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November 07, 2014

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Commissioner
Tax Exempt & Government Entities Division
Internal Revenue Service
1111 Constitution Avenue, N.W.
Washington, D.C. 20224

The Honorable William J. Wilkins
Chief Counsel
Internal Revenue Service
1111 Constitution Avenue, N.W.
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Ms. Tamera Ripperda
Director, Exempt Organizations
Internal Revenue Service
1111 Constitution Avenue, N.W.
Washington, D.C. 20224

RE: Request for Guidance on Changes in Accounting Methods for Exempt Organizations

Dear Ms. Lough, Ms. Ripperda and Mr. Wilkins:

The American Institute of Certified Public Accountants (AICPA) continues to encourage the Internal Revenue Service (IRS) to simplify the tax compliance burden of taxpayers. To further this mission, we request that the IRS provide clarification on the procedure by which an organization, exempt from tax under Internal Revenue Code (“Code”) section 501(a),¹ may change an accounting method. Specifically, we request confirmation that exempt organizations which only file a Form 990, *Return of Organization Exempt from Income Tax*, are exempt from the requirement to file a Form 3115, *Application for Change in Accounting Method*.

The AICPA is the world’s largest member association representing the accounting profession, with more than 400,000 members in 128 countries and a history of serving the public interest since 1877. Our members advise clients on federal, state and international tax matters and prepare income and other tax returns for millions of Americans. Our members provide services to individuals, not-for-profit organizations, small and medium-sized businesses, as well as America’s largest businesses.

The comments and recommendations included in this letter are developed by the AICPA Exempt Organizations Taxation Technical Resource Panel (TRP) and approved by the AICPA Tax Executive Committee.

¹ All section references in this letter are to the Internal Revenue Code of 1986, as amended, or the Treasury regulations promulgated there under, unless otherwise specified.

Present Laws and Procedures

An organization that is granted tax exemption under section 501(a) is generally not a tax paying entity. Exempt organizations file a Form 990, an informational return, and typically do not pay any federal income or excise taxes. Therefore, an exempt organization with a change in accounting method that affects only the Form 990 should not have to file a Form 3115. The following are three areas of present law and revenue procedures that speak to this issue:

1. Section 446(e)

Currently, it is unclear whether an exempt organization, that does not pay income tax, is subject to the IRS consent requirements of section 446(e), as follows:

Except as otherwise expressly provided in this chapter, a taxpayer who changes the method of accounting on the basis of which he regularly computes his income in keeping his books shall, before computing his taxable income under the new method, secure the consent of the Secretary.

2. Revenue Procedure 2011-14, Changes in Methods of Accounting – Automatic Consent Procedures

Revenue Procedure 2011-14 specifically references exempt organizations. Under the section titled “Filing requirements,” separate instructions are provided with regards to where to file a copy of Form 3115 for exempt organizations.² Under the section titled “National office determination,” a separate reference is provided for exempt organizations with regards to conference procedures.³ Revenue Procedure 2011-14, Changes in methods of accounting – automatic consent procedures, is the most recent updated mass procedure by which a taxpayer may obtain automatic consent to change an accounting method. Taxpayers complying with the provisions of this guidance obtain Internal Revenue Service (IRS) consent to change an accounting method.

3. Form 3115, Application for Change in Accounting Method

Form 3115 is filed to either request an automatic change in accounting method or to request advance consent for a change in accounting method.

² See Section 6.02(7) (a) (ii) of [Rev. Proc. 2011-14](#).

³ See Section 10.03(1) of [Rev. Proc. 2011-14](#).

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Form 3115 is filed by or on behalf of the applicant. Form 3115 instructions indicate that, “generally, a filer must file a separate Form 3115 for each applicant seeking consent to change a method of accounting.”⁴ The instructions also indicate that, “an applicant is an entity or a person, or a separate and distinct trade or business of an entity or a person (for purposes of Regulations section 1.446-1(d)), whose method of accounting is being changed.”⁵ The instructions also describe an applicant as it relates in a consolidated context, to controlled foreign corporations (CFCs), 10/50 corporations, qualified subchapter S subsidiary (QSub), single-member limited liability company (single-member LLC), partnerships, etc.

AICPA Proposal

The AICPA requests the IRS provide clarification that tax exempt organizations which are not subject to any income or excise taxes, and which only file Form 990, are not required to file Form 3115 if the organizations are trying to perform the following procedures:

- 1) Request an automatic change in accounting method; or
- 2) Secure advance consent for a change in accounting method.

However, organizations that are generally exempt under section 501(a), but are subject to the tax on unrelated business income or excise taxes, should have a filing requirement limited to the unrelated business income portion of the business.

A simple and efficient method for the IRS to provide clarity on this issue for taxpayers is to change the language in the Form 3115 instructions. Currently, the Form 3115 describes the applicant as a “taxpayer,” but a simple revision in the instructions will provide more clear and unambiguous guidance.

Accordingly, the AICPA recommends the following change to the instructions in Form 3115:

Who Must File

The entity or person required to file Form 3115, whether on its own behalf or on behalf of another entity, is the filer. The entity, trade or business, or person on whose behalf the change in method of accounting is being requested is the applicant. For example, the common parent corporation of a consolidated group is the filer when requesting a change in method of

⁴ See Page 1 of the Instructions to Form 3115, Rev. March 2012, “[Who Must File](#)”.

⁵ Ibid.

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accounting for another member of that consolidated group (or a separate and distinct trade or business of that member), and the other member (or trade or business) on whose behalf the Form 3115 is filed is the applicant. For information on the difference between a filer and an applicant, see Name(s) and Signature(s), later.

An applicant is an entity or a person, or a separate and distinct trade or business of an entity or a person (for purposes of Regulations section 1.446-1(d)), whose method of accounting is being changed. An applicant does not include an organization exempt from federal income tax under section 501(a), which is also not subject to income or excise taxes and only files the Form 990, Return of Organization Exempt From Income Tax. It also does not include an organization exempt from tax under section 501(a) filing Form 990-T where the accounting method change has no bearing on the income or expenses reported on Form 990-T.

The underlined type above is the clarifying language we propose the IRS include in the Form 3115 instructions. This additional language will reduce confusion over the requirement to file the form, reduce paperwork associated with filing a form that is unnecessary for the enforcement of tax laws, and reduce the administrative burdens on exempt organizations as well as IRS processing centers.

Alternatively, the IRS could also issue frequently asked questions (FAQs) on the IRS website regarding the filing requirements for exempt organizations with a change in accounting method.

Analysis

It is implied from the Form 3115 instructions and Revenue Procedure 2011-14 that at least some, if not all, exempt organizations are subject to the consent requirements of Code section 446(e). The form instructions provide specific guidance to exempt organizations on mailing and completing the form where it deviates from a typical taxpayer. Similarly, Revenue Procedure 2011-14 addresses tax-exempt organizations, but also fails to specify that the provisions should only apply if the tax-exempt organization generates income that is subject to federal income tax.

The AICPA agrees that, under limited circumstances, a tax exempt organization is considered a taxpayer. If an organization earns unrelated business income and is subject to the filing requirements of Form 990-T, *Exempt Organization Business Income Tax Return*, the organization is subject to federal income tax. We think that such an entity is subject to Revenue Procedure 2011-14 and the Form 3115 filing requirements would apply to only the portion of the entity's unrelated business income.

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However, tax-exempt entities which do not pay any income or excise taxes should not have to file a Form 3115. When there are no tax consequences to the change in accounting method, the form serves no purpose. The filing of the Form 3115 merely becomes an administrative burden on both the exempt organization and the federal government (which has to process and review these forms) without any significant value to either party. Further, regulations should not require the filing of Form 3115 if there is no impact on the calculation of unrelated business income.

Conclusion

The AICPA strongly supports the simplification and reduction of administrative burdens on exempt organizations and on the IRS. Therefore, we respectfully request that the IRS provide clarification on the procedure by which an organization, exempt from tax under section 501(a), may change an accounting method. Specifically, we seek confirmation that exempt organizations which only file a Form 990 are exempt from the requirement to file a Form 3115.

We appreciate your consideration of these recommendations and welcome the opportunity to discuss these items further. If you have any questions, please feel free to contact me at (801) 523-1051, or tlewis@sisna.com; or you may contact Jeanne Schuster, Chair, AICPA Exempt Organizations Taxation Technical Resource Panel, at (617) 585-0373, or jeanne.schuster@ey.com; or Amy Wang, AICPA Technical Manager, at (202) 434-9264, or awang@aicpa.org.

Sincerely,



Troy K. Lewis, CPA
Chair, AICPA Tax Executive Committee