



OFFICE OF THE CHIEF COUNSEL

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
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Dear _____ :

Thank you for contacting the Internal Revenue Service. This letter responds to your request for information dated July 11, 2024.

In your letter, you requested information on changes in methods of accounting and the filing requirements for Form 1099-C, Cancellation of Debt. Specifically, you asked for information as how these two issues relate to a tax-exempt organization under § 501(c)(3) of the Internal Revenue Code.

Changes in Methods of Accounting

The term “method of accounting” includes (A) a taxpayer’s overall plan of accounting, such as for gross income and deductions, and (B) the treatment of any material item. Section 446(a) states that taxable income is to be “computed under the method of accounting on the basis of which the taxpayer regularly computes his income in keeping its books.” This condition is considered satisfied if the taxpayer reconciles the results under the method used in keeping its books and records and the method used for Federal income tax purposes and maintains sufficient records to support such reconciliation. See Rev. Proc. 2015-13, section 7.06. Therefore, a taxpayer may have different methods of accounting for keeping its books and records and for Federal income tax purposes.

A change in method of accounting occurs when the taxpayer’s method of accounting to be used for an item in computing its taxable income for a year is different than the taxpayer’s method of accounting used for that item to compute its taxable income for the immediately preceding taxable year. See Rev. Proc. 2015-13, section 2.02(1). Section 446(e) requires a taxpayer to secure the consent of the Commissioner of the Internal Revenue Service before changing a method of accounting for tax purposes. If a taxpayer changes a method of accounting for Federal income tax purposes, it will need to file a Form 3115, Application for Change in Accounting Method, in accordance with the procedures set forth in Rev. Proc. 2015-13. See § 1.446-1(e)(3)(i) of the Income Tax Regulations and Rev. Proc. 2015-13, section 2.03(2). Even a taxpayer that

is in fact a tax-exempt organization must follow these procedures to obtain the Commissioner's consent before changing its accounting method for tax purposes. See Rev. Proc. 2024-5, section 2.03(1). In contrast, a change in method of accounting for book purposes does not require a Form 3115 if the taxpayer's method for Federal income tax purposes has not changed.

Cancellation of Indebtedness

Section 6050P(a) provides that any "applicable entity" which discharges debt of any person must file a Form 1099-C. Section 6050P(c)(1) states that an "applicable entity" means "(A) an executive, judicial, or legislative agency (as defined in section 3701(a)(4) of title 31, United States Code)" and "(B) an applicable financial entity."

The term "applicable financial entity" is defined in § 6050P(c)(2) and includes "any organization a significant trade of which is the lending of money." The lending of money is a significant trade or business of an organization if the organization "lends money on a regular and continuing basis." See § 1.6050P-2(a). Homeowners' associations ordinarily do not qualify as an "applicable entity" under any definition in the statute or regulations and are therefore not subject to the reporting requirements of § 6050P.

This letter has called your attention to certain general principles of the law. It is intended for informational purposes only and does not constitute a ruling. See Rev. Proc. 2024-1, section 2.04. An authorized representative of the tax-exempt organization may request a ruling. The procedures to follow and the costs of requesting a ruling may be found in Rev. Proc. 2024-1.

If you have any other questions, please contact our office at

Sincerely,

Cheryl L. Oseekey
Senior Counsel, Branch 6
Office of Associate Chief Counsel
(Income Tax & Accounting)