

**MEMO# 2247**

October 10, 1990

## **INTERNAL REVENUE SERVICE (MEMO NOT MAILED) G.C.M. ON CHANGES IN ERRONEOUS METHODS OF ACCOUNTING**

October 10, 1990 TO: TAX MEMBERS NO. 40-90 RE: INTERNAL REVENUE SERVICE (MEMO NOT MAILED) G.C.M. ON CHANGES IN ERRONEOUS METHODS OF ACCOUNTING

In the attached General Counsel Memorandum ("G.C.M."), the IRS changes its prior position, reflected in Rev. Rul. 70-539, on whether a taxpayer who utilizes an impermissible method of accounting may change to a permissible method of accounting without the Commissioner's consent simply by amending (prior to the expiration of the statute of limitations) all of the tax returns which utilized the impermissible accounting method. This change in IRS position is also reflected in the attached Revenue Ruling 90-38. Under IRS regulations, a permissible method of accounting is adopted by the filing of the first tax return utilizing the method. Under the G.C.M., in contrast, an impermissible method of accounting is only adopted by consistent use of that method on the first two tax returns, although the G.C.M. suggests that use of an impermissible accounting method on only one tax return might be sufficient for the method to be considered adopted. As a result of the IRS' new position prohibiting taxpayers from changing an impermissible accounting method merely by amending prior returns, taxpayers requesting permission to change an impermissible method of accounting now will be required to comply with any conditions which the Commissioner may impose on his consent. Thus, the G.C.M. provides that the Commissioner generally will not consent to a retroactive change in an impermissible method of accounting, but will only permit the change to be made prospectively pursuant to published Revenue Procedures. We will keep you informed of further developments. David J. Mangefrida, Jr. Assistant General Counsel  
Attachment