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Subject: Issue pending CAM

As you know, we received a request for advance consent from Taxpayer to make a protective change in its method of accounting ("CAM") for certain obligations for the Year 4 tax year. For the reasons stated below, we will not process Taxpayer's request. If you have any questions, please contact me at

BACKGROUND

Taxpayer and the Director disagree as to whether, for the Year 1 taxable year, Taxpayer requested consent to change its method of accounting for certain obligations from Method A to Method B under the automatic method change procedures. Taxpayer began using Method B for the obligations in Year 1, and continued to use Method B for the obligations in succeeding taxable years. However, for the Year 4 taxable year, Taxpayer is requesting permission to "change" its method of accounting to continue using Method B for the obligations.

ISSUE

Can the Service grant Taxpayer's request to change its method of accounting in Year 4?

ANALYSIS

Rev. Proc. 97-27, 1997-1 C.B. 680, as modified by Rev. Proc. 2002-19, 2002-1 C.B. 696, only applies to a taxpayer that is requesting permission to *change* its method of accounting. Sec. 4.01 of Rev. Proc. 97-27. In this case, Taxpayer has been using Method B since Year 1 (and therefore is considered to have adopted Method B by virtue of having used it on two consecutive tax returns). Sec. 2.01(2) of Rev. Proc. 2002-18, 2002-1 C.B. 678. Therefore, Taxpayer's request does not involve a "change" because Taxpayer wishes to continue using Method B. Taxpayer argues that its current method of accounting is Method A because that is the method the Director argues Taxpayer *should* be using. However, a Service-imposed change is not considered final (and therefore a taxpayer is not treated as using the Service-imposed method) by virtue of the Director's position on audit. See section 7.02(1) of Rev. Proc. 2002-18. Accordingly, Taxpayer is outside the scope of Rev. Proc. 97-27.

CONCLUSION

Taxpayer's Year 4 application to change its method of accounting for certain obligations is outside the scope of Rev. Proc. 97-27 and, therefore, will be returned to Taxpayer.