taxpayer must report in a taxable year corresponds to the ratio of incurred allocable contract costs to total estimated allocable contract costs. This ratio represents the portion of a contract considered completed for purposes of the PCM. Under the PCM, a taxpayer generally deducts allocable contract costs as they are incurred. Thus, under § 1.460-4(b)(2)(iv), an increase in the percentage of the contract price to be reported is generally matched by deduction of the incurred costs that cause the increase. Under the current § 460 regulations in § 1.460-5(b)(2)(vi), allocable contract costs include research or experimental expenses, other than independent research and development expenses. Thus, when these expenses are incurred, they increase the portion of a contract considered completed and the percentage of the contract price required to be reported. The current § 460 regulations were drafted

(202) 317- 5279 (not a toll-free number).

26 CFR 601.204: Changes in accounting periods and in methods of accounting.
(Also, Part 1, §§ 174, 446, 460, 1.446-1.)

Rev. Proc. 2024-9

SECTION 1. PURPOSE

This revenue procedure modifies sections 7 and 19 of Rev. Proc. 2023-24, 2023-28 I.R.B. 1207, to provide procedures under § 446 of the Internal Revenue Code (Code)¹ and § 1.446-1(e) for obtaining automatic consent of the Commissioner of Internal Revenue (Commissioner) to change methods of accounting for expenditures paid or incurred in taxable years beginning after December 31, 2021, in reliance on interim guidance under §§ 174 and 460 provided in Notice 2023-63, 2023-39 I.R.B. 919, as modified by Notice 2024-12, this Bulletin. This revenue procedure also clarifies section 9 of Rev. Proc. 2023-24 to provide that section 5 of Rev. Proc. 2000-50 is obsolete for costs of developing computer software paid or incurred in any taxable year beginning after December 31, 2021, and continues to apply to costs of developing computer software paid or incurred in any taxable year beginning on or before December 31, 2021. References in this

¹ Unless otherwise specified, all “section” or “§” references are to sections of the Code or the Income Tax Regulations (26 CFR part 1).

with respect to taxable years in which a taxpayer could currently deduct research or experimental expenses under former § 174. Section 174(a) requires that SRE expenditures be charged to capital account and deducted over the applicable § 174 amortization period. As a result, under the current § 460 regulations, incurred SRE expenditures increase the percentage of the contract price required to be reported, although § 174(a) prevents a corresponding current deduction of those incurred SRE expenditures.

.04 *Procedural guidance under Rev. Proc. 2023-11.*

(1) On December 29, 2022, the Department of the Treasury (Treasury Department) and the Internal Revenue Service (IRS) issued Rev. Proc. 2023-11, 2023-3 I.R.B. 417, modifying and superseding Rev. Proc. 2023-8, 2023-3 I.R.B. 407, to provide procedures to obtain automatic consent to change methods of accounting for SRE expenditures to comply with § 174. The change in method of accounting provided by Rev. Proc. 2023-11 was subsequently included in section 7.02 of Rev. Proc. 2023-24.

(2) Section 7.02(4)(a) of Rev. Proc. 2023-24 implements the requirement imposed by § 13206(b) of the TCJA that a taxpayer must make a change in method of accounting to comply with § 174 on a cut-off basis if the change is made for the taxpayer's first taxable year beginning after December 31, 2021. Section 7.02(4)(a) of Rev. Proc. 2023-24 also provides that the requirement of § 1.446-1(e)(3)(i) to file a Form 3115, *Application for Change in Accounting Method*, is waived, and a statement in lieu of a Form 3115 is authorized for the change in method of accounting for which the year of change is the first taxable year beginning after December 31, 2021. However, section 7.02(4)(b) of Rev. Proc. 2023-24 provides that a taxpayer making the change for a taxable year subsequent to the taxpayer's first taxable year beginning after December 31, 2021, is required to make that change with a modified § 481(a) adjustment that takes into account only SRE expenditures paid or incurred in taxable years beginning after December 31, 2021, and is required to file a Form 3115.

(3) Section 7.02(6) of Rev. Proc. 2023-24 waives the eligibility rule in section

5.01(1)(f) of Rev. Proc. 2015-13 (regarding changes made in the previous 5 years for the same item) for changes to comply with § 174 for the taxpayer's first taxable year beginning after December 31, 2021.

(4) Section 7.02(7) of Rev. Proc. 2023-24 provides that a taxpayer that changes its method of accounting for SRE expenditures under Rev. Proc. 2023-24 will receive limited audit protection. Specifically, audit protection will not apply for expenditures paid or incurred in taxable years beginning on or before December 31, 2021. Audit protection also will not apply for expenditures paid or incurred in taxable years beginning after December 31, 2021, if a change in method of accounting is made for the taxable year immediately subsequent to the first taxable year beginning after December 31, 2021.

.05 *Interim guidance under Notice 2023-63.*

(1) Notice 2023-63 was issued on September 8, 2023, to announce that the Treasury Department and the IRS intend to issue proposed regulations addressing (1) the capitalization and amortization of SRE expenditures under § 174, (2) the treatment of SRE expenditures under § 460, and (3) the application of § 482 to cost sharing arrangements involving SRE expenditures. Sections 3 through 9 of Notice 2023-63 provide interim guidance regarding issues intended to be addressed by forthcoming proposed regulations. Section 3 of Notice 2023-63 provides interim guidance regarding the requirement to capitalize and amortize SRE expenditures, SRE expenditures attributable to foreign research, and the determination of the midpoint of a taxable year (including a short taxable year). Section 4 of Notice 2023-63 provides interim guidance regarding the definition of SRE expenditures and SRE activities, the types of expenditures that are SRE expenditures, the allocation of such expenditures to SRE activities, and the consistent treatment of SRE expenditures under other provisions of the Code. Section 5 of Notice 2023-63 provides interim guidance regarding activities that constitute software development, expenditures in connection with which are SRE expenditures. Section 6 of Notice 2023-63 provides interim guidance regarding the treatment of expenditures for research

performed under a contract. Section 7 of Notice 2023-63 provides interim guidance regarding the treatment of unamortized SRE expenditures if the property with respect to which such expenditures were paid or incurred is disposed of, retired, or abandoned. Section 8 of Notice 2023-63 provides interim guidance regarding the application of the PCM under § 460 if allocable contract costs include SRE expenditures and allows taxpayers to treat only the amortization of incurred SRE expenditures as increasing the percentage of the contract price required to be reported. Section 9 of Notice 2023-63 provides interim guidance regarding the treatment under § 1.482-7 of cost sharing transaction payments in certain cost sharing arrangements that involve SRE activities.

(2) Section 10.01 of Notice 2023-63, as modified by Notice 2024-12, provides that taxpayers may rely on the rules in sections 3 through 9 of Notice 2023-63 prior to the publication date of the forthcoming proposed regulations in the *Federal Register* for expenditures paid or incurred in taxable years beginning after December 31, 2021. However, taxpayers may not rely on the rules in section 7 of the notice regarding the treatment of SRE expenditures paid or incurred with respect to property that is contributed to, distributed from, or transferred from a partnership.

(3) Section 10.02 of Notice 2023-63 provides that the Treasury Department and the IRS intend to issue guidance to provide procedures for taxpayers to obtain automatic consent to change methods of accounting to rely on the notice. Notice 2023-63 provides that taxpayers may rely on section 7.02 of Rev. Proc. 2023-24 to change their methods of accounting under § 174 to rely on Notice 2023-63 until the issuance of such procedural guidance. This revenue procedure provides such procedural guidance.

(4) Section 12 of Notice 2023-63, as clarified by Notice 2024-12, provides that for amounts paid or incurred in taxable years beginning after December 31, 2021, section 5 of Rev. Proc. 2000-50 is removed as obsolete. Section 5 of Rev. Proc. 2000-50 continues to apply to amounts paid or incurred in taxable years beginning on or before December 31, 2021. Section 3 of this revenue procedure clarifies section

9.01 of Rev. Proc. 2023-24 to provide that section 5 of Rev. Proc. 2000-50 is obsolete for costs of developing computer software paid or incurred in any taxable year beginning after December 31, 2021, and continues to apply to costs of developing computer software paid or incurred in any taxable year beginning on or before December 31, 2021.

.06 *Changing methods of accounting under section 446(e).*

(1) Except as otherwise expressly provided in the Code and the regulations thereunder, § 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)(i) states, in part, that except as otherwise provided under the authority of § 1.446-1(e)(3)(ii), to secure the Commissioner's consent to a taxpayer's change in method of accounting the taxpayer generally must file a Form 3115, *Application for Change in Accounting Method*, with the Commissioner during the taxable year in which the taxpayer desires to make the change in method of accounting. Section 1.446-1(e)(3)(ii) authorizes the Commissioner to prescribe administrative procedures under which taxpayers will be permitted to change their method of accounting. The administrative procedures will prescribe those terms and conditions necessary to obtain the Commissioner's consent to effect the change and to prevent amounts from being duplicated or omitted.

(2) 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, sets forth the general administrative procedures by which a taxpayer may obtain the automatic consent of the Commissioner to change a method of accounting described in the *List of Automatic Changes*. Rev. Proc. 2023-24 contains the current *List of Automatic Changes*.

(3) A change in a taxpayer's treatment of expenditures paid or incurred in taxable years beginning after December 31, 2021, to rely on the interim guidance in sections 3 through 7 of Notice 2023-63 is

generally a change in method of accounting to which §§ 446(e) and 481, and the corresponding regulations, apply. Further, a change to rely on the interim guidance in section 8 of Notice 2023-63 in determining income from a long-term contract under the PCM is generally a change in method of accounting to which §§ 446(e) and 481, and the corresponding regulations, apply. A taxpayer that changes its method of accounting to rely on the interim guidance in sections 3 through 8 of Notice 2023-63 must use the accounting method change procedures in Rev. Proc. 2015-13 or its successor. Section 3 of this revenue procedure modifies Rev. Proc. 2023-24 to, among other things, allow taxpayers to obtain automatic consent to change their method of accounting to rely on the interim guidance provided in sections 3 through 8 of Notice 2023-63 for taxable years beginning after December 31, 2021.

(4) Pursuant to section 2.07 of Rev. Proc. 2015-13, if a change in method of accounting is made without a § 481(a) adjustment (for example, on a cut-off basis), in general, only the items subject to the method change arising on or after the beginning of the year of change, or other operative date, are accounted for under the method of accounting for which consent is granted. Any items arising before the year of change, or other operative date, continue to be accounted for under the taxpayer's former method of accounting. If a change in method of accounting is made on a cut-off basis, no amounts are duplicated or omitted, and therefore, a § 481(a) adjustment is not necessary or permitted.

(5) In accordance with § 13206(b) of the TCJA, a change in a taxpayer's method of accounting to comply with § 174, including a change to rely on the interim guidance in sections 3 through 7 of Notice 2023-63, for the first taxable year that the amendments made by § 13206(a) of the TCJA are effective, must be made on a cut-off basis. The procedures in section 3 of this revenue procedure provide that an automatic change in method of accounting to comply with § 174, including a change in method of accounting to rely on the interim guidance in sections 3 through 7 of Notice 2023-63, may be made by filing a statement with the taxpayer's original Federal income tax

return for the first taxable year in which § 174 becomes effective, in lieu of a Form 3115. If a change in method of accounting to comply with § 174, including a change in method of accounting to rely on the interim guidance in sections 3 through 7 of Notice 2023-63, is made for a taxable year subsequent to the taxable year of the taxpayer in which § 174 becomes effective, the change is made by filing a Form 3115, with a modified § 481(a) adjustment that takes into account only expenditures paid or incurred in taxable years beginning after December 31, 2021.

(6) Under § 1.460-5(g), a change in a taxpayer's method of allocating costs to its long-term contracts must be made on a cut-off basis, with the change applying only to contracts entered into on or after the year of change. The Treasury Department and the IRS, however, intend to amend the regulation to permit changes made to rely on section 8 of Notice 2023-63 to be made on the same cut-off basis or modified cut-off basis, as applicable, as changes made to rely on sections 3 through 7 of the notice (that is, changes applicable to allocable contract costs paid or incurred in taxable years beginning after December 31, 2021).

(7) A taxpayer that changes its method of accounting under section 7.02 of Rev. Proc. 2023-24, as modified by section 3 of this revenue procedure, will receive limited audit protection under section 8.01 of Rev. Proc. 2015-13. Consistent with current section 7.02(7) of Rev. Proc. 2023-24, audit protection will not apply for expenditures paid or incurred in taxable years beginning on or before December 31, 2021. Audit protection also will not apply for expenditures paid or incurred in the taxpayer's first taxable year beginning after December 31, 2021, if a change in method of accounting to comply with § 174, including a change in method of accounting to rely on the interim guidance in sections 3 through 7 of Notice 2023-63, is made for the taxpayer's taxable year immediately subsequent to such taxable year and the taxpayer did not make a change in method of accounting for such expenditures for its first taxable year beginning after December 31, 2021.

(8) A taxpayer that changes its method of accounting under section 19.02 of

Rev. Proc. 2023-24, as added by section 3 of this revenue procedure, to change its method of accounting under § 460 to rely on the interim guidance provided in section 8 of Notice 2023-63 will receive limited audit protection under section 8.01 of Rev. Proc. 2015-13. Consistent with section 7.02(7) of Rev. Proc. 2023-24, audit protection will not apply for expenditures paid or incurred in taxable years beginning on or before December 31, 2021.

SECTION 3. MODIFICATIONS TO REV. PROC. 2023-24

.01 *Modification of section 7 of Rev. Proc. 2023-24.* Section 7.02 of Rev. Proc. 2023-24, is modified to read as follows:

.02 *Change in Method of Accounting for SRE Expenditures.*

(1) *Description of change.*

(a) *In general.* This change applies to a taxpayer that wants to change its method of accounting for expenditures paid or incurred in taxable years beginning after December 31, 2021, to:

(i) comply with § 174, as amended by § 13206(a) of the TCJA; or

(ii) rely on interim guidance provided in sections 3, 4, 5, 6, or 7 of Notice 2023-63, 2023-39 I.R.B. 919, as modified by Notice 2024-12, 2024-5 I.R.B. 616.

(b) *References to § 174.* Unless otherwise stated, references to “§ 174” in this section 7.02 refer to § 174 as amended by § 13206(a) of the TCJA. Section 13206(e) of the TCJA provides that the amendments made by § 13206 of the TCJA apply to amounts paid or incurred in taxable years beginning after December 31, 2021.

(c) *Changes included in section 7.02(1)(a) of this revenue procedure.* The changes described in section 7.02(1)(a) of this revenue procedure include, among other changes, a change:

(i) from capitalizing specified research or experimental (SRE) expenditures, as defined in § 174(b) and section 4.02(2) of Notice 2023-63, as applicable, to inventoriable property or depreciable property and recovering such expenditures through cost of goods sold or depreciation, respectively, to capitalizing and amortizing such expenditures under § 174(a) or section 3.02 of Notice 2023-63, as applicable; and

(ii) from treating an expenditure that does not meet the definition of an SRE

expenditure as an SRE expenditure subject to capitalization and amortization under § 174(a) or section 3.02 of Notice 2023-63, as applicable, to treating that expenditure under the appropriate provision of the Code.

(2) *Inapplicability.* The change described in section 7.02(1)(a) of this revenue procedure does not apply to:

(a) a change in the treatment of acquired, leased, or licensed computer software under Rev. Proc. 2000-50, 2000-2 C.B. 601, as modified by Rev. Proc. 2007-16, 2007-1 C.B. 358 (see section 9.01 of this revenue procedure);

(b) a change in the treatment of research or experimental expenditures under former § 174 (that is, § 174 as in effect prior to the amendments made by § 13206(a) of the TCJA), or software development expenditures, paid or incurred in taxable years beginning before January 1, 2022 (see sections 7.01 and 9.01 of this revenue procedure, respectively); or

(c) a change from treating SRE expenditures paid or incurred by a taxpayer that transfers related property (that is, property with respect to which such SRE expenditures were paid or incurred) in a § 351 exchange as amortizable by the transferee corporation following such exchange to treating such SRE expenditures as amortizable by the transferor following such exchange (as such a change is not a change in method of accounting).

(3) *Manner of making change.*

(a) *Year of change is the first taxable year beginning after December 31, 2021.*

(i) *Cut-off basis.* A change under section 7.02(1)(a) of this revenue procedure for the taxpayer's first taxable year beginning after December 31, 2021, is implemented on a cut-off basis.

(ii) *Statement in lieu of a Form 3115 for first taxable year beginning after December 31, 2021.* The requirement of § 1.446-1(e)(3)(i) to file a Form 3115, *Application for Change in Accounting Method*, is waived, and a statement in lieu of a Form 3115 is authorized for the change in method of accounting under section 7.02(1)(a) of this revenue procedure for which the year of change is the taxpayer's first taxable year beginning after December 31, 2021. 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 7.02(3)(a)(ii) is considered a Form 3115 for purposes of the automatic change procedures of Rev. Proc. 2015-13. The requirement to file the duplicate copy, under section 6.03(1)(a) of Rev. Proc. 2015-13, is waived. The statement must include the following information for each applicant:

(A) the name and employer identification number or social security number, as applicable, of the applicant that has paid or incurred expenditures after December 31, 2021;

(B) the beginning and ending dates of the first taxable year in which the change described in section 7.02(1)(a) takes effect for the applicant (year of change);

(C) the designated automatic accounting method change number for this change (see section 7.02(7) of this revenue procedure);

(D) a general description of the type of expenditures included as SRE expenditures;

(E) the amount of SRE expenditures paid or incurred by the applicant during the year of change; and

(F) a declaration that the applicant is changing its method of accounting to capitalize SRE expenditures to a SRE capital account, and amortize the capitalized amount over either a 5-year period for domestic research or a 15-year period for foreign research (as applicable), beginning with the mid-point of the taxable year in which such expenditures are paid or incurred in accordance with § 174 or sections 3 through 7 of Notice 2023-63, as applicable. Also, the declaration must state that the applicant is making the change on a cut-off basis.

(b) *Year of change later than the first taxable year beginning after December 31, 2021.*

(i) *Modified § 481(a) adjustment and cut-off.*

(A) *In general.* Except as provided in section 7.02(3)(b)(i)(B) of this revenue procedure, the change under section 7.02(1)(a) of this revenue procedure for a year of change later than the first taxable year beginning after December 31, 2021, is made with a modified § 481(a) adjustment that takes into account only expenditures paid or incurred in taxable years beginning after December 31, 2021.

(B) *Exception for negative modified § 481(a) adjustment.* If a change described in section 7.02(3)(b)(i)(A) of this revenue procedure results in a modified § 481(a) adjustment that is negative, the taxpayer may instead choose to implement the change on a cut-off basis.

(ii) *Form 3115 and required statement.* In completing a Form 3115, *Application for Change in Accounting Method*, to make the change in method of accounting under section 7.02(1)(a) of this revenue procedure for a year of change later than the first taxable year beginning after December 31, 2021, a taxpayer must include on an attachment to the Form 3115:

(A) a general description of the type of expenditures included as SRE expenditures;

(B) the taxable year(s) in which the expenditures subject to the change were paid or incurred by the applicant; and

(C) a declaration that provides the reason for which the applicant is changing its method of accounting under section 7.02(1)(a) of this revenue procedure. The declaration must also state whether the applicant is making the change on a cut-off basis under section 7.02(3)(b)(i) (B) of this revenue procedure or with a modified § 481(a) adjustment that takes into account only expenditures paid or incurred in taxable years beginning after December 31, 2021, under section 7.02(3)(b)(i)(A) of this revenue procedure.

(4) *Transition rule.* A taxpayer who filed a Federal tax return on or before January 17, 2023, for a taxable year beginning after December 31, 2021, is deemed to have complied with the § 446 method change procedures and section 7.02 of this revenue procedure to change its method of accounting for expenditures paid or incurred in the first taxable year beginning after December 31, 2021, to comply with § 174 if the taxpayer:

(a) reported the amount of SRE expenditures paid or incurred for such taxable year on Part VI of Form 4562, *Depreciation and Amortization*, filed with the Federal tax return, and

(b) properly capitalized and amortized such SRE expenditures in accordance with § 174 for such taxable year.

(5) *Certain eligibility rule 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 a change described in section 7.02(1)(a) of this revenue procedure for the taxpayer's first or second taxable year beginning after December 31, 2021.

(b) *Changes made in successive taxable years.* A taxpayer may make a change described in section 7.02(1)(a) of this revenue procedure for its second taxable year beginning after December 31, 2021, regardless of whether the taxpayer made, or purported to make, a change for the same item for its first taxable year beginning after December 31, 2021.

(6) *Limited audit protection.* A taxpayer does not receive audit protection under section 8.01 of Rev. Proc. 2015-13 for a change under section 7.02(1)(a) of this revenue procedure with respect to expenditures paid or incurred in taxable years beginning on or before December 31, 2021. Additionally, a taxpayer does not receive audit protection under section 8.01 of Rev. Proc. 2015-13 for a change under section 7.02(1)(a) of this revenue procedure in the second taxable year beginning after December 31, 2021, with respect to expenditures paid or incurred in the first taxable year beginning after December 31, 2021, if the taxpayer did not make, or attempt to make, a change described in section 7.02(1)(a) for the first taxable year beginning after December 31, 2021. See section 8.02(2) of Rev. Proc. 2015-13.

(7) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under section 7.02(1)(a)(i) of this revenue procedure is "265." The designated automatic accounting method change number for a change under section 7.02(1)(a)(ii) of this revenue procedure is "270."

(8) *No inference relating to expenditures paid or incurred in taxable years prior to the first taxable year in which § 174 becomes effective.* No inference may be drawn from section 7.02 of this revenue procedure regarding the treatment of expenditures paid or incurred in, and changes in methods of accounting for,

taxable years in which former § 174 was in effect, including issues relating to the application of §§ 1.174-1, 1.174-2, 1.174-3, and 1.174-4 for taxable years in which former § 174 was in effect.

(9) *No ruling on method used.* The consent granted under section 9 of Rev. Proc. 2015-13 for a change made under section 7.02(1)(a)(i) of this revenue procedure is not a determination by the Commissioner that the new method of accounting is a permissible method of accounting, nor does it create any presumption that the new method of accounting is a permissible method of accounting. The director will ascertain whether the new method of accounting is a permissible method of accounting.

(10) *Contact information.* For further information regarding a change under this section, contact Bruce Chang at (202) 317-7005 (not a toll-free number).

.02 *Clarification of section 9 of Rev. Proc. 2023-24.* Section 9.01 of Rev. Proc. 2023-24 is clarified to provide that section 5 of Rev. Proc. 2000-50 (costs of developing computer software) applies to costs of developing computer software paid or incurred in any taxable year beginning on or before December 31, 2021.

(1) Section 9.01(1) of Rev. Proc. 2023-24 is clarified to read as follows:

(1) *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, as modified by Rev. Proc. 2007-16, 2007-1 C.B. 358. 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. Section 13206 of Public Law 115-97, 131 Stat. 2054 (Dec. 22, 2017), commonly referred to as the Tax Cuts and Jobs Act (TCJA), amended § 174 to treat the costs of software development as research or experimental expenditures, effective for amounts paid or incurred in taxable years beginning after December 31, 2021. Section 12 of Notice 2023-63, 2023-39 I.R.B.

919, as modified by Notice 2024-12, provides that, as a result of the TCJA amendments to § 174 and the rules in sections 3 through 5 of Notice 2023-63, section 5 of Rev. Proc. 2000-50 is obsolete for costs of developing software paid or incurred in taxable years beginning after December 31, 2021. Accordingly, section 5 of Rev. Proc. 2000-50 (costs of developing computer software) applies only to costs of developing computer software paid or incurred in any taxable year beginning on or before December 31, 2021.

(2) Section 9.01(3) of Rev. Proc. 2023-24 is clarified to read as follows:

(3) *Inapplicability.* This change does not apply to costs of developing computer software that are paid or incurred in taxable years beginning after December 31, 2021.

.03 *Modification of section 19 of Rev. Proc. 2023-24.* Section 19 of Rev. Proc. 2023-24 is modified to add new section 19.02 to read as follows:

.02 *Change to rely on the interim guidance provided in section 8 of Notice 2023-63, 2023-39 I.R.B. 919.*

(1) *Description of change.* This change applies to a taxpayer that wants to change its 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, so that the costs allocable to a long-term contract accounted for using the PCM include amortization deductions of specified research or experimental (SRE) expenditures, as defined in § 174(b) and section 4.02(2) of Notice 2023-63, as applicable, under § 174(a)(2)(B), rather than the capitalized amount of such expenditures, and the amortization deductions of such expenditures is treated as incurred for purposes of determining the percentage of contract completion in the taxable year the amortization is deducted. For purposes of determining the percentage of contract completion, estimated total allocable contract costs include either (1) all amortization of SRE expenditures that directly benefit or are incurred by reason of the performance of the long-term contract, or (2) only that portion of such amortization expected to be incurred and deducted during the term of the

contract. A taxpayer using the first alternative is required to report any portion of the contract price not previously reported by the taxable year following the taxable year in which the contract is completed, notwithstanding that some portion of the SRE expenditures remain unamortized. *See* § 460(b)(1).

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

(a) A change in method of accounting under § 460 with respect to expenditures capitalized under § 59(e)(2)(B), or under § 174(b) prior to its amendment by § 13206(a) of the TCJA.

(b) A change in method of accounting for independent research and development expenditures, as defined in § 460(c)(5), which are not allocable contract costs.

(c) Any contract not accounted for under the PCM, as described in § 460(b)(1) and § 1.460-4(b)(2), as of the beginning of the year of change.

(3) *Manner of making change.*

(a) *Cut-off basis.* A change under section 19.02(1) of this revenue procedure for the taxpayer's first taxable year beginning after December 31, 2021, applies to the § 460 treatment of SRE expenditures paid or incurred in taxable years beginning after December 31, 2021. Accordingly, such change is made on a cut-off basis, and applies to all long-term contracts for which an SRE expenditure is an allocable contract cost, including long-term contracts entered into before the beginning of the year of change. A taxpayer making this change does not recompute its taxable income under § 1.460-4(b) for any taxable year beginning on or before December 31, 2021.

(b) *Modified § 481(a) adjustment or cut-off basis.*

(i) *In general.* Except as provided in section 19.02(3)(b)(ii) of this revenue procedure, a change under section 19.02(1) of this revenue procedure for a year of change later than the first taxable year beginning after December 31, 2021, is made with a modified § 481(a) adjustment that takes into account the § 460 treatment of SRE expenditures paid or incurred in taxable years beginning after December 31, 2021. Such change applies to all long-term contracts for which an SRE expenditure is an allocable con-

tract cost, including long-term contracts entered into before the beginning of the year of change.

(ii) *Exception for negative modified § 481(a) adjustment.* If a change described in section 19.02(3)(b)(i) of this revenue procedure results in a modified § 481(a) adjustment that is negative, the taxpayer may instead choose to implement the change on a cut-off basis.

(4) *Certain eligibility rule inapplicable.* The eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13, 2015-5 I.R.B. 419, does not apply to a change described in section 19.02(1) of this revenue procedure for the taxpayer's first or second taxable year beginning after December 31, 2021.

(5) *Limited audit protection.* A taxpayer does not receive audit protection under section 8.01 of Rev. Proc. 2015-13 for a change under section 19.02(1) of this revenue procedure with respect to the § 460 treatment of expenditures paid or incurred in taxable years beginning on or before December 31, 2021.

(6) *Designated automatic accounting method change number.* The designated automatic accounting method change number for a change under section 19.02 of this revenue procedure is "271."

(7) *Contact information.* For further information regarding a change under section 19.02 of this revenue procedure, contact John Aramburu at (202) 317-7006 (not a toll-free number).

SECTION 4. EFFECT ON OTHER DOCUMENTS

This revenue procedure modifies sections 7 and 19, and clarifies section 9, of Rev. Proc. 2023-24.

SECTION 5. EFFECTIVE DATE

This revenue procedure is effective for Forms 3115 filed on or after December 22, 2023.

SECTION 6. PAPERWORK REDUCTION ACT

The collection of information contained in this revenue procedure has been reviewed and approved by the Office of

Management and Budget under OMB control numbers 1545-0074 for individual filers and 1545-0123 for business filers, 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 section 3, which adds section 7.02(3)(a)(ii) and (3)(b)(ii) to Rev. Proc. 2023-24. 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 a taxpayer to obtain consent to change its method of accounting.

SECTION 7. DRAFTING INFORMATION

The principal author of this revenue procedure is Bruce Chang of the Office of Associate Chief Counsel (Income Tax & Accounting). For further information regarding this revenue procedure, please contact Mr. Chang at (202) 317-7005 (not a toll-free number).