THE
OHIO SOCIETY
OF CPAs
ADVANCING THE STATE OF BUSINESS

February 19, 2019

The Honorable Steven Mnuchin
Secretary of the Department of Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Re: Revenue Procedure 2018-40

Dear Secretary Mnuchin:

On behalf of The Ohio Society of CPAs, I'm writing regarding Revenue Procedure 2018-40. The Tax Cuts and Jobs Act changed the rules to allow small business taxpayers with average annual gross receipts of $25 million or less for the three prior tax years to use the cash method of accounting.

Despite Rev. Proc. 2018-40 providing the procedures that a small business taxpayer may use to obtain automatic consent to change its methods of accounting, we are writing to raise concerns communicated to us by members about the lack of guidance that the Department of Treasury and the IRS has released to date. We are specifically seeking guidance on what the tax law change means with regard to a taxpayer with inventory under IRC §471 who falls under the $25 million average receipts limitation.

For example, if a taxpayer who elects to treat inventory under IRC §471 as non-incidental materials and supplies and moves from accrual to cash accounting, how does the taxpayer account for these items under the cash method? Does the taxpayer:

1. Deduct them for tax (but not book) as they move from raw materials to work-in-progress and finished goods (WIP/FG) as of year-end? Or
2. Deduct these items using de minimis safe harbor for amounts that fit within the parameters of that guidance? Or
3. Simply expense everything, including direct/indirect costs as they are being paid?

Currently, the IRS does not have an official position on these options. As a result, there is no audit protection if the IRS later issues guidance that contradicts the taxpayer's position taken now based on a reasonable interpretation of IRC §471 and accompanying Treasury regulations.

We greatly appreciate your review of this important matter. If you have any questions or if we can be of any further assistance, please contact me at 614-764-2727 or GSaul@ohiocpa.com.

Sincerely,

Gregory M. Saul

Gregory M. Saul, Esq., CAE
Director of Tax Policy