

Revenue Procedure 2026-32 – Automatic Accounting Method Change Procedures for R&E under IRC §§174 and 174A

Please outline and summarize Revenue Procedure 2026-32 regarding tax accounting methods changes for research and development expenditures for income tax purposes

Revenue Procedure 2026-32 provides the IRS's updated **automatic accounting method change procedures** for taxpayers affected by the research and development (R&D) capitalization rules under IRC §§ 174 and 174A, as modified by the **One Big Beautiful Bill Act (OBBBA)** enacted on July 4, 2025. The procedure primarily updates the automatic Form 3115 rules contained in **Rev. Proc. 2025-23**.

Executive Summary

The revenue procedure allows taxpayers to more easily change their tax accounting methods to comply with the post-OBBBA treatment of research expenditures. It addresses:

1. **Domestic research expenditures** that were previously capitalized under TCJA §174.
2. **Foreign research expenditures** that continue to require capitalization and amortization.
3. **Automatic Form 3115 procedures** for making these changes.
4. **Section 481(a) adjustment rules** and transition provisions.
5. Relief from certain eligibility restrictions that would otherwise prevent automatic method changes.

Background

TCJA Changes (2022-2024)

Beginning in tax years after December 31, 2021, the **Tax Cuts and Jobs Act (TCJA)** required taxpayers to capitalize and amortize "specified research or experimental (SRE)" expenditures:

- Domestic R&E expenditures: amortized over 5 years.
- Foreign R&E expenditures: amortized over 15 years.

Immediate expensing was generally no longer permitted.

OBBBA Changes (Effective July 4, 2025)

The OBBBA significantly changed these rules by:

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- Limiting §174 capitalization primarily to **foreign research expenditures**.
- Creating or revising **§174A** to permit the treatment of qualifying **domestic R&E expenditures** differently from prior TCJA rules.
- Providing transition mechanisms for costs previously capitalized.

Revenue Procedure 2026-32 was issued to help taxpayers implement these statutory changes.

Key Provisions Affecting R&D Expenditures

1. Updated Automatic Method Changes for Domestic R&E

The procedure updates automatic consent procedures for taxpayers that need to change from prior TCJA-required capitalization methods to methods required or permitted under the OBBBA framework.

In practical terms, taxpayers can:

- Change accounting methods through an automatic Form 3115 filing.
 - Align prior capitalization treatments with the new statutory rules.
 - Implement OBBBA transition elections more efficiently.
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2. Coordination with OBBBA Transition Rules

A major feature is the coordination of **§481(a) adjustments** with the transition provisions applicable to previously capitalized domestic R&E expenditures.

This is important because many taxpayers accumulated substantial unamortized §174 assets from 2022 through 2024.

The procedure provides administrative guidance on:

- How to calculate adjustments.
 - When cut-off treatment applies.
 - How previously capitalized costs interact with new elections and method changes.
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3. Continued Automatic Method Changes for Foreign Research

Foreign research expenditures remain subject to capitalization and long-term amortization requirements under the revised statute.

Revenue Procedure 2026-32:

- Updates procedures for foreign research expenditures.
- Removes the previous limitation that restricted automatic changes to tax years beginning before January 1, 2026.
- Allows taxpayers to continue using automatic procedures beyond that date.

This is particularly relevant for multinational companies performing research activities outside the United States.

4. Expanded Eligibility Relief

The IRS extended relief from certain automatic accounting method change eligibility restrictions. The relief generally applies to tax years beginning before **January 1, 2028**.

This means taxpayers are less likely to be blocked by procedural limitations such as:

- Prior-change restrictions.
- Five-year eligibility rules.
- Certain scope limitations common in accounting method changes.

The goal is to facilitate widespread compliance as taxpayers transition from TCJA §174 treatment to the newer OBBBA framework.

5. Form 3115 Implementation

The revenue procedure modifies the automatic method change list contained in **Rev. Proc. 2025-23** and generally applies to **Forms 3115 filed after September 4, 2026**.

Taxpayers generally obtain:

- Automatic IRS consent.
- Reduced administrative burden.

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- More standardized implementation procedures.
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Practical CPA Takeaways

For tax practitioners and corporate taxpayers, Rev. Proc. 2026-32 is significant because it:

- ✓ Simplifies accounting method changes related to post-2021 §174 costs.
 - ✓ Provides guidance for handling previously capitalized domestic R&D expenditures.
 - ✓ Continues automatic procedures for foreign R&D capitalization methods.
 - ✓ Extends eligibility relief through tax years beginning before 2028.
 - ✓ Reduces the need for nonautomatic accounting method change requests and IRS ruling submissions.
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CPA Planning Considerations

If you are reviewing 2025-2027 returns, focus on:

1. Identifying taxpayers with capitalized domestic §174 costs from 2022-2024.
2. Evaluating OBBBA elections available under the new domestic R&E rules.
3. Determining whether a Form 3115 is required.
4. Modeling the impact of any §481(a) adjustment.
5. Reviewing foreign research activities separately because foreign R&E generally remains capitalizable.

For many taxpayers, Rev. Proc. 2026-32 is essentially the IRS's administrative roadmap for unwinding or transitioning from TCJA-era domestic §174 capitalization while maintaining compliance for foreign research expenditures.