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**Tax Committee Comments and Recommendations, No. 11: Letter
to Sheldon S. Cohen, Commissioner of Internal Revenue
Presenting the Latest Position of the Committee on Federal
Taxation Regarding Accounting Methods, Submitted to the IRS -
March 16, 1965**

American Institute of Certified Public Accountants. Committee on Federal Taxation

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TAX COMMITTEE COMMENTS AND RECOMMENDATIONS

Letter to Sheldon S. Cohen, Commissioner of Internal Revenue
Presenting the Latest Position of the Committee on
Federal Taxation Regarding Accounting Methods

Submitted to the IRS - March 16, 1965

Part of a Special Series Published by
The American Institute of Certified Public Accountants



AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

666 FIFTH AVENUE
NEW YORK, N Y 10019

March 16, 1965

The Honorable Sheldon S. Cohen
Commissioner of Internal Revenue
Internal Revenue Building
Washington, D.C. 20224

My dear Mr. Cohen:

The subject of tax accounting methods is one in which the American Institute of Certified Public Accountants has a particularly keen interest. Our committee on federal taxation has commented regularly on this matter in the interest of assisting taxpayers and the Internal Revenue Service in the development of concepts and techniques which would provide for fair and reasonable reporting and administration.

As a result of recent developments, we have reviewed our position and offer the following observations and suggestions on the interrelationship of Revenue Procedure 64-16, the regulations under Section 446, and related court decisions.

1. Revenue Procedure 64-16 has been very effective and has proved most useful to taxpayers seeking to institute appropriate accounting changes, both in encouraging corrections of erroneous accounting and in allowing reactions to business changes. Every effort should be made to retain the flexibility which the Procedure permits. We believe it has and will continue to eliminate many taxpayer-IRS controversies.
2. We recognize that the distinction between what constitutes an "accounting practice" (governed by Revenue Procedure 64-16) and what is an "accounting method", as that term is used in the Code and Regulations, is somewhat nebulous and possibly lacks substance.
3. In the light of the Fruehauf decision of the Tax Court and other decisions dealing with what constitutes an "accounting method", we believe continued and extensive controversy

and litigation over this issue is not in the best interest of either the government or the taxpayer. In the past we have objected strongly to the "treatment of any item" concept of an accounting method, and the change in treatment of a "material item" concept governing changes in accounting methods. While we still believe these concepts are too narrow, they are workable when viewed together with the enlightened approach to permitting appropriate accounting changes reflected in Revenue Procedure 64-16 and in recent rulings policy. Under the circumstances, we believe it undesirable to change the definition in the regulations, since the necessary improvements in tax accounting can be obtained in other ways.

4. Continuation of the approach provided by Revenue Procedure 64-16 in dealing with tax accounting changes should be assured, because questions may arise as to its possible extra-statutory nature in the light of the accounting regulations. We strongly urge amendment of the regulations to preclude any such threat. This could be accomplished by inclusion of the substance of Revenue Procedure 64-16 in the regulations as an application of the authority to grant changes.
5. If there is any likelihood, or fear of likelihood, that a taxpayer might successfully attack the 10-year spread feature of Revenue Procedure 64-16 upon its incorporation in the regulations, we would support adoption of a "closing agreement" rule so long as any closing agreement is clearly limited to the accounting change transitional adjustments, and in no way affects other adjustments which might be appropriate to taxable income, such as deduction of net operating loss carrybacks.
6. As additional experience is obtained with the Revenue Procedure 64-16 approach, we believe every effort should be made to decentralize the permission-granting authority to District Directors. This would be desirable, particularly where taxpayer requests to apply the

Procedure are in response to accounting changes proposed in the field on tax return examinations. If detailed guidance could be given to IRS District personnel, we see no necessity for National office clearance of such field-inspired applications.

7. IRS-initiated accounting changes involving significant pre-1954 Code adjustments may continue to be troublesome. We believe the Treasury Department should concede the availability of the 1954 Code cut-off to any involuntary changes involving material items.

In addition, certain policies could be adopted by the IRS to encourage taxpayers to discard incorrect, inappropriate, or outmoded accounting practices where the pre-1954 Code adjustments are substantial. Although adopting this approach, instead of the present stalemate, would allow taxpayers the benefits of pre-1954 cut-offs in any adjustments, it would also make available to the Treasury significant amounts of adjustments with respect to years subsequent to 1953.

In general, the IRS should aggressively initiate accounting changes wherever a change is clearly desirable. In order to encourage taxpayer acceptance, the IRS should: (a) freely acknowledge and grant the 1954-Code cut-off, and (b) permit the post-1953 adjustments as of the beginning of the transition year to be spread over 10 years in the same manner as Revenue Procedure 64-16 adjustments. However, if the adjustment were \$3,000 or less, it would be taken into account in the year of change. This de minimus rule should apply to IRS-initiated changes and taxpayer-initiated changes. Adoption of this approach would permit taxpayers to accept changes at the initiation of the IRS which otherwise would be resisted vigorously. Furthermore, we believe there is presently authority in Regulations Section 1.481-5 to support this procedure.

We would appreciate the opportunity to discuss this matter with you or anyone whom you may designate. If you should

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wish elaboration of any of these suggestions, please let us know.

Sincerely,

A handwritten signature in black ink, appearing to read "T. J. Graves". The signature is written in a cursive style with a long, sweeping underline.

Thomas J. Graves, General Chairman
Committee on Federal Taxation