

**MEMO# 17282**

March 25, 2004

# **IRS ISSUES GUIDANCE ON CHANGE OF ACCOUNTING METHODS FOR CAPITALIZATION OF INTANGIBLE ASSETS**

[17282] March 25, 2004 TO: TAX MEMBERS No. 18-04 ACCOUNTING/TREASURERS MEMBERS No. 16-04 ADVISER DISTRIBUTOR TAX ISSUES TASK FORCE No. 5-04 RE: IRS ISSUES GUIDANCE ON CHANGE OF ACCOUNTING METHODS FOR CAPITALIZATION OF INTANGIBLE ASSETS The IRS has issued Rev. Proc. 2004-23,<sup>1</sup> which provides the exclusive administrative procedures for a taxpayer seeking automatic consent to change accounting methods pursuant to the final regulations on the capitalization of intangible assets for its first tax year ending on or after December 31, 2003.<sup>2</sup> Section 4.02 of Rev. Proc. 2004-23 provides detailed guidance on preparing Form 3115 to obtain automatic consent for an accounting method change for the capitalization of intangible assets. This section requires, among other items, that taxpayers identify the paragraph of the final regulations that authorizes each proposed method of accounting. Section 4.03 provides that a taxpayer who made an unauthorized change of accounting method (e.g., to use the 12- month rule pursuant to *U.S. Freightways Corp. v. Commissioner*, 270 F.3d 1137 (7th Cir. 2001)), must file amended returns changing back to its prior method of accounting for open years, in order to obtain automatic consent to adopt a new method of accounting pursuant to the final regulations. Section 5 of the revenue procedure provides guidance on the adjustment under Section 481(a) for taxpayers who obtain consent to change accounting methods. It clarifies that the adjustment includes all amounts paid or incurred between the first day of the taxable year that includes January 24, 2002 and December 30, 2003, and that taxpayers are free to include amounts incurred on December 31, 2003 as part of the 481(a) adjustment. Adjustments attributable to different changes in accounting methods should not be netted against one another, and each adjustment must be separately identified on an attachment to Form 3115. David Orlin Assistant Counsel 1 Rev. Proc. 2004-23 can be found at <http://www.treas.gov/press/releases/reports/rp200423.pdf>. <sup>2</sup> See Institute Memorandum to Tax Members No. 9-04, Accounting/Treasurers Members No. 7-04, Adviser Distributor Tax Issues Task Force No. 3-04 [17104], dated February 19, 2004.