

26 CFR 601.204: *Changes in accounting periods and in methods of accounting.*
(Also Part I, § 56; 446; 1.446–1.)

Rev. Proc. 98–58

SECTION 1. PURPOSE

This revenue procedure provides procedures to allow a taxpayer to automatically change its method of accounting under § 446 of the Internal Revenue Code for certain deferred payment sales (“DPS”) contracts (relating to property used or produced in the trade or business of farming) to the installment method for alternative minimum tax (AMT) purposes. This change will allow a taxpayer to comply with § 403 of the Taxpayer Relief Act of 1997 (TRA 1997), Pub. L. No. 105–34, 111 Stat. 788 (Aug. 5, 1997), which repealed § 56(a)(6) of the Code, relating to the AMT adjustment for installment sales, effective generally for dispo-

sitions in taxable years beginning after December 31, 1986.

SECTION 2. BACKGROUND

.01 Section 446 (e) and § 1.446–1(e) state that, except as otherwise provided, a taxpayer must secure the consent of the Commissioner before changing a method of accounting for federal income tax purposes. Section 1.446–1(e)(2)(i) of the Income Tax regulations provides that the taxpayer must secure such consent whether or not the method is proper or permitted under the Code or regulations. While such consent is ordinarily obtained by filing Form 3115, Application for Change in Accounting Method, § 1.446–1(e)(3)(ii) authorizes the Commissioner to prescribe administrative procedures setting forth the limitations, terms, and conditions necessary to obtain the Commissioner’s consent to change the taxpayer’s method of accounting.

.02 Prior to the enactment of TRA 1997, § 56(a)(6) provided that, in computing alternative minimum taxable income (AMTI), income from the disposition of property described in § 1221(1) (including farm products) was determined without regard to the installment method under § 453. Thus, a farmer using the cash method who sold farm products under a DPS contract was required under § 56(a)(6) to include the fair market value (or the issue price) of the DPS obligation in AMTI in the taxable year of sale. For regular tax purposes, such a farmer generally was allowed to report the income from the DPS contract as payments were received by the farmer, pursuant to the installment method under § 453.

.03 Section 403 of the TRA 1997 repealed § 56(a)(6) retroactively to 1987. As a result, a taxpayer who reports income from a DPS contract using the installment method for regular tax purposes

should also use the installment method to report income from the contract for AMT purposes. A change from applying former § 56(a)(6) to using the installment method for AMT purposes for DPS contracts is a change in method of accounting within the meaning of § 446(e) and the regulations thereunder.

SECTION 3. SCOPE

This revenue procedure applies to taxpayers who properly report income from DPS contracts using the installment method under § 453 for regular tax purposes, but apply former § 56(a)(6) to report income from such contract for AMT purposes. However, this revenue procedure does not apply to any taxpayer described in the preceding sentence for any taxable year that is subject to a closing agreement concerning the treatment of DPS contracts. *See* § 7121(b).

SECTION 4. PROCEDURE

.01 *In General.*

A change to the installment method of accounting under § 453 for DPS contracts for AMT purposes is made on a cut-off basis either prospectively, beginning with the current taxable year (generally, the 1998 taxable year), or retroactively, beginning with an earlier taxable year by filing amended returns. No Form 3115 is required to be filed. For further information in preparing 1998 returns, and amended returns, see Publication 225, *Farmer's Tax Guide*.

.02 *Prospective Change.*

To make the change in method of accounting prospectively, the installment method is used to report income from

DPS contracts entered into in the current taxable year and all subsequent taxable years for AMT purposes if such method is used for the contract for regular tax purposes. No AMT adjustment should be made for these contracts related to the use of the installment method. Any amount of income from a DPS contract entered into prior to the year of change (i.e. prior to the current taxable year) that was reported in a prior taxable year for AMT purposes, must be reflected as a negative AMT adjustment in the taxable year that amount of income is reported for regular tax purposes. Taxpayers who made a prospective change in method of accounting for DPS contracts in 1997 are deemed to have complied with the requirements of this section 4.02.

.03 *Retroactive Change.*

To make the change in method of accounting retroactively, amended returns must be filed for any earlier open taxable year that the taxpayer selects after which there is no closed taxable year and all affected subsequent taxable years for which a return has been filed. An entity (including a limited liability company) treated as a partnership or an S corporation for federal income tax purposes ("passthrough entity") may not file an amended return for any taxable year ending prior to the beginning of the earliest open taxable year of its partners, members, or shareholders after which there is no closed taxable year. The installment method must be used to report income from DPS contracts entered into in the year of change (i.e. the earliest taxable year for which an amended return is filed), and for all subsequent taxable years for AMT purposes if such method is used for the contract for

regular tax purposes. The installment method may not be used to report income from DPS contracts entered into prior to the year of change for AMT purposes. Any amount of income from a DPS contract entered into prior to the year of change that was reported in a prior taxable year for AMT purposes, must be reflected as a negative AMT adjustment in the taxable year that amount of income is reported for regular tax purposes. Additionally, the minimum tax credit, if any, reported on Form 8801, for the amended return years must be recalculated. Passthrough entities must reflect all adjustments on the Schedule K-1 issued to partners, members, or shareholders.

SECTION 5. CONSENT TO CHANGE METHOD OF ACCOUNTING

Taxpayers within the scope of this revenue procedure that comply with the procedures set forth in Section 4 of this revenue procedure have the consent of the Commissioner to change to the installment method of accounting under § 453 for DPS contracts for AMT purposes.

SECTION 6. EFFECTIVE DATE

This revenue procedure is effective for taxable years beginning after December 31, 1986.

DRAFTING INFORMATION

The principal author of this revenue procedure is Jonathan Strum of the Office of Assistant Chief Counsel (Income Tax and Accounting). For further information regarding this revenue procedure, contact Mr. Strum at (202) 622-4960 (not a toll-free call).