



TaxNewsFlash

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Final regulations: Simplified methods of accounting, mandatory change for certain manufacturers

The U.S. Treasury Department and IRS today released for publication in the Federal Register final regulations (T.D. 9843) under section 263A concerning allocation of costs to certain property produced or acquired for resale by a taxpayer under the “simplified methods.”

The [final regulations](#) [PDF 457 KB] provide:

- A new rule that requires a manufacturer to use the “modified simplified production method” if it will continue to reduce its pool of additional 263A costs by negative 263A amounts (for example, in a year that capitalized book depreciation exceeds tax depreciation)
- New rules defining section 471 costs and providing safe harbors for allocating costs to the new ratios
- How certain types of costs are categorized for purposes of the simplified methods

In general, the rules under these final regulations are mandatory, and thus require manufacturers with average gross receipts of more than \$50 million to change their methods of accounting if they use the simplified production method to allocate additional 263A costs currently.

Rev. Proc. 2018-56

The IRS today released an advance version of [Rev. Proc. 2018-56](#) [PDF 203 KB] regarding procedures by which a taxpayer may obtain automatic consent to make certain method changes to conform to today’s final regulations—for instance, a change to comply with the new definition of section 471 costs or a change to the modified simplified production method (MSPM).

Rev. Proc. 2018-56 modifies Rev. Proc. 2018-31.

Effective date

The final regulations are to be published in the Federal Register on November 20, 2018, and apply for tax years beginning on or after November 20, 2018.

For any tax year that begins before November 20, 2018, and ends after November 20, 2018, the IRS will not challenge return positions that are consistent with all of the final regulations.

Background

Today's release finalizes regulations that were proposed in September 2012. The proposed regulations:

- Generally prohibited the use of negative amounts in computing additional costs for purposes of the simplified methods of accounting (with certain exceptions)
- Provided a new modified simplified production method (MSPM) for determining the additional section 263A costs allocable to property produced or acquired for resale
- Redefined how certain types of costs are categorized for purposes of the simplified methods (a simplified definition of section 471 costs and elimination of separate provisions for new taxpayers)

Read a KPMG report from September 2012 with initial impressions about the proposed regulations: [TaxNewsFlash](#) [PDF 1.02 MB]

Final regulations

The preamble to today's release includes a summary of comments received in response to the proposed regulations and an explanation of responses to these comments, as reflected in the final regulations.

A future report from KPMG will examine the mechanics of the final regulations.

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