



IRS Updates List of Automatic Accounting Method Changes; Foreign Income Taxes and Reward Programs Impacted

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On June 9, 2025, the IRS released Rev. Proc. 2025-23,^[1] which updates the list of accounting method changes — previously in Rev. Proc. 2024-23 — that qualify for the automatic change procedures under Rev. Proc. 2015-13.

The updated revenue procedure identifies 18 significant changes made to over 30 different sections. While most of these changes relate to clarifications^[2] or the removal of outdated and obsolete references,^[3] including statutory and regulatory provisions, tax years or dates, Rev. Proc. 2025-23 includes several notable changes to automatic method changes commonly filed by taxpayers. Specifically, three new items no longer qualify as an automatic change under the following Designated Change Numbers (DCNs):

- **Interest Capitalization:** Section 12.14 (DCN 224) clarifies that the change does not apply to certain improvement property and mid-production purchases, identified in Treas. Reg. §§ 1.263A-11(e)(1)(ii) and (iii) or Prop. Reg. §§ 1.263A-8(d)(3), 1.263A-11(e) and (f).
- **Foreign Income Taxes:** Section 15.08 (DCN 124) adds any foreign income tax as defined in Treas. Reg. § 1.901-2(a) to the list of specific items that are not eligible for the automatic change from the cash method to the accrual method for a specific item.
- **Reward Programs:** Section 20.07 (DCN 135) now excludes liabilities arising from reward programs from the automatic change related to the recurring item exception under section 461(h) for rebates and allowances.

Rev. Proc. 2025-23 generally is effective for automatic method changes filed on or after June 9, 2025, for a taxable year ending on or after October 31, 2024. Additionally, Rev. Proc. 2025-23 provides certain transition rules for taxpayers that filed an original or duplicate copy of the Form 3115, Application for Change in Accounting Method, before June 9, 2025.

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DCN 124 permits taxpayers to change from a cash method to an accrual method of accounting for certain items. In recent years, accrual method taxpayers have filed automatic method changes for foreign income taxes recognized on a cash basis under DCN 124 to comply with the expense recognition rules for such taxes. By adding foreign taxes to the list of excluded items, taxpayers likely will be required to file an advance consent (nonautomatic) method change under Rev. Proc. 2015-13 if they need to request consent to change to a permissible method that complies with the expense recognition provisions in section 461 and Treas. Reg. § 1.461-4(g)(6).

Understanding whether an accounting method change is automatic or non-automatic is important because a taxpayer must have

IRS consent before changing its method, and a change that does not satisfy all the automatic change requirements must be filed as a non-automatic change with the IRS National Office. Additionally, a non-automatic change is a more involved process similar to a ruling request that has different filing requirements, filing fees, and potential financial reporting implications as compared to an automatic change. Taxpayers evaluating an accounting method change should confirm whether their specific method change qualifies as an automatic change or is excluded from the list of automatic changes under Rev. Proc. 2025-23.

If you would like to discuss your company's potential accounting method changes and compliance with IRS procedures, or opportunities for cash tax savings through strategic use of accounting method changes, please reach out to [Rayth Myers](#) of our National Tax Office.

^[1]Internal Revenue Service, Bulletin No 2025-24, June 9, 2025, <https://www.irs.gov/pub/irs-irbs/irb25-24.pdf>

^[2]For example, Sections 6.13 (dispositions of a building or structural component) and 6.14 (relating to dispositions of tangible depreciable assets other than buildings and structural components) clarified which dispositions may be covered by the automatic change, such as those dispositions in "the taxable year immediately preceding the year of change".

^[3]For example, Section 7.01 (specified research expenditures under section 174) removed references to earlier tax years (e.g., first taxable year beginning after December 31, 2021) because the reference was obsolete.

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