



# IRS Revises Method Changes for Section 174 R&E Expenses

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On April 14, the IRS issued Rev. Rul. 2023-8, declaring obsolete Rev. Rul. 58-74, 1958-1 C.B. 148. That ruling addressed whether a change in the treatment of an expenditure from capital expenditure or inventory treatment to treatment as a research and experimentation expenditure (R&E) under section 174 constituted a change in method of accounting.

Rev. Rul. 58-74 was issued at a time when there was greater uncertainty about whether a change in the treatment of an item of expense was a change in method of accounting or a correction of an error. The ruling had been used by taxpayers that conducted R&E studies after their tax returns had been filed and the R&E study identified additional expenses that qualified for the research credit. The ruling had been a thorn in the side of the IRS for decades because it seemingly permitted such taxpayers to retroactively reclassify as a current deduction under section 174 an expense that had not been previously treated as an R&E expense and, instead, had either been capitalized or included in inventoriable costs, and without obtaining the IRS's consent under section 446(e) of the Code.

With the enactment of the Tax Cuts and Jobs Act, requiring the capitalization and amortization of section 174 expenses effective in 2022, Rev. Rul. 58-74 had diminished in importance, as taxpayers now seek to avoid the application of section 174 to expenses that don't qualify for the research credit. Accordingly, the obsoleting of Rev. Rul. 58-74 will mainly be important for taxpayers seeking to enlarge the category of expenses eligible for the research credit and willing to be subject to five-year amortization for those expenses.



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For taxpayers with that latter fact pattern, the IRS has agreed to postpone the impact of rendering obsolete Rev. Rul. 58-74 until July 31, 2023. If you are in that situation, please feel free to contact us to discuss what action you need to take.