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Rev. Proc. 2026-32: Automatic accounting method change procedures for R&E expenditures and residential construction contracts

The IRS today released Rev. Proc. 2026-32, which modifies earlier guidance on obtaining automatic consent for certain accounting method changes involving research or experimental (R&E) expenditures and residential construction contracts. The updates are intended to align Rev. Proc. 2025-23 with changes enacted by Pub. L. No. 119-21 (the “One Big Beautiful Bill Act” (OBBBA)).

For R&E expenditures, the revenue procedure updates the automatic method change procedures for both domestic and foreign research expenditures. Among other changes, it coordinates section 481(a) adjustment rules with the OBBBA transition provisions for previously capitalized domestic research costs, extends relief from certain accounting method change eligibility rules through tax years beginning before January 1, 2028, and removes a prior limitation that restricted automatic changes for foreign research expenditures to tax years beginning before January 1, 2026.

The revenue procedure also updates accounting method change procedures for residential construction contracts following the OBBBA amendments to section 460(e). It expands existing procedures that allow certain taxpayers to stop capitalizing costs under section 263A and adds a new automatic accounting method change for residential construction contracts entered into in tax years beginning after July 4, 2025. The new change allows eligible taxpayers to move from percentage-of-completion accounting to an exempt contract method or, in some cases, begin capitalizing costs under section 263A when required.

The changes generally apply to Forms 3115 filed after September 4, 2026. The revenue procedure also includes transition rules for taxpayers that previously filed accounting method change requests and for certain nonautomatic accounting method change applications pending with the IRS.

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