

# Permission to Change to the Cash Method of Accounting

## DRAFTING INFORMATION

### Notice 2002-14

Notice 2001-76 (2001-52 I.R.B. 613) sets forth a proposed revenue procedure that would permit certain small businesses with average annual gross receipts of \$10 million or less to use the cash receipts and disbursements method of accounting (“cash method”) and to treat inventorable items as non-incidentals materials and supplies (“materials and supplies method”) with respect to eligible trades or businesses. Pursuant to the Commissioner’s discretion under § 446(e) of the Internal Revenue Code, this notice provides that any qualifying small business taxpayer within the scope of the proposed revenue procedure (“small business taxpayer”) may change to these methods of accounting with respect to its eligible trades or businesses for any taxable year ending on or after December 31, 2001.

Pending publication of a final revenue procedure in the Internal Revenue Bulletin, a small business taxpayer may obtain automatic consent to change to the cash method and the materials and supplies method by complying with the procedures provided in the proposed revenue procedure. These procedures state that a small business taxpayer may change to the cash method and the materials and supplies method for any taxable year ending on or after December 31, 2001, by attaching the original Form 3115, *Application for Change in Accounting Method*, to its timely filed (including extensions) federal income tax return for that year (or on an amended return filed within six months of the original due date of the return), filing a duplicate of the Form 3115 with the Internal Revenue Service’s National Office, and complying with the provisions of Rev. Proc. 2002-9 (2002-3 I.R.B. 327) as modified by the proposed revenue procedure. Both changes may be made on a single Form 3115. A taxpayer that has fully complied with these procedures has obtained the consent of the Commissioner under § 446(e) to change its method of accounting to these methods.

The principal author of this notice is Cheryl L. Oseekey of the Office of Associate Chief Counsel (Income Tax and Accounting). For further information regarding this notice, contact Ms. Oseekey at (202) 622-4970 (not a toll-free call).