

Subpart B—Accounting Methods

SEC. 13221. CERTAIN SPECIAL RULES FOR TAXABLE YEAR OF INCLUSION.

(a) INCLUSION NOT LATER THAN FOR FINANCIAL ACCOUNTING PURPOSES.—Section 451 is amended by redesignating subsections (b) through (i) as subsections (c) through (j), respectively, and by inserting after subsection (a) the following new subsection:

“(b) INCLUSION NOT LATER THAN FOR FINANCIAL ACCOUNTING PURPOSES.—

“(1) INCOME TAKEN INTO ACCOUNT IN FINANCIAL STATEMENT.—

“(A) IN GENERAL.—In the case of a taxpayer the taxable income of which is computed under an accrual method of accounting, the all events test with respect to any item of gross income (or portion thereof) shall not be treated as met any later than when such item (or portion thereof) is taken into account as revenue in—

“(i) an applicable financial statement of the taxpayer, or

“(ii) such other financial statement as the Secretary may specify for purposes of this subsection.

“(B) EXCEPTION.—This paragraph shall not apply to—

“(i) a taxpayer which does not have a financial statement described in clause (i) or (ii) of subparagraph (A) for a taxable year, or

“(ii) any item of gross income in connection with a mortgage servicing contract.

“(C) ALL EVENTS TEST.—For purposes of this section, the all events test is met with respect to any item of gross income if all the events have occurred which fix the right to receive such income and the amount of such income can be determined with reasonable accuracy.

“(2) COORDINATION WITH SPECIAL METHODS OF ACCOUNTING.—Paragraph (1) shall not apply with respect to any item of gross income for which the taxpayer uses a special method of accounting provided under any other provision of this chapter, other than any provision of part V of subchapter P (except as provided in clause (ii) of paragraph (1)(B)).

“(3) APPLICABLE FINANCIAL STATEMENT.—For purposes of this subsection, the term ‘applicable financial statement’ means—

“(A) a financial statement which is certified as being prepared in accordance with generally accepted accounting principles and which is—

“(i) a 10-K (or successor form), or annual statement to shareholders, required to be filed by the taxpayer with the United States Securities and Exchange Commission,

“(ii) an audited financial statement of the taxpayer which is used for—

“(I) credit purposes,

“(II) reporting to shareholders, partners, or other proprietors, or to beneficiaries, or

“(III) any other substantial nontax purpose, but only if there is no statement of the taxpayer described in clause (i), or

“(iii) filed by the taxpayer with any other Federal agency for purposes other than Federal tax purposes, but only if there is no statement of the taxpayer described in clause (i) or (ii),

“(B) a financial statement which is made on the basis of international financial reporting standards and is filed by the taxpayer with an agency of a foreign government which is equivalent to the United States Securities and Exchange Commission and which has reporting standards not less stringent than the standards required by such

Commission, but only if there is no statement of the taxpayer described in subparagraph (A), or

“(C) a financial statement filed by the taxpayer with any other regulatory or governmental body specified by the Secretary, but only if there is no statement of the taxpayer described in subparagraph (A) or (B).

“(4) ALLOCATION OF TRANSACTION PRICE.—For purposes of this subsection, in the case of a contract which contains multiple performance obligations, the allocation of the transaction price to each performance obligation shall be equal to the amount allocated to each performance obligation for purposes of including such item in revenue in the applicable financial statement of the taxpayer.

“(5) GROUP OF ENTITIES.—For purposes of paragraph (1), if the financial results of a taxpayer are reported on the applicable financial statement (as defined in paragraph (3)) for a group of entities, such statement shall be treated as the applicable financial statement of the taxpayer.”.

(b) TREATMENT OF ADVANCE PAYMENTS.—Section 451, as amended by subsection (a), is amended by redesignating subsections (c) through (j) as subsections (d) through (k), respectively, and by inserting after subsection (b) the following new subsection:

“(c) TREATMENT OF ADVANCE PAYMENTS.—

“(1) IN GENERAL.—A taxpayer which computes taxable income under the accrual method of accounting, and receives any advance payment during the taxable year, shall—

“(A) except as provided in subparagraph (B), include such advance payment in gross income for such taxable year, or

“(B) if the taxpayer elects the application of this subparagraph with respect to the category of advance payments to which such advance payment belongs, the taxpayer shall—

“(i) to the extent that any portion of such advance payment is required under subsection (b) to be included in gross income in the taxable year in which such payment is received, so include such portion, and

“(ii) include the remaining portion of such advance payment in gross income in the taxable year following the taxable year in which such payment is received.

“(2) ELECTION.—

“(A) IN GENERAL.—Except as otherwise provided in this paragraph, the election under paragraph (1)(B) shall be made at such time, in such form and manner, and with respect to such categories of advance payments, as the Secretary may provide.

“(B) PERIOD TO WHICH ELECTION APPLIES.—An election under paragraph (1)(B) shall be effective for the taxable year with respect to which it is first made and for all subsequent taxable years, unless the taxpayer secures the consent of the Secretary to revoke such election. For purposes of this title, the computation of taxable income under an election made under paragraph (1)(B) shall be treated as a method of accounting.

“(3) TAXPAYERS CEASING TO EXIST.—Except as otherwise provided by the Secretary, the election under paragraph (1)(B) shall not apply with respect to advance payments received

by the taxpayer during a taxable year if such taxpayer ceases to exist during (or with the close of) such taxable year.

“(4) ADVANCE PAYMENT.—For purposes of this subsection—“(A) IN GENERAL.—The term ‘advance payment’ means any payment—

“(i) the full inclusion of which in the gross income of the taxpayer for the taxable year of receipt is a permissible method of accounting under this section (determined without regard to this subsection),

“(ii) any portion of which is included in revenue by the taxpayer in a financial statement described in clause (i) or (ii) of subsection (b)(1)(A) for a subsequent taxable year, and

“(iii) which is for goods, services, or such other items as may be identified by the Secretary for purposes of this clause.

“(B) EXCLUSIONS.—Except as otherwise provided by the Secretary, such term shall not include—

“(i) rent,

“(ii) insurance premiums governed by subchapter L,

“(iii) payments with respect to financial instruments,

“(iv) payments with respect to warranty or guarantee contracts under which a third party is the primary obligor,

“(v) payments subject to section 871(a), 881, 1441, or 1442,

“(vi) payments in property to which section 83 applies, and

“(vii) any other payment identified by the Secretary for purposes of this subparagraph.

“(C) RECEIPT.—For purposes of this subsection, an item of gross income is received by the taxpayer if it is actually or constructively received, or if it is due and payable to the taxpayer.

“(D) ALLOCATION OF TRANSACTION PRICE.—For purposes of this subsection, rules similar to subsection (b)(4) shall apply.”.

(c) COORDINATION WITH SECTION 481.—

(1) IN GENERAL.—In the case of any qualified change in method of accounting for the taxpayer’s first taxable year beginning after December 31, 2017—

(A) such change shall be treated as initiated by the taxpayer, and

(B) such change shall be treated as made with the consent of the Secretary of the Treasury.

(2) QUALIFIED CHANGE IN METHOD OF ACCOUNTING.—For purposes of this subsection, the term “qualified change in method of accounting” means any change in method of accounting which—

(A) is required by the amendments made by this section, or

(B) was prohibited under the Internal Revenue Code of 1986 prior to such amendments and is permitted under such Code after such amendments.

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