



## IRS modifies procedural guidance for section 174 method changes

### Tax Alert

## Overview

On December 17, 2024, the Treasury Department (“Treasury”) and Internal Revenue Service (IRS) issued [Rev. Proc. 2025-08](#), which modifies the automatic consent procedures for accounting method changes for [section 174](#) specified research or experimental (SRE) expenditures. Specifically, it expands the waiver of eligibility rules in [Rev. Proc. 2015-13](#) to include changes made for taxable years beginning in 2022, 2023, or 2024, and permits taxpayers to use the automatic consent procedures regardless of whether the taxpayer made a change for the same item for any other taxable year beginning in 2022, 2023, or 2024. This Revenue Procedure is effective for [Forms 3115, Application for Change in Accounting Method](#), filed on or after December 17, 2024.

## Issue

The [Tax Cuts and Jobs Act of 2017](#) (TCJA) requires taxpayers to capitalize SRE expenditures paid or incurred in taxable years beginning after December 31, 2021. More specifically, SRE expenditures attributable to US-based research (including software development) must be amortized over a period of 5 years and SRE expenditures attributable to research conducted outside of the US must be amortized over a period of 15 years, beginning with the mid-point of the taxable year in which SRE expenditures are paid or incurred.

## Rev. Proc. 2025-08

Section 7.01 of [Rev. Proc. 2024-23](#) provides procedures for taxpayers to obtain automatic consent to change their accounting method for SRE expenditures to comply with section 174 or to rely on certain sections of interim guidance provided in [Notice 2023-63](#), as modified by [Notice 2024-12](#) (“section 174 method changes”).

### Extension of the waiver of eligibility rules

In general, a taxpayer is not permitted to make a change in method of accounting under the automatic change procedures if it has made or requested a change for the same item during any of the five taxable years ending with the year of change (“prior five-year eligibility requirement”) or if the taxpayer’s

requested year of change is the final year of its trade or business ("final year of a trade or business eligibility requirement").

Prior to the modifications provided in Rev. Proc. 2025-08, the prior five-year eligibility requirement and the final year of a trade or business eligibility requirement were waived for section 174 method changes made for any taxable year beginning in 2022 or 2023. As a result, a taxpayer that wanted to make the method change effective for its 2024 tax year was required to make the change under the advance consent procedures.

Rev. Proc. 2025-08 expands the waiver of the eligibility rules for any taxable year beginning in 2022, 2023, or 2024.

Further, the modifications of Rev. Proc. 2025-08 allow taxpayers to make a change under section 7.01 of Rev. Proc. 2024-23 regardless of whether the taxpayer made a change for the same item for any other taxable year beginning in 2022, 2023, or 2024.

### No change to limited audit protection

Rev. Proc. 2025-08 does not change the limited audit protection provisions in section 7.01(6) of Rev. Proc. 2024-23. Thus, a taxpayer making the change to comply with section 174 for a taxable year beginning in 2024 generally has audit protection with respect to its change in method of accounting, limited to expenditures paid or incurred in taxable years beginning on or after January 1, 2022, provided it is either not under exam or, if under exam, meets an exception under section 8.02 of Rev. Proc. 2015-13.

### Procedures to convert a Form 3115 filed under non-automatic change procedures in Rev. Proc. 2015-13

Rev. Proc. 2025-08 also provides procedures for taxpayers to convert a Form 3115 that was filed under the non-automatic change procedures of Rev. Proc. 2024-23 and is pending with the IRS national office as of December 17, 2024, to the automatic change procedures under section 7.01 of Rev. Proc. 2024-23 (assuming it is otherwise eligible to do so).



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