



DECEMBER 30, 2020

## **FTB Notice – 2020 – 04**

### **SUBJECT: Requests Involving Changes in Accounting Periods or Methods**

*This notice supersedes FTB Notice 2000-8, issued on November 7, 2000, as corrected by FTB Notice 2001-02.*

#### **PURPOSE:**

The purpose of this notice is to provide guidance to taxpayers on the manner in which an election to change an accounting period or method is to be filed with the Franchise Tax Board ("FTB").

#### **BACKGROUND:**

Sections 17024.5(f) and 23051.5(f) of the California Revenue and Taxation Code ("CRTC") provide that whenever a taxpayer is allowed or required to file an application or seek consent, the rules set forth in subdivision (e) of those sections shall apply to that application or consent.

CRTC sections 17024.5(e)(1) and 23051.5(e)(1) provide that a "proper election filed with the Internal Revenue Service in accordance with the Internal Revenue Code or regulations issued by [the Internal Revenue Service] shall be deemed to be a proper election for purposes of this part," unless otherwise provided in the CRTC or regulations issued by the FTB.

CRTC sections 17024.5(e)(3)(A) and 23051.5(e)(3)(A) state that to "obtain treatment other than that elected for federal purposes, a separate election shall be filed" with the FTB at the time and in the manner which may be required by the FTB.

#### **Combined Reporting Groups:**

For combined reporting purposes, the members of a combined report group may elect to determine the total separate net income of each member of the group under accounting methods and other elections as authorized by Division 2, Part 11 of the CRTC. (Cal. Code Regs., tit. 18, section 25106.5-3(a).) If some or all the members of a combined report group elect to file a group return, then the key corporation acts as agent for the electing members. (Cal. Code Regs., tit. 18, section 25106.5(b)(14).) References in this notice to a "taxpayer" refer to each member of a combined report group that is eligible to determine the total separate net income of non-California members and to key corporations, where appropriate.

## **PROCEDURES:**

### **Deemed California Consent:**

If a taxpayer submits a request to change an accounting period or method for federal tax purposes and the Internal Revenue Service approves the request, the change will apply for California purposes without any action by the taxpayer, as long as California has conformed to the underlying law which is being applied. Taxpayers shall submit a copy of the approved federal election along with the original California tax return for the taxable year in which the change is in effect. A request approved by the Internal Revenue Service for a change of accounting period or method that is not permitted under California law will not be allowed for California tax purposes.

### **Different California Elections:**

If a California taxpayer (i) cannot rely on a federally-approved request to change an accounting period or method, (ii) desires to obtain a change different from the federal change, or (iii) desires a change for California tax purposes only, a completed federal Form 3115, *Application for Change in Accounting Method*, or federal Form 1128, *Application to Adopt, Change, or Retain a Tax Year*, should be submitted to the FTB by the due date specified below in this notice. The federal forms should be completed using appropriate California tax information and not with federal tax information, except that the Federal Employer Identification Number ("FEIN") should be used in the FEIN field. The California Corporation Number ("CCN") must also be included on the top of the first page of the form. Due account should be made for differences in federal and California law. For example, line 24a of the federal Form 3115 refers to a "User Fee." California does not charge a user fee for submitting the change request. Any references on the forms and in the forms' instructions to the Internal Revenue Code should be read as referring to the Internal Revenue Code as applicable for California purposes, or the specific CRTS section, if any, that conforms to that federal provision.

### **Automatic California Consent:**

With respect to a request to change an accounting period or method for California tax purposes only, the FTB shall grant automatic consent provided that the change would be eligible for automatic consent by the Internal Revenue Service and California has conformed to the applicable Internal Revenue Code sections which provide for the underlying accounting period or method being applied for or relied upon. Federal Form 3115 should be filed with the FTB along with the original California tax return for the taxable year in which the election is to take effect.

**How and When to File Your Request:**

A cover letter should be attached to the front of the federal Form 3115 or Form 1128, clearly indicating that a "Change in Accounting Period" or a "Change in Accounting Method" is being requested. The name of the taxpayer requesting the change and the taxpayer's CCN must be included in the cover letter.

Taxpayers should attach their federal Form 3115 to their California return, as well as a California-specific pro forma Form 3115 showing adjustments to the impact of the accounting method change to reflect, for example, federal-to-state differences in depreciable basis, useful life, or applicable method of depreciation.

The appropriate federal form and cover letter should be sent to:

Franchise Tax Board  
Change in Accounting Periods and Methods Coordinator  
P. O. Box 1998  
Rancho Cordova, California 95812

Alternatively, the request may be faxed to (916) 855-5557.

For elections requiring FTB consent, the request should be submitted at least sixty (60) days prior to the taxpayer's return due date, including permissible extensions, to allow the FTB time to review the request and issue a determination letter. If consent is required and the return is filed before receiving the consent of the FTB, the request will be denied.

For elections not requiring FTB consent, Form 3115 should be filed at any time prior to or along with the filing of an original tax return on which the change or election is sought to be applied. No acknowledgment letter will be sent to the taxpayer for automatic and deemed consent items.

**CONTACT:**

The principal author of this notice is Peter Kwok of the FTB's Legal Division. For further information regarding this notice, contact Mr. Kwok at the Franchise Tax Board, Legal Division, P.O. Box 1720, Rancho Cordova, California 95741-1720.