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## Service-Initiated Accounting Method Changes

### Notice 98-31

This notice provides a proposed revenue procedure that, when finalized, will provide the procedures under § 446(b) of the Internal Revenue Code and § 1.446-1(b) of the Income Tax Regulations for changes in method of accounting initiated by the Internal Revenue Service, and the procedures that the Service will use for accounting method issues raised and resolved by the Service on a nonaccounting-method-change basis.

As part of these procedures, the proposed revenue procedure describes the discretion the Service may exercise in resolving an accounting method issue as an accounting method change or on a nonaccounting-method-change basis. Except as otherwise provided in published guidance, the proposed revenue procedure requires Examination to resolve any timing

issue as an accounting method change and to make the change in the earliest taxable year under examination with a § 481(a) adjustment and a 1-year § 481(a) adjustment period. The proposed revenue procedure does not alter the authority of Appeals or counsel for the government to resolve or settle any accounting method issues.

The Service intends to publish additional guidance making the Coordinated Examination Program (CEP) early referral process provided in Rev. Proc. 96-9, 1996-1 C.B. 575, available to non-CEP taxpayers for the resolution of accounting method issues. This will permit faster resolution of timing issues that non-CEP taxpayers want to refer to Appeals.

In addition, the Service intends to publish guidance that will delegate limited discretionary authority to Examination to resolve certain accounting method issues, allow taxpayers and the Service to resolve accounting method issues for taxable years beyond the years under examination, before Appeals, or before a federal court, and permit taxpayers under examination who otherwise cannot request certain voluntary changes in method of accounting from an impermissible method to request such changes without audit protection. The Service also intends to publish guidance that provides a model closing agreement for Service-initiated accounting method changes. This guidance will increase the number of accounting method issues that the Service may resolve earlier in the examination/appeals process, provide a more efficient use of Service and taxpayer resources, and facilitate greater uniformity in the Service's resolution of accounting method issues.

The Service welcomes comments on the proposed revenue procedure provided in this notice. Comments should be submitted by July 31, 1998, either to:

Internal Revenue Service  
P. O. Box 7604  
Ben Franklin Station  
Washington, DC 20044  
Attn: CC:DOM:CORP:R (IT&A,  
Branch 7), Room 5228

or electronically via:

[http://www.irs.ustreas.gov/prod/tax\\_reg/comments.html](http://www.irs.ustreas.gov/prod/tax_reg/comments.html) (the Service internet site).