

26 CFR 601.204: Changes in accounting periods and methods of accounting.  
(Also Part I, §§ 61, 446, 451, 481, 1012; 1.61-1, 1.446-1, 1.451-1, 1.481-1, 1.1012-1.)

## Rev. Proc. 2002-36

### SECTION 1. PURPOSE

This revenue procedure provides taxpayers that purchase vehicles subject to leases and assume the associated leases from motor vehicle dealers with a safe harbor method of accounting for capital cost reduction payments (“CCR payments”) made by vehicle lessees. This revenue procedure also provides a procedure for taxpayers to obtain automatic consent of the Commissioner to change to the safe harbor method of accounting.

### SECTION 2. BACKGROUND

.01 Section 61(a) of the Internal Revenue Code provides that, except as otherwise provided, gross income means all income from whatever source derived.

.02 Section 451(a) and § 1.451-1(a) of the Income Tax Regulations provide that the amount of any item of gross income should be included in a taxpayer’s gross income for the taxable year in which actually or constructively received by the taxpayer, unless, under the taxpayer’s method of accounting, such amount is properly includible for a different year.

.03 Section 1012 provides that the basis of property is the cost of the property. In general, section 1.1012-1(a) provides that the cost is the amount paid for the property in cash or other property.

.04 Under § 446(e) and § 1.446-1(e)(2)(i), a taxpayer generally must secure the consent of the Commissioner before changing a method of accounting for federal income tax purposes. Section 1.446-1(e)(3)(ii) authorizes the Commis-

sioner to prescribe administrative procedures setting forth the terms and conditions necessary to obtain consent to change a method of accounting.

.05 The Treasury Department and the Internal Revenue Service are aware that the proper tax treatment of CCR payments by purchasers of leased vehicles has become a source of significant controversy. For reasons of administrative convenience and to avoid further controversy in this area, Treasury and the Service have determined that it is appropriate to provide purchasers with a safe harbor method of accounting for CCR payments, under which a CCR payment is excluded from the purchaser’s basis in the purchased vehicle (and is excluded from the purchaser’s gross income). Treasury and the Service believe the scope of the safe harbor method provided in this revenue procedure is appropriate given the current vehicle lease market and lease financing market. However, Treasury and the Service may modify the scope of this safe harbor method as necessary to respond to changes in leasing market conditions.

### SECTION 3. SCOPE

This revenue procedure applies to taxpayers who purchase motor vehicles subject to leases in connection with which a lessee has made a CCR payment, as defined in section 4.01 of this revenue procedure, to the dealer/lessor of the vehicle at the inception of the lease.

### SECTION 4. DEFINITIONS

.01 *CCR Payment.* A CCR payment is any payment made at the inception of a motor vehicle lease by the lessee to the dealer from which the vehicle is leased that has the effect of reducing the total amount of rent the lessee will pay after inception of the lease. A CCR payment may consist of a cash down payment, the trade-in value of a lessee’s used vehicle, a rebate or incentive supplied by the manufacturer to the lessee, credits earned under a credit card reward program, or the first or last monthly rental payment. A CCR payment does not include refundable security deposits; extended service plan fees; insurance premiums; title, registration, or license fees; sales, lease, excise, use, or *ad valorem* taxes paid in advance

or collected by the dealer; or administrative fees; made by a lessee in connection with a motor vehicle lease.

.02 *Taxpayer.* A “taxpayer” for purposes of this revenue procedure is a purchaser of a motor vehicle that is subject to a lease in connection with which a lessee has made a CCR payment to the dealer from which the lessee originally leased the vehicle.

## SECTION 5. CCR METHOD

Under the CCR method, the amount of a CCR payment is not includible in the taxpayer’s gross income and may not be included in the taxpayer’s basis in the purchased vehicle.

## SECTION 6. AUDIT PROTECTION FOR TAXPAYERS CURRENTLY USING THE CCR METHOD

A taxpayer within the scope of this revenue procedure that is using the CCR method provided in section 5 of this revenue procedure on May 3, 2002, may continue to use this safe harbor method for taxable years ending on or after May 3, 2002, without filing a Form 3115, *Application to Change a Method of Accounting*. Such taxpayer’s method of excluding CCR payments from both its gross income and its basis in the purchased vehicle will not be raised as an issue in a taxable year that ends before May 3, 2002. Moreover, if such taxpayer’s method of excluding CCR payments from both its gross income and its basis in the purchased vehicle is already an issue under consideration (within the meaning of section 3.09 of Rev. Proc. 2002–9 (2002–3 I.R.B. 327)) in a taxable

year that ends before May 3, 2002, the issue will not be further pursued.

## SECTION 7. CHANGE IN METHOD OF ACCOUNTING

.01 *Limitations, Terms, and Conditions.* A change to the CCR method provided by this revenue procedure will be treated as a change in method of accounting to which the provisions of §§ 446 and 481 and the regulations thereunder apply. Therefore, a taxpayer within the scope of this revenue procedure that does not use the CCR method provided in section 5 of this revenue procedure on May 3, 2002, but wants to use this safe harbor method for taxable years ending on or after December 31, 2001, must file a Form 3115.

.02 *Automatic Change to CCR Method.* A taxpayer within the scope of this revenue procedure that wants to change to the CCR method provided by section 5 of this revenue procedure must follow the automatic change in method of accounting provisions of Rev. Proc. 2002–9 (or its successor), as modified by Rev. Proc. 2002–19 (2002–13 I.R.B. 696) with the following modifications:

(1) The scope limitations in section 4.02 of Rev. Proc. 2002–9 do not apply to a taxpayer that wants to make the change for its first or second taxable year ending on or after December 31, 2001;

(2) When filing the Form 3115, taxpayers must complete all applicable parts of the form and, in lieu of the label required by section 6.02(4) of Rev. Proc. 2002–9, are instructed to write “Filed under Rev. Proc. 2002–36” at the top of the form.

.03 *Section 481(a) Adjustment.* As provided in section 2 of Rev. Proc. 2002–19, the period for negative § 481(a) adjustments is one year, and the period for positive § 481(a) adjustments is four years.

.04 *Audit Protection.* If a taxpayer complies with the requirements of this revenue procedure and changes its method of accounting for CCR payments to the CCR method provided in section 5 of this revenue procedure, the treatment of CCR payments will not be raised as an issue in any taxable year before the year of change and, if the treatment of CCR payments is already an issue under consideration (within the meaning of section 3.09 of Rev. Proc. 2002–9) in a taxable year before the year of change, that issue will not be further pursued.

## SECTION 8. EFFECT ON OTHER DOCUMENTS

Rev. Proc. 2002–9 is modified and amplified to include this automatic change in section 5A of the APPENDIX.

## SECTION 9. EFFECTIVE DATE

This revenue procedure is effective for taxable years ending on or after December 31, 2001.

## DRAFTING INFORMATION

The principal author of this revenue procedure is Joy Ruff of the Office of Associate Chief Counsel (Income Tax and Accounting). For further information regarding this revenue procedure, contact Ms. Ruff at (202) 622–5020 (not a toll-free call).