## Adoption of Amendments to the Regulations

Accordingly, 26 CFR part 1 is amended as follows:

## **PART 1—INCOME TAXES**

**Paragraph 1.** The authority citation for part 1 is amended by revising the entry for section 1.446–1 and by adding the following citations in numerical order to read as follows:

**Authority:** 26 U.S.C. 7805. \* \* \*

Section 1.446–1 also issued under 26 U.S.C. 446 and 461(h). \* \* \*

Section 1.481–1 also issued under 26 U.S.C. 481.

Section 1.481–2 also issued under 26 U.S.C. 481.

Section 1.481–3 also issued under 26 U.S.C. 481.

Section 1.481–4 also issued under 26 U.S.C. 481.

Section 1.481–5 also issued under 26 U.S.C. 481. \* \*

**Par. 2.** Section 1.446–1 is amended by revising paragraph (e)(3) to read as follows:

## §1.446–1 General rule for methods of accounting.

\* \* \* \* \* \* (e) \* \* \*

(3)(i) Except as otherwise provided under the authority of paragraph (e)(3)(ii) of this section, to secure the Commissioner's consent to a taxpayer's change in method of accounting the taxpayer must file an application on Form 3115 with the Commissioner within 180 days after the beginning of the taxable year in which the taxpayer desires to make the change in method of accounting. To the extent applicable, the taxpayer must furnish all information requested on the Form 3115. This information includes all classes of items that will be treated differently under the new method of accounting, any amounts that will be duplicated or omitted as a result of the proposed change, and the taxpayer's computation of any adjustments necessary to prevent such duplications or omissions. The Commissioner may require such other information as may be necessary to determine whether the proposed change will be permitted. Permission to change a taxpayer's method of accounting will not be granted unless the taxpayer agrees to the Commissioner's prescribed terms and conditions for effecting the change, including the taxable year or years in which any adjustment necessary to prevent amounts from being duplicated or omitted is to be taken into account. See section 481 and the regulations thereunder, relating to certain

adjustments resulting from accounting method changes, and section 472 and the regulations thereunder, relating to adjustments for changes to and from the last-in, first-out inventory method.

(ii) Notwithstanding the provisions of paragraph (e)(3)(i) of this section, the Commissioner may prescribe administrative procedures under which taxpayers will be permitted to change their method of accounting. The administrative procedures shall 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. The terms and conditions that may be prescribed by the Commissioner may include terms and conditions that require the change in method of accounting to be effected on a cut-off basis or by an adjustment under section 481(a) to be taken into account in the taxable year or years prescribed by the Commissioner.

(iii) This paragraph (e)(3) is effective for Consent Agreements signed on or after December 27, 1994. For Consent Agreements signed before December 27, 1994, see § 1.446–1(e)(3) (as contained in the 26 CFR part 1 edition revised as

of April 1, 1995).

**Par. 3.** Section 1.481–1 is amended as follows:

1. Paragraph (a)(2) is amended by adding the phrase ''(hereinafter referred to as pre-1954 years)'' to the end of the paragraph.

2. The third sentence of paragraph (c)(1) is amended by removing "pre-1954 Code years" and replacing it with "pre-1954 years".

3. Paragraphs (c) (2), (3), and (4) are revised.

4. Paragraphs (c) (6) and (7) are removed.

5. Paragraph (d) is revised.

6. Paragraph (e) is removed. The revised paragraphs read as follows:

## §1.481–1 Adjustments in general.

(c) \* \* \*

(2) If a change in method of accounting is voluntary (i.e., initiated by the taxpayer), the entire amount of the adjustments required by section 481(a) is generally taken into account in computing taxable income in the taxable year of the change, regardless of whether the adjustments increase or decrease taxable income. See, however, §§ 1.446–1(e)(3) and 1.481–4 which provide that the Commissioner may prescribe the taxable year or years in which the adjustments are taken into account.

(3) If the change in method of accounting is involuntary (i.e., not

initiated by the taxpayer), then only the amount of the adjustments required by section 481(a) that is attributable to taxable years beginning after December 31, 1953, and ending after August 16, 1954, (hereinafter referred to as post-1953 years) is taken into account. This amount is generally taken into account in computing taxable income in the taxable year of the change, regardless of whether the adjustments increase or decrease taxable income. See, however, §§ 1.446–1(e)(3) and 1.481–4 which provide that the Commissioner may prescribe the taxable year or years in which the adjustments are taken into account. See also § 1.481-3 for rules relating to adjustments attributable to pre-1954 years.

(4) For any adjustments attributable to post-1953 years that are taken into account entirely in the year of change and that increase taxable income by more than \$3,000, the limitations on tax provided in section 481(b) (1) or (2) apply. See § 1.481–2 for rules relating to the limitations on tax provided by sections 481(b) (1) and (2).

\* \* \* \* \*

(d) Any adjustments required under section 481(a) that are taken into account during a taxable year must be properly taken into account for purposes of computing gross income, adjusted gross income, or taxable income in determining the amount of any item of gain, loss, deduction, or credit that depends on gross income, adjusted gross income, or taxable income.

**Par. 4.** Section 1.481–2 is amended as follows:

1. The first and second sentences of paragraph (a) are revised.

2. The first sentence of paragraph (b) introductory text is revised.

3. The first sentence of paragraph (c)(1) is revised.

4. The first sentence of paragraph (c)(2) is amended by removing "subparagraph (1) of this paragraph" and replacing it with "paragraph (c)(1) of this section".

5. Paragraph (c)(3) introductory text is amended by removing "subparagraph (1) of this paragraph" and replacing it with "paragraph (c)(1) of this section".

6. Paragraph (c)(4) is revised.

7. Paragraph (c)(6) is amended by removing "Internal Revenue Code of 1954" and replacing it with "Internal Revenue Code of 1986".

8. The second sentence of paragraph (d) is amended by removing "Internal Revenue Code of 1954" and replacing it with "Internal Revenue Code of 1986".

9. Example (1) of paragraph (d) is amended by removing "pre-1954 Code