

July 24, 2017

The Honorable John Koskinen  
Commissioner  
Internal Revenue Service  
1111 Constitution Avenue, NW  
Washington, DC 20224

Re: Comments on Notice 2017-17

Dear Commissioner Koskinen:

Enclosed please find comments on the proposed revenue procedure discussed within Notice 2017-17.

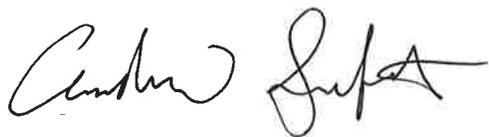
The topics discussed herein are a broad overview of the considerations of the new revenue recognition rules under ASC 606 and the potential tax impacts related thereto. The narrow impacts on certain industries or situations are not fully discussed here.

We would be pleased to discuss our comments with you or your staff, if that would be helpful.

Sincerely,



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## Executive Summary

When the Financial Accounting Standards Board (FASB) announced new financial accounting standards for recognizing revenue (herein referenced as “ASC 606”)<sup>1</sup> in May 2014 to replace existing U.S. Generally Accepted Accounting Principles (GAAP) guidance, Wipfli LLP’s tax practitioners, as well as tax practitioners all across the country, started to question how the new standard would impact our clients’ tax accounting methods. Although the FASB has subsequently revised ASC 606 and provided guidance on implementing the new standard in certain situations,<sup>2</sup> limited tax guidance on the ASC 606 transition has been issued beyond Treasury’s initial request for comments, as contained within Notice 2015-40.

Wipfli LLP is encouraged that Treasury is seeking comments related to Notice 2017-17 and its proposed revenue procedure that would govern tax accounting method changes for recognizing revenue when the change is made *for the same tax year* for which the taxpayer adopts ASC 606 for financial accounting purposes, and the change is made as a result of, or directly related to, the adoption of those new standards.

As the effective date of the ASC 606 standard draws closer,<sup>3</sup> and some entities consider “early adopting,”<sup>4</sup> Wipfli LLP is pleased to offer our comments to those issues Treasury set forth in Notice 2017-17. Although a more detailed discussion of our comments is included in the ensuing pages, we believe that one of the biggest concerns taxpayers face related to the impacts of ASC 606 on their tax accounting methods is the impact of variable consideration. Therefore, Treasury should consider issuing some guidance, or at the very least examples of transactions, involving variable consideration, and the related comparison of revenue recognition under ASC 606 vs. tax principles. Furthermore, taxpayers are wondering what will happen to advance payment methods under Rev. Proc. 2004-34 and Treas. Reg. §1.451-5, including whether the year one recognition consistent with the taxpayer’s applicable financial statement (which would now recognize revenue under the ASC 606 standard) would continue to be allowable given this could result in additional taxable income deferral, especially when variable consideration is involved.

Taxpayers will need to determine the timing of when revenue recognition will arise based upon ASC 606. Then, those taxpayers will need to determine when revenue should be recognized for tax purposes. To assist our clients with this determination, Wipfli LLP respectfully requests that Treasury consider whether existing tax authority for revenue recognition is sufficient, or whether additional authority may need to be issued, or perhaps revised, in light of taxpayers adopting ASC 606. The sooner the better!

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<sup>1</sup> Accounting Standards Update (ASU) No. 201409, Revenue from Contracts with Customers (Topic 606), issued by FASB.

<sup>2</sup> See FASB’s ASU No. 201514, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date; ASU No. 201610, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing; ASU No. 201608, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net); ASU No. 201612, Revenue from Contracts with Customers (Topic 606): Narrow Scope Improvements and Practical Expedients; and ASU No. 201620, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers.

<sup>3</sup> Effective for public companies for fiscal years beginning December 15, 2018; effective for non-public companies for fiscal years beginning December 15, 2019

<sup>4</sup> Early adoption is available for fiscal years beginning December 15, 2016.

## Issues on Conformity between the New Standards and the Code and Regulations

Treasury has reiterated a request for comments on the following issues originally identified in Notice 2015-40.

### **To what extent would using the new standards for federal income tax purposes result in acceleration or deferral of income under § 451 or other income provisions of the Code?**

In our commentary below, Wipfli LLP considers the changes from current GAAP to ASC 606, and the potential acceleration or deferral of taxable income that may result therefrom. Although many industries may be impacted as a result of adopting ASC 606, the examples provided herein are mainly focused on those taxpayers operating in the manufacturing & distribution sectors (including retail), as Wipfli LLP has the significant client base within those sectors.

In our response to this key issue, our discussion explores the following income tax provisions. Understanding these provisions, and how ASC 606 may impact them, is important for purposes of addressing whether there will be an acceleration or deferral of taxable income. Each of these provisions is hereby discussed in turn –

- The all-events test under § 451
- Advance payments
- Long-term contracts under § 460

### **Earned and Realizable under Current GAAP vs. Fixed and Determinable under § 451**

Under current GAAP, revenue is generally recognized when *earned and realizable*; that is persuasive evidence of an arrangement exists, delivery has occurred (or services have been rendered), the price is fixed and determinable, and collectability is reasonably assured. Current GAAP is rather consistent with the *fixed and determinable* concept under the all-events test of § 451 and the related regulations; however, even at the present time, book-tax differences may exist, such as revenue recognition for advance payments.

### **The All Events Test under § 451 and Related Regulations**

The theory behind the all-events test<sup>5</sup> is that an accrual method taxpayer must include an item in gross income when all events have occurred which fix the right to receive the income; that is, the required performance has occurred, payment is due, or payment is made, whichever happens earliest (1<sup>st</sup> prong), AND the amount can be determined with reasonable accuracy (2<sup>nd</sup> prong). The terms of a contract are relevant in determining when the all-events test is satisfied.<sup>6</sup>

Our discussion commences with the second prong of the all-events test under Treas. Reg. §1.451-1.

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<sup>5</sup> Treas. Reg. 1.451-1

<sup>6</sup> *Decision, Inc.* 47 TC 58 (1966)

### **Amount can be Determined with Reasonable Accuracy**

Although Treas. Reg. §1.451-1 does not define *reasonable accuracy*, the regulation provides that where an *amount* of income is properly accrued on the basis of a *reasonable estimate* and the exact amount is subsequently determined, the difference, if any, shall be taken into account for the taxable year in which such determination is made. Treas. Reg. §1.451-1 similarly does not define *amount*, but since the term is used to explain an item of income, presumably the amount is the *transaction price*.

### **Amount and Transaction Price**

The core principle of the ASC 606 standard is that an entity should recognize revenue to depict the transfer of goods or services to customers in an *amount* that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services (the “*transaction price*”).<sup>7</sup>

When determining transaction price, entities should consider the effects of variable consideration,<sup>8</sup> and constraining *estimates* of variable consideration, using either the “expected value approach” or “most likely amount approach.” The estimate of the transaction price must be constrained so as to limit the potential for a significant revenue reversal in future periods when the underlying factors driving the variability are resolved.<sup>9</sup> In other words, an entity must make a *reasonable estimate* of the amount of variable consideration to which it expects to be entitled.

Since the new revenue recognition standard will generally require more *estimates*, taxpayers will be left to assess whether the reasonable estimates under ASC 606 provide reasonable accuracy, and are therefore reasonable estimates, under the § 451 regulations.

That could be a hard sell due to the constraining estimates of variable consideration under ASC 606.

The following example illustrates this second prong of the all-events test when variable consideration is involved.

### **Variable Consideration – Determining Whether a Manufacturer’s Bonus is an Amount that Can be Determined with Reasonable Accuracy**

Manufacturer enters into contract directly with customer to manufacture and deliver 600 parts (@ \$5/part) per year for a period of three years. If all parts are timely delivered, manufacturer is entitled to a bonus of \$750 at the end of the contract (year three).

For ASC 606 purposes, the bonus represents variable consideration and therefore the manufacturer must estimate the constraint. The manufacturer uses the “most likely amount approach” and estimates that it will receive the full bonus at the end of the contract.

For tax purposes, the manufacturer must determine whether the amount can be determined with reasonable accuracy. Since the manufacturer knows the maximum bonus to which it would be entitled, the amount can be determined with reasonable accuracy. However, the manufacturer must also determine whether there is a fixed right to receive the bonus.

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<sup>7</sup> FASB ASC 606-10-32-2 through 32-27

<sup>8</sup> Variable consideration may include price concessions, discounts, rebates, credits, incentives, performance bonuses, royalties, milestone payments, or penalties.

<sup>9</sup> FASB ASC 606-10-32-11

Therefore, our discussion now turns back to the first prong of the all-events test – have all events occurred that fix the right to receive the income?

### **Is There a Fixed Right to Receive Income?**

Whether there is fixed right to receive income is determined by the facts and circumstances, including:

- The agreement between the parties (i.e. the terms of the contract),
- The time when the goods/services are delivered,
- The existence of contingencies or preceding conditions, and
- Whether the liability is contested.

In determining whether there is a fixed right to receive income, consideration must be given to the existence of a condition precedent, which is a condition that must occur before the right to income arises and subsequently bars the accrual of income until the condition is fulfilled. Essentially, even if there is a fixed right to receive income and the amount can be determined with reasonable accuracy, if there is uncertainty of collection, the income need not be accrued.<sup>10</sup>

### **Variable Consideration – Determining Whether a Manufacturer’s Bonus is a Fixed Right to Receive Income**

Recall that the manufacturer is to receive a bonus at the end of the contract if all parts are timely delivered to the customer.

For ASC 606 purposes, the constraining estimate for the bonus was already determined to be \$750. Total transaction price is therefore \$9,750 (600 parts @ \$5/part x 3 years + \$750).

For tax purposes, although the amount of the bonus (\$750) could be determined with reasonable accuracy under the second prong of the all-events test, the bonus does NOT meet the first prong. There is a condition that must be fulfilled (all parts timely delivered) before the manufacturer is entitled to the bonus. Therefore, the bonus is not fixed and determinable until timely delivery of all parts has occurred. Under the all-events test of § 451, the bonus is fixed at the end of year three, when the manufacturer has full knowledge that all parts were timely delivered, thereby securing the manufacturer’s right to the bonus.

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<sup>10</sup> *European Amer. Bank & Trust Co. v. U.S.* 20 Cl Ct 594 (1990)

Please note that this is an example whereby income is recognized earlier under ASC 606 than when that revenue would be recognized for tax purposes. THERE CONTINUES TO BE A DEFERRAL OF TAXABLE INCOME BASED UPON A CONDITION PRECEDENT. The following table shows the book-tax difference in revenue recognition for ASC 606 vs tax over the three-year period.

<i>Year of Contract</i>	<i>ASC 606 Revenue</i>	<i>Tax Revenue</i>	<i>Book-Tax Difference (M-3 Adjustment)</i>
Year One	\$3,250	\$3,000	-\$250
Year Two	\$3,250	\$3,000	-\$250
Year Three	\$3,250	\$3,750	\$500
Cumulative	\$9,750	\$9,750	-----

IT IS IMPORTANT TO NOTE FROM THE EXAMPLE ABOVE THAT THE ALL-EVENTS TEST STILL DICTATES WHEN THE REVENUE IS RECOGNIZED FOR TAX PURPOSES. Although the manufacturer has to accelerate revenue recognition with the adoption of ASC 606 for the constraining estimate of the bonus, the manufacturer’s existing tax accounting method, reporting the bonus when the condition precedent is satisfied is still a proper tax method of accounting.

Therefore, although under ASC 606 the manufacturer recognizes revenue attributable to the bonus as each part is sold, this does NOT impact tax reporting. For tax purposes, the manufacturer continues to recognize revenue based upon the per-part price (\$5/part) in the contract, and the bonus is recognized at the end.

**Current GAAP – Sell-Through Method on Sales to Distributors**

Under current GAAP revenue recognition standards, the sell-through method is available on sales to distributors. Under the sell-through method, revenue is not recognized until the product is ultimately sold by the distributor to the customer because the fee is not fixed and determinable (as a result of price protection provisions, rights of return, etc.). Under ASC 606, the sell-through method will no longer be available, and entities will recognize revenue once control over the product is transferred to the distributor. The amount of revenue recognized will need to consider estimates of price protection rebates and returns, and will involve considerable judgment to determine.

**ASC 606 Method vs Sell-Through Method on Sales to Distributors**

Manufacturer enters into contract directly with distributor to manufacture and deliver 600 parts (@ \$5/part) per year for a period of three years. Delivery of 50 parts occurs on the 1<sup>st</sup> of the month; however, distributor does not sell the goods to its customer until the 1<sup>st</sup> of the next month. Effectively, distributor has a one-month supply of parts on-hand at any given time. Manufacturer has a calendar-year end. Assume the manufacturer has already determined that it reasonably expects to be entitled to the full transaction price. Manufacturer is still entitled to the \$750 bonus from our last example at the end of year three.

Under current GAAP, manufacturer recognizes revenue when the distributor sells the parts to the customer. Since the distributor did not sell the 50 parts delivered from the manufacturer in December until January of the following year, the manufacturer does not recognize the revenue of \$250 (50 parts @ \$5/part) from the December delivery until January.

Under ASC 606, the manufacturer would recognize revenue when the manufacturer transfers control of the parts to the distributor. As a result, the manufacturer must accelerate the recognition of the revenue on parts delivered to the distributor in December. THIS IS A GREAT EXAMPLE OF INCOME BEING RECOGNIZED EARLIER UNDER ASC 606 COMPARED TO CURRENT GAAP REVENUE RECOGNITION STANDARDS. BUT WHAT ABOUT TAX?

Currently for tax purposes, revenue recognition would follow current GAAP. Due to return rights and price protections, the contract price cannot be determined with reasonable accuracy until the distributor sells the parts to customer.

However, what happens to revenue recognition for tax purposes when the manufacturer adopts ASC 606? Presumably, the price protections and return rights still exist. Is the contract price therefore still unable to be determined with reasonable accuracy, such that manufacturer can delay revenue recognition for tax purposes yet similar to its existing tax accounting method and current GAAP? IF SO, THEN THE MANUFACTURER WOULD MAINTAIN ITS EXISTING TAX ACCOUNTING METHOD DESPITE THE CHANGE IN ITS ASC 606 METHOD.

However, what if the price protections constitute “accrued rebates” and the return rights constitute “accrued returns,” such that the manufacturer recognizes revenue similar to ASC 606 upon transfer of control to the distributor, and then incurs a deduction for the accrued rebates and accrued returns, if and when they occur?<sup>11</sup> IN THIS SITUATION, THE MANUFACTURER WOULD NEED TO CHANGE ITS TAX ACCOUNTING METHOD FOR REVENUE RECOGNITION TO FOLLOW THE NEW ASC 606 METHOD, AND MAY ALSO CONSIDER WHETHER A METHOD CHANGE IS NECESSARY UNDER §461 FOR ACCRUED REBATES / RETURNS.

The following chart illustrates revenue recognition under current GAAP, ASC 606, and existing tax methods.

<i>Year of Contract</i>	<i>Current GAAP Revenue</i>	<i>Tax Revenue – Existing Method</i>	<i>Book-Tax Difference (M-3 Adjustment)</i>	<i>ASC 606 Revenue</i>	<i>Tax Revenue – New Method After Adopting ASC 606</i>	<i>Book-Tax Difference (M-3 Adjustment)</i>
Year One	\$2,750	\$2,750	-----	\$3,000	\$3,000	-----
Year Two	\$3,000	\$3,000	-----	\$3,000	\$3,000	-----
Year Three	\$3,750	\$3,750	-----	\$3,750	\$3,750	-----
Year Four	\$250	\$250	-----	-----	-----	-----
Cumulative	\$9,750	\$9,750	-----	\$9,750	\$9,750	-----

As you can see, there is an acceleration of \$250 of revenue recognition under ASC 606 compared to current GAAP, and potentially an acceleration of the same \$250 for tax purposes as well.

<sup>11</sup> Accrued rebates generally meet the economic performance requirements of Treas. Reg. 1.461-4(g)(3) when paid. However, taxpayers may be able to use the recurring item exception within Treas. Reg. 1.461-5.

What happens if under the contract the distributor has the right to purchase additional parts (within a given year) at a 50% discount? Assume this discount is significantly more than what the manufacturer offers to similar distributors.

The option to acquire additional parts at a 50% discount represents a material right under ASC 606.

### **Point of Sale Transactions – Material Right**

At first glance, there were many practitioners that believed ASC 606 would not change the timing or amount of revenue recognized for point of sale transactions. However, there may be situations where the customer receives a material right (which constitutes a separate performance obligation) related to the purchase of future goods and services.

A material right arises when, by virtue of entering into a contract to purchase a good or service today, the customer receives an option to purchase an additional good or service at a significant discount that is incremental to the range of discounts given to that class of customer in that geographic area or market. When this type of material right exists, ASC 606 provides that the entity must allocate a portion of the transaction price *to future goods and services* and recognize that portion as revenue *when the future goods or services are transferred, or when the option expires.*

Effectively, the manufacturer has two performance obligations – (1) the current sale of the goods and services, and (2) the material right for the future sale of goods and services.

### **Material Right – 50% Discount**

Under current GAAP, the manufacturer does not account for the discount when assessing revenue recognition. In fact, the concept of material rights is NOT something that was widely seen for financial accounting purposes prior to the issuance of ASC 606.<sup>12</sup> Therefore, this represents a significant change under ASC 606. Generally speaking, entities will *delay* revenue recognition under ASC 606 when transaction price is assigned to material rights.

However, will entities be entitled to a similar delay in revenue recognition for tax purposes?

Remember that our manufacturer will offer the distributor a 50% discount on any additional parts purchased during a year. For simplicity, assume that the manufacturer is no longer entitled to the bonus.

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<sup>12</sup> A similar concept was contained within industry-specific revenue recognition guidelines for the software industry. See BC387 of ASU 2014-09, which states in part: “Previous U.S. GAAP revenue recognition guidance for the software industry specified that an offer of a discount on future purchases of goods or services was presumed to be a separate option in the contract, if that discount was significant and also incremental both to the range of discounts reflected in the pricing of other elements in that contract and to the range of discounts typically given in comparable transactions.” However, the notion of material rights, or significant incremental discounts, was not found in other areas of U.S. GAAP.

Under ASC 606, the manufacturer’s original contract with the distributor effectively has two performance obligations – 1) 600 parts per year, and 2) material right – 50% discount. The manufacturer is required to allocate the transaction price to the separate performance obligations.

- First, manufacturer must determine the stand-alone sales price attributable to the material right – 50% discount. One way of doing so, permitted by ASC 606, is to multiply the average expected purchase price of additional goods \$1,500 (100 parts @ \$5/part x 3 years) x 50% incremental discount = \$750
- Then, determine the total stand-alone sales price. Stand-alone sales price for the parts \$9,000 (600 parts @ \$5/part x 3 years) plus stand-alone sales price of material right \$750 equals total stand-alone sales price of \$9,750.
- Next, determine the allocation of the transaction price to the parts. Stand-alone sales price for the parts \$9,000 divided by total stand-alone sales price \$9,750 multiplied by the total transaction price of \$9,000 equals \$8,307.
- Finally, determine the allocation of the transaction price to the material right. Stand-alone sales price of the material right \$750 divided by the total stand-alone sales price \$9,750 multiplied by the total transaction price of \$9,000 equals \$693.

The manufacturer will recognize revenue of \$4.62/part (\$8,307 / 1,800 parts) when the distributor obtains control of parts bargained for in the contract. The manufacturer will recognize revenue of \$2.31/part (\$693 / 300 parts) from the material right as additional goods are sold under the contract. This is in addition to the \$2.50/part (\$5/part x 50% discount) that would be recognized on each additional part.

The manufacturer will delay income recognition on the \$693 assigned to the material right until the manufacturer transfers additional parts annually (above the 600 parts threshold) to the distributor. Assume that distributor purchases 300 additional parts during all three years of the contract (zero in year one, 200 in year two, and 100 in year three). Those additional parts are transferred to the distributor in December but sold to distributor’s customer in January.

The following table shows revenue recognition under current GAAP, ASC 606, and tax.

<i>Year of Contract</i>	<i>Current GAAP Revenue</i>	<i>Tax Revenue – Existing Method</i>	<i>Book-Tax Difference (M-3 Adjustment)</i>	<i>ASC 606 Revenue</i>	<i>Tax Revenue – New Method After Adopting ASC 606</i>	<i>Book-Tax Difference (M-3 Adjustment)</i>
Year One	\$2,750	\$2,750	-----	\$2,769	\$3,000	\$231
Year Two	\$3,000	\$3,000	-----	\$3,731	\$3,500	-\$231
Year Three	\$3,500	\$3,500	-----	\$3,250	\$3,250	-----
Year Four	\$500	\$500	-----	-----	-----	-----
Cumulative	\$9,750	\$9,750	-----	\$9,750	\$9,750	-----

For tax purposes, there is no income tied to the material right. Under § 451, no fixed right to income exists for the additional parts purchased via the discount until the distributor purchases them. At that point, all events have occurred that fixed the right to the income, and the amount can be determined with reasonable accuracy.

### **Termination Clause in a Contract**

What would happen in the prior example if the contract contained a termination clause such that either manufacturer or distributor has the right to cancel the contract?

Under ASC 606, if a termination clause exists *such that either party* could terminate the contract at any time *without penalty*, then the contract is deemed to lack commercial substance, and as a result, revenue would not be recognized until either (1) no remaining contractual obligation to transfer goods and services and all, or almost all, consideration has been received and nonrefundable, (2) the contract terminated and consideration is nonrefundable, or (3) transferred control of goods to which consideration relates, and have no further obligation to transfer goods and all consideration is nonrefundable.

This raises the question of whether a termination clause that can be asserted *by either party without penalty* similarly bars income from being recognized for tax purposes until the required performance occurs. In other words, does the termination clause represent a condition precedent, the contingency of which must be removed, before the income is deemed fixed under the principles of § 451?

### **Termination Clause – Return of Funds**

Assume at the inception of the contract the manufacturer receives a prepayment from the distributor of \$4,500. Either party has the right to terminate the contract without penalty within the first eighteen months. Assume that the distributor exercises that right in December of year one after purchasing 600 parts.

In a transaction where one taxpayer is accruing a liability to pay another taxpayer, the last event necessary to establish the fact of the liability under the all events test of Treas. Reg. §1.461-1(a)(2)(i) is the same event that fixes the right to receive income under the all events test of Treas. Reg. §1.451-1(a).<sup>13</sup>

Therefore, in our example, if either the manufacturer or distributor can terminate the contract without penalty, the manufacturer would delay income recognition under § 451 until performance occurs under the contract and any amounts received are nonrefundable. Prior to that time, any amounts received, but not earned, would constitute refundable deposits since the customer is entitled to receive their money back.<sup>14</sup>

For both ASC 606 purposes and tax purposes, the manufacturer would recognize \$3,000 (600 parts x \$5/part) of income in year one. No income is recognized on the remaining \$1,500. Pursuant to the contract, the distributor has a right to cancel the contract without penalty (i.e. entitled to reimbursement of the advanced funds).

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<sup>13</sup> Rev. Rul. 98-39

<sup>14</sup> *Commissioner vs. Indianapolis Power & Light Co.* 493 U.S. 203 (1990)

## **Advanced Payments**

An entity that receives an advanced payment from a customer has complete dominion over the funds such that the customer cannot insist upon their return.

To the extent an entity receive an advance payment, they may be eligible for deferred income recognition for tax purposes –

- Rev. Proc. 2004-34 provides a one-year deferral for goods, services, use of certain intellectual property, and other eligible payments.
- Treas. Reg. §1.451-5 provides a two-year deferral for goods and integral services.
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However, under both of these provisions, deferral is limited to the extent of the entity's *book deferral*. Book deferral references how the income is recognized in the entity's applicable financial statements.

Thus, entities using the deferral provisions of Rev. Proc. 2004-34 or Treas. Reg. §1.451-5 will likely require a corresponding change in their tax accounting methods for advance payments when their book deferral changes under ASC 606.

### **Deferral Provisions – Advanced Payments and ASC 606 Impacts**

Assume that the manufacturer requires a full prepayment (\$9,000) when the contract is initiated. The prepayment only relates to the original parts, and not the additional parts. The distributor will pay for those additional parts separately when transfer of control occurs. Manufacturer's current tax accounting method for advance payments is consistent with Rev. Proc. 2004-34. Assume that manufacturer is still offering the 50% discount and distributor purchases the additional parts (zero in year one, 200 in year two, and 100 in year three).

Under current GAAP and ASC 606, the mere fact that an advance payment was received does not result in the recognition of revenue. Often, the nonrefundable payment will have to be presented as a contract liability, and only recognized upon a transfer of control of the good/service to which it relates.

Please remember for the earlier example though that there is already a timing difference for revenue recognition between current GAAP (recognized when distributor sells parts to customer) vs. ASC 606 (recognized when manufacturer transfers control of parts to distributor).

This first table shows the manufacturer's current GAAP and tax revenue recognition. Notice how the manufacturer recognizes income in year one consistent with the income recognized in year one under current GAAP. Then, consistent with its method under Rev. Proc. 2004-34, the manufacturer recognizes the remainder of the prepayment on the original parts in year two.

<i>Year of Contract</i>	<i>Current GAAP Revenue</i>	<i>Current Tax Revenue – Rev. Proc. 2004-34</i>	<i>Book-Tax Difference (M-3 Adjustment)</i>
Year One	\$2,750	\$2,750	-----
Year Two	\$3,000	\$6,750	\$3,750
Year Three	\$3,500	\$250	-\$3,250
Year Four	\$500		-\$500
Cumulative	\$9,750	\$9,750	-----

The next table demonstrates how income would be recognized applying ASC 606 instead of current GAAP as the *book deferral* under Rev. Proc. 2004-34.

<i>Year of Contract</i>	<i>ASC 606 Revenue</i>	<i>Tax Revenue– Method Updated to ASC 606 – Rev. Proc. 2004-34</i>	<i>Book-Tax Difference (M-3 Adjustment)</i>
Year One	\$2,769	\$2,769	-----
Year Two	\$3,731	\$6,731	\$3,000
Year Three	\$3,250	\$250	-\$3,000
Year Four	-----		-----
Cumulative	\$9,750	\$9,750	-----

In our example, the ASC 606 revenue includes the material right related to the 50% discount. Remember that the revenue from those additional parts is not recognized until fixed and determinable under § 451 principles. In the example without the advance payment, the manufacturer would have recognized \$3,000 of taxable income in year one. The allocation of transaction price to the material right as a separate performance obligation causes lower income recognition for ASC 606 purposes in year one, than there would be if that material right did not exist. IS TREASURY GOING TO ALLOW TAXPAYERS TO DELAY INCOME RECOGNITION UNDER REV. PROC. 2004-34 OR TREAS. REG. §1.451-5 MERELY BECAUSE THAT INCOME IS DELAYED UNDER ASC 606 BECAUSE OF A MATERIAL RIGHT OR OTHER VARIABLE CONSIDERATION?

Or will Treasury remove the benefits of Rev. Proc 2004-34 and Treas. Reg. §1.451-5? If that occurs, a significant acceleration of income would result for taxpayers that receive advance payments.

## Long-Term Contracts under § 460

Taxpayers with long-term contracts (12 months or more), or those that manufacture unique items, must use percentage of completion (POCM) revenue recognition.

Whereas the all events test contained within § 451 regulations applies to taxpayers using the accrual method, § 460 is a self-contained, statutorily created accounting method whereby taxpayers use *estimates* when computing income under POCM.

These taxpayers apply a completion factor (total costs incurred to date over total estimated costs) to *contract price*, and then subtract previously recognized income to determine current income.

The § 460 regulations define contract price as the total amount that the contractor *reasonably expects to realize* from the contract. This definition is very similar to ASC 606 whereby transaction price represents the consideration to which the entity *expects to be entitled*.

The § 460 regulations include contingent compensation in the contract price as soon as the taxpayer can reasonably predict that the amount will be earned, *even if the all events test has not yet been met*. Under ASC 606, variable consideration (contingent compensation would be an example of variable consideration) must be estimated and including in the transaction price as well.

The underlying theme here is the use of estimates to determine contract/transaction price. However, will the estimated total contract price that the entity reasonably expects to realize under the contract be the same as the transaction price that the entity expects to be entitled for ASC 606 purposes? Presumably, the answer is yes over the life of the contract; however, there could be differences in timing between the two.

## Revenue Recognition on Long-Term Manufacturing Contract – ASC 606 vs § 460

Assume contract manufacturer is engaged by customer to design and build a new assembly line, which is comprised of five main parts. The design phase is expected to take 12 months for complete, and the build phase will take an additional 12 months. Assume 50% of the costs will be incurred in design, and 50% in construction of the line. Contract manufacturer is entitled to make progress billings throughout the 24-month contract term after meeting specified milestones in the contract.

Under ASC 606, the contract manufacturer must determine the performance obligations and allocate transaction price to each. For now, let's assume that the design of the assembly line is so proprietary that the design phase is not capable of being distinct from the construction of the assembly line. As a result, there is deemed one performance obligation under the contract.

The contract manufacturer would prepare billings as called for in the contract. Although many of these billings could occur in the design phase, these billings would most likely be nonrefundable. A contract liability would be recorded each time an invoice is generated or payment received. No revenues would be recognized under ASC 606 until the build phase commences, even though the contract manufacturer has received nonrefundable progress payments. This is because once the build phase commences, there is a transfer of control of the assembly line to the customer over time.

For tax purposes, § 460 requires that the contract manufacturer recognize income based upon total costs incurred to date over total estimated costs. THEREFORE, FOR § 460 PURPOSES, THE CONTRACT MANUFACTURER WILL RECOGNIZE TAXABLE INCOME DURING THE DESIGN PHASE OF THE CONTRACT EVEN THOUGH THERE IS NO INCOME RECOGNITION YET UNDER ASC 606.

What happens in our example if the contract manufacturer is entitled to a bonus upon completion of the assembly line? When does the total estimated contract price include the bonus?

Pursuant to Treas. Reg. §1.460-4(b)(4)(i)(B), the bonus is included in total estimated contract price as soon as the contract manufacturer can reasonably predict that the amount will be earned, even if the all events test is not yet been met. The regulation states that “a taxpayer can reasonably predict that an amount of contingent income will be earned not later than when the taxpayer includes that amount in income for financial reporting purposes under GAAP.”

This is important because if ASC 606 causes the bonus to be included in total transaction price earlier than under current GAAP, the contract manufacturer may recognize income sooner under § 460 as there would be a higher total estimated contract price applied against the percentage of completion factor earlier in the contract term.

**What industry and/or transaction-specific issues might arise as a result of the new standards that may need to be addressed in future guidance?**

ASC 606 may significantly change the timing of income recognition for entities in the software, entertainment, manufacturing, and construction industries. Treasury should consider whether any industry-specific tax guidance, including examples to illustrate, should be issued for taxpayers within these industries.

As previously mentioned, our comments pertain mostly to those operating in the manufacturing & distribution (including retail) sectors. Additional tax guidance regarding how the ASC 606 standard impacts the tax accounting methods of those within these sectors would be helpful, including for example -

- Guidance on how to account for variable consideration in a contract
- Guidance on the recognition of advance payments
- Guidance on total contract price for long-term manufacturing contracts subject to IRC 460

**To what extent do the new standards deviate from the requirements of § 451? In what situations should the IRS allow taxpayers who adopt the new standards to follow their book method of accounting for tax purposes (for example, where income is always accelerated)?**

There is little doubt that the current GAAP framework is better aligned with the fixed and determinable concepts of § 451. ASC 606 no longer uses the fixed and determinable concept. Instead, ASC 606 is based upon the principle that revenue should be recognized to more closely depict the transfer of control of goods and services to the customer. For those reasons, ASC 606 represents a significant change.

The most consistent theme is that under the new standard there is going to be a deviation from IRC 451 when variable consideration is involved.

Let's revisit some of our earlier examples to demonstrate how the new standard deviates from IRC 451:

- *Variable consideration*  
Remember the manufacturer who would receive a bonus at the end of the contract if all parts were timely delivered.

For ASC 606, the manufacturer included a portion of the bonus as revenue (on a per-part basis) as the manufacturer transferred control of parts to the distributor. This deviates from IRC 451 because for tax purposes, the bonus is only includible at the end of the contract when all events have occurred (timely delivery of the parts) to establish the manufacturer's right to the bonus.

THIS IS A SITUATION WHERE TAXPAYERS WOULD NOT WANT TREASURY TO MAKE CHANGES TO ADOPT ASC 606 AS DOING SO WOULD REQUIRE AN EARLIER RECOGNITION OF REVENUE WITHOUT THE CASH TO PAY THE TAXES DUE ON THAT REVENUE.

- *Variable consideration involved, particularly when there are advance payments.*  
Remember the manufacturer who received an advance payment on the original parts within the contract, but had given the distributor a 50% discount (material right) for additional parts.

In that example, because of the material right and transaction price assigned thereto, lower income recognition resulted in year one under ASC 606.

However, because the manufacturer had adopted the deferral method under Rev. Proc. 2004-34, the taxpayer's year one income taxable income would be reported consistent with year one income under ASC 606. Reporting taxable income in year one consistent with ASC 606 deviates from IRC 451 as absent the advance payment that manufacturer would have reported more taxable income in year one.

Despite this, we believe that Treasury should allow taxpayers who adopt ASC 606 to use this new "book method" for determining income recognition under Rev. Proc. 2004-34. Although in most cases this would result in a shift of taxable income from year one to year two, that shift is short lived given taxpayers are required to report the remainder of the advance payment as taxable income by the end of year two. (See our discussion below as this would be a good example whereby Treasury may consider using a cut-off in lieu of a § 481(a) adjustment).

### **To what extent do the rules regarding allocation of standalone sales price and transaction price in the new standards affect taxpayers' ability to satisfy their tax obligations?**

The rules regarding allocation of stand-alone sales price and transaction price, and the possible impact on a taxpayer's ability to satisfy their tax obligations, cannot be considered without first identifying the performance obligations to which the transaction price relates, and the impact of any variable consideration on the transaction price.

Let's revisit the example of our manufacturer that is selling parts to distributors, some under the original contract, and additional parts for a 50% discount (material right). Assume further that the manufacturer provides a service whereby the part can be coated for an additional charge of \$1/part, upon request. In addition to coating parts that are manufactured in-house, the manufacturer has provided this service to customers whose parts are manufactured elsewhere. Assume that distributor asks manufacturer to coat 50% of the parts (sold annually) under the original contract. None of the parts eligible for the 50% discount would be coated.

Under ASC 606, the manufacturer's original contract with the distributor effectively has three performance obligations – 1) 300 uncoated parts per year, 2) material right – 50% discount, and 3) 300 coated parts per year. The manufacturer is required to allocate the transaction price to the separate performance obligations.

- First, manufacturer must determine the stand-alone sales price attributable to the material right – 50% discount. One way of doing so, permitted by ASC 606, is to multiply the average expected purchase price of additional goods \$1,500 (100 parts @ \$5/part x 3 years) x 50% incremental discount = \$750
- Then, determine the total stand-alone sales price. Stand-alone sales price for the uncoated parts \$4,500 (300 uncoated parts @ \$5/part x 3 years) plus stand-alone sales price for the coated parts \$5,400 (300 parts @ \$6/part x 3 years) plus stand-alone sales price of material right \$750 equals total stand-alone sales price of \$10,650.
- Next, determine the allocation of the transaction price to the uncoated parts. Stand-alone sales price for the uncoated parts \$4,500 divided by total stand-alone sales price \$10,650 multiplied by the total transaction price of \$9,900 equals \$4,183.
- Next, determine the allocation of the transaction price to the coated parts. Stand-alone sales price for the coated parts \$5,400 divided by total stand-alone sales price \$10,650 multiplied by the total transaction price of \$9,900 equals \$5,020.
- Finally, determine the allocation of the transaction price to the material right. Stand-alone sales price of the material right \$750 divided by the total stand-alone sales price \$10,650 multiplied by the total transaction price of \$9,900 equals \$697.

The manufacturer will recognize revenue of \$4.65/uncoated part (\$4,183 / 900 uncoated parts) \$5.58/coated part (\$5,020 / 900 coated parts) when the distributor obtains control of parts bargained for in the contract. The manufacturer will recognize revenue of \$2.32/part (\$697 / 300 parts) from the material right as additional goods are sold under the contract.

The manufacturer will delay income recognition on the \$697 assigned to the material right until the manufacturer transfers additional parts (above the annual 600 parts threshold) to the distributor.

Assume that distributor purchases 300 additional parts during all three years of the contract (zero in year one, 200 in year two, and 100 in year three). Those additional parts are transferred to the distributor in December but sold to distributor's customer in January.

The following table shows revenue recognition under current GAAP, ASC 606, and tax.

<i>Year of Contract</i>	<i>Current GAAP Revenue</i>	<i>Tax Revenue – Existing Method</i>	<i>Book-Tax Difference (M-3 Adjustment)</i>	<i>ASC 606 Revenue</i>	<i>Tax Revenue – New Method After Adopting ASC 606</i>	<i>Book-Tax Difference (M-3 Adjustment)</i>
Year One	\$3,025	\$3,025	-----	\$3,068	\$3,300	\$232
Year Two	\$3,800	\$3,800	-----	\$4,032	\$3,800	-\$232
Year Three	\$3,550	\$3,550	-----	\$3,550	\$3,550	-----
Year Four	\$275	\$275	-----	-----	-----	-----
Cumulative	\$10,650	\$10,650	-----	\$10,650	\$10,650	-----

How does this example change if the manufacturer does not provide the 50% discount to the customer related to the additional parts?

<i>Year of Contract</i>	<i>ASC 606 Revenue</i>	<i>Tax Revenue – New Method After Adopting ASC 606</i>	<i>Book-Tax Difference (M-3 Adjustment)</i>
Year One	\$3,300	\$3,300	-----
Year Two	\$3,800	\$3,800	-----
Year Three	\$3,550	\$3,550	-----
Year Four	-----	-----	-----
Cumulative	\$10,650	\$10,650	-----

Notice that without the material right, there is no book-tax difference.

Although ASC 606 uses the stand-alone sales price approach, which includes assigning transaction price to the material right, there is no impact of this approach on taxable income. Presumably, taxable income would still be determined based upon the stand-alone sales price of each part (\$5/uncoated part, \$6/coated part). There is no income tied to the material right.

Furthermore, revenue from the additional goods is NOT recognized until those sales occur, and at that time the discount is applied for tax purposes. This is the approach that is consistent with IRC 451 principles.

That said, the allocation of standalone sales price and transaction price in the new standards could affect this manufacturer's tax obligations if advanced payments were received under the contract, the contractor used the deferral provisions of Rev. Proc. 2004-34, and the "book deferral" was determined in year one based upon ASC 606. Under that scenario, the manufacturer could delay \$232 of taxable income recognition to year two.

### **Request for Comments on Procedures for Method Changes**

Notice 2017-17 lays out proposed procedures for obtaining IRS consent when a change is made for the same tax year for which the taxpayer adopts ASC 606 for financial accounting purposes, and the change is made as a result of, or directly related to, the adoption of those new standards.

Treasury has requested for comments on the following issues identified in Notice 2017-17.

#### **Is the exception for small businesses in paragraph 5.02(2) of the proposed revenue procedure appropriate?**

The small business exception in paragraph 5.02(2) permits taxpayers with total assets of less than \$10 million as of the first day of the taxable year, for which the change is requested, OR average annual gross receipts of \$10 million or less for the three preceding taxable years to make the change on a cut-off basis.

The threshold definition of “small business” within the scope of the proposed revenue procedure is appropriate and consistent with other guidance. Treasury issued a similar small business exception as part of Rev. Proc. 2015-20 (guidance on the tangible property regulations) based upon the asset and gross receipts thresholds of Treas. Reg. §§ 1.263(a)-(3)(h). Therefore, Wipfli LLP believes that both the definition of small business and the use of a cut-off approach are appropriate as contained within the proposed revenue procedure.

However, the scope of the small business exception within Rev. Proc. 2015-20 offered some additional benefits not provided in the proposed revenue procedure set forth in Notice 2017-17. Specifically, Rev. Proc. 2015-20 alleviated the Form 3115 filing requirements for small business taxpayers. This provided welcome relief to small business taxpayers that otherwise may not have had adequate resources to prepare Form 3115.

We believe that, similar to Rev. Proc. 2015-20, Treasury should consider modifying the proposed revenue procedure such that small business taxpayers may change methods of accounting for revenue recognition without a Form 3115 filing requirement.

#### **What types of changes in methods of accounting do taxpayers anticipate requesting?**

Some possible considerations for changes in method of accounting include as follows –

- Taxpayers using the cash method of accounting may convert to an overall accrual method of accounting, using ASC 606 revenue recognition standards, if they determine that the ASC 606 framework provides a more advantageous result than the cash method.
- Taxpayers may request a change in method of accounting for advance payments to apply the deferral provisions based upon its applicable financial statement using the revenue recognition rules contained within the ASC 606 framework vs current GAAP.
- Taxpayers may request a change in method of accounting for revenue recognition on contracts involving volume discounts and returns, and a corresponding method change that reflects changes in the tax reporting under § 461 for those items.

There will likely be additional changes in methods of accounting that are unknown to taxpayers at this time. We believe that Treasury has many issues left yet to address surrounding the tax consequences of taxpayers adopting the ASC 606 standard before a more accurate answer can be provided to this question.

### **Do taxpayers anticipate requesting changes in methods of accounting prior to the effective dates of the new standards?**

We are uncertain whether this question is asking if taxpayers would request changes in methods of accounting as a result of adopting ASC 606 prior to the effective date (“early adoption of ASC 606”), OR if taxpayers would request changes in methods of accounting prior to adopting ASC 606. Therefore, discussion of both questions is provided below.

#### **Adopting ASC 606 Prior to the Effective Date (Early Adoption)**

The implementation of ASC 606 is anticipated to take considerable time as entities commence review of their contracts, and how the recognition of the revenue provided for in those contracts, changes in light of the ASC 606 standard. In addition, IT system upgrades may be necessary to properly account for changes in revenue recognition and to comply with the more extensive disclosure requirements contained within the ASC 606 framework.

Furthermore, as the financial accounting impacts of adopting ASC 606 are understood, entities must also understand whether adoption of ASC 606 impacts existing tax accounting methods and whether any procedural changes may be required to those.

Although tax may not be a dominating factor in the decision to early adopt, taxpayers may choose not to early adopt if there isn’t sufficient guidance issued from Treasury. For example, many taxpayers who early adopted the repair regulations based upon preliminary guidance had to later revise their methods once final guidance was issued. Since an opportunity to early adopt ASC 606 exists for fiscal years commencing after December 15, 2016, Treasury must act quickly to issue guidance. Taxpayers will need sufficient time to evaluate existing tax accounting methods and whether any changes to those may be necessary in light of the adopting the ASC 606 standard.

For the reasons discussed above, we do not anticipate that the majority of Wipfli LLP’s clients will consider early adoption of the ASC 606 standard. Most likely, our clients will wait to adopt the new revenue recognition standard, and file any tax accounting method changes impacted by those changes shortly thereafter.

#### **Prior to Adopting ASC 606**

A taxpayer may choose to file a change in method of accounting prior to adopting ASC 606. Our discussion below considers a taxpayer that is currently using an improper method for revenue recognition, and another taxpayer that would be eligible for a more advantageous method under Rev. Proc. 2004-34.

### **Improper Method Change**

To the extent a taxpayer determines that its existing tax accounting methods for revenue recognition is improper, the taxpayer may choose to file a change in method of accounting, regardless of the pending ASC 606 standard and its effective date, to correct the improper method. However, a taxpayer in this situation would need to determine whether the requested method change would still be a valid tax method when the taxpayer later adopts the ASC 606 standard.

### **More Advantageous Method Change**

If before adopting ASC 606, a taxpayer wishes to adopt a more advantageous method for revenue recognition under Rev. Proc. 2004-34, the taxpayer may realize a benefit from the 481(a) adjustment. However, a taxpayer in this situation would need to determine whether the requested method change would still be a valid tax method when the taxpayer later adopts the ASC 606 standard, or if not, whether the taxpayer would lose some of the earlier benefit derived from the 481(a) adjustment.

### **Method Change Prior to Adopting ASC 606, Another Method Change After Adopting ASC 606**

To the extent a taxpayer wishes to request another method change as a result of adopting the new standard, the taxpayer may be blocked from obtaining automatic consent (assuming Treasury provides automatic consent in the new revenue procedure) due to a rule limiting a second request to change a method of accounting for an item within five years of an earlier automatic change.<sup>15</sup>

The IRS waived this rule in Rev. Proc. 2016-29 for certain changes under the tangible property regulations. Treasury should consider whether a similar “waiver” of the rule may be necessary as a result of taxpayers adopting the ASC 606 standard.

In general, Treasury should issue guidance for those taxpayers that may file accounting method changes for revenue recognition prior to adopting the ASC 606 standard.

### **Which procedures should taxpayers be required to use to request permission for a qualifying same-year method change, the automatic accounting method change procedures or the advance consent procedures?**

Both taxpayers and Treasury would greatly benefit if those method changes resulting from the ASC 606 standard are eligible to be made pursuant to the automatic change procedures.

### **Taxpayer Benefits under Automatic Change Procedures**

Taxpayers already anticipate incurring significant costs for consultants, IT system upgrades, etc. to meet the new requirements of the ASC 606 standard. Therefore, the chance to avoid a “user fee” would be helpful.

In addition, an automatic change request will allow taxpayers to appropriately ensure that the new standard is implemented for GAAP, and even reviewed by external auditors, before the tax accounting method change request is filed.

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<sup>15</sup> Section 5.01(1)(f) of Rev. Proc. 2015-13

For example, assume a calendar year closely-held entity adopts the new standard as of Jan 1, 2019. The ASC 606 reporting would be accounted for in the entity's financials starting year end 2019, and those financials subject to external audit sometime in spring 2020. Assuming that the entity receives permission under the automatic change procedures, the change in method of accounting would be due on extension by September 15, 2020 (partnership / S corporations) or October 15, 2020 (C corporations). However, if the entity had to use the advanced consent procedures, the method change would be due by December 31, 2019. This is not beneficial, particularly if the external auditors question the entity's application of the new standard and propose a journal entry. Presumably in that case the taxpayer would re-file their advance consent change if the new tax accounting method was to conform to the ASC 606 method. Allowing taxpayers to use the automatic consent procedures avoids this result.

### **Treasury Benefits under Automatic Change Procedures**

Given the number of taxpayers across industries impacted by the ASC 606 standards, Treasury likely doesn't have the manpower to review and issue decisions on all the non-automatic change requests that taxpayers would otherwise file as a result of adopting the ASC 606 standard.

In addition, allowing taxpayers to use the automatic change procedures could provide Treasury some extra time to issue additional guidance. Otherwise, for example, a calendar-year end entity early adopting ASC 606 would need to file under the advanced consent procedures by December 31, 2017. That would mean that, at the very latest, Treasury needs to issue guidance by early fall, such that early adopters have sufficient time to meet the advanced consent procedure's due date.

Given that the standard is new to everyone, is a major change, and will take some getting used to, granting permission to make the change via the automatic change procedures gives both taxpayers and Treasury the necessary time to "get it right."

### **What changes, other than those described in Section 5 of the proposed revenue procedure, do taxpayers expect will be requested in the year the taxpayer adopts the new financial standards, and should they be allowed as automatic changes?**

Section 5 of Notice 2017-17 references § 451 and "other guidance." As Treasury has issued "other guidance" related to revenue recognition over the years, it would be helpful if the proposed revenue procedure was more specific to some of this other guidance.

For example, many of our clients have adopted accounting methods for advance payments consistent with the requirements of Rev. Proc. 2004-34, and presumably (to the extent Treasury deems it allowable) these clients would consider filing an accounting method change to revise their method such that the ASC 606 vs. current GAAP revenue recognition rules are the basis for the "applicable financial statement" deferral under Rev. Proc. 2004-34.

The ASC 606 standard may have impacts on long-term construction contracts under § 460, so taxpayers may consider filing accounting method changes in this area as well.

Taxpayers granting volume rebates and rights of return may file changes in method of accounting under § 461.

Regardless, we'd like to reiterate the importance of granting automatic consent to taxpayers for method changes that may result due to taxpayers adopting ASC 606.

**What related accounting method changes do taxpayers anticipate requesting that may appropriately be made on a single Form 3115?**

Pursuant to Section 6.02 of Rev. Proc. 2015-13, ordinarily a taxpayer must submit a separate Form 3115 for each automatic change. Rev. Proc. 2015-14 allows a single 3115 in certain circumstances. Treasury should consider a similar approach for those taxpayers adopting method changes as a result of ASC 606. At the very least, it may make sense for method changes that are rather intertwined.

In addition, we have many clients that have single-member LLCs in their structure. These SMLLCs constitute separate trade or businesses under Treas. Reg. §1.446-1(d), and therefore, are eligible to have a separate method of accounting for each separate trade or business. It would be helpful if there was an exception such that a taxpayer with multiple SMLLCs could file a single 3115 that includes of these disregarded entities.

We believe that Treasury has many issues left yet to address surrounding the tax consequences of taxpayers adopting the ASC 606 standard before a more accurate answer can be provided to this question.

**If multiple changes are requested on a single Form 3115, should the taxpayer report a separate § 481 adjustment for each change and should those adjustments be netted and a single spread period applied?**

Section 6.03(b) of Rev. Proc. 2015-13 indicates that when a taxpayer is required or permitted to file a single Form 3115 for two or more concurrent changes, the taxpayer must provide all of the information required for each change separately. This would include the 481(a) adjustment. Given that this rule already existing in the automatic change guidance, it seems reasonable that any automatic changes in method of accounting as a result of ASC 606 should adhere to this same rule.

However, Treasury might also consider whether tax accounting method changes filed as a result of taxpayers' transition to the ASC 606 standard should instead be accounted for on a cut-off basis for all taxpayers (not just small business taxpayers). There could be some benefits to both Treasury and taxpayers if revenue from contracts initiated prior to adopting the standard could be recognized under taxpayers' existing tax accounting methods, and revenue from any new contracts could then be recognized under any revised tax accounting methods that may be adopted in light of the ASC 606 standard. This approach would be similar to the cut-off basis currently used for automatic changes under § 460.

**What alternatives to filing a Form 3115 would reduce the burden of compliance?**

There is no question that the number of taxpayers impacted by changes in accounting methods as a result of ASC 606 will be significant. A reduced filing requirement for small taxpayers, similar to that set forth in Rev. Proc. 2014-16, would be helpful, or a complete exemption from a Form 3115 filing similar to Rev. Proc. 2015-20.

Also, perhaps Treasury could issue a new form (perhaps 3115-R) that would be similar to the existing Form 3115, but more focused with questions related to revenue recognition.

**What transition procedures may be helpful?**

Notice 2017-17 only addresses procedures for obtaining IRS consent for qualifying same-year method changes. What if the taxpayer early adopts for financial accounting purposes, but then decides to continue using its existing tax methods for another year? Will these taxpayers fall outside the scope of the revenue procedure as this would not constitute a “qualifying same-year change”? If that happens, will they need to file a non-automatic change request?

Treasury should consider issuing some additional guidance for those taxpayers that do not establish new tax accounting methods in the same-year that they adopt the ASC 606 standard.

**What additional procedural changes would be appropriate and helpful?**

To the extent a significant number of new automatic change requests are added, Treasury might consider an overall update to Rev. Procs. 2015-13 and 2015-14.