What's News in Tax

Analysis that matters from Washington National Tax

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IRS Expands and Extends Automatic Method Changes for Research & Experimental Expenditures

by the Washington National Tax Credits and Methods group

Rev. Proc. 2026-32 expands automatic accounting method changes available for R&E expenditures. It extends eligibility-rule waivers through 2027, keeps automatic changes for foreign R&E costs available beyond 2025, and coordinates the timing of positive domestic § 481(a) adjustments with the OBBBA recovery method, potentially shortening recognition of unfavorable adjustments to one or two tax years. Changes for domestic R&E after 2025 remain non-automatic. The rules generally apply to Forms 3115 filed after September 4, 2026, with transition options and deadlines for pending and prior filings. This article explains the revised procedures, coordination rules, transition deadlines, and steps taxpayers should consider now.

In Brief

On September 4, 2026, the IRS released Rev. Proc. 2026-32, modifying the current List of Automatic Changes in Rev. Proc. 2025-23 to expand and extend the time for automatic consent for changes in method of accounting for research or experimental (R&E) expenditures.

For R&E costs, the guidance extends the waiver of the Rev. Proc. 2015-13 eligibility rules to any tax year beginning before 2028, removes the sunset that had limited the foreign R&E change to comply with OB3 to years of change beginning before 2026, and coordinates the § 481(a)[1] adjustment from a domestic TCJA § 174 change with the OB3 "recovery of unamortized amount" method. That coordination compresses what would have been a four-year spread into one or two tax years. It also updates the successive year change rules to allow changes from an impermissible method after only one year of use.

[1] Unless otherwise indicated, section or § references are to the Internal Revenue Code of 1986, as amended (the "Code") or the applicable regulations promulgated pursuant to the Code (the "regulations").

The modified procedures apply to a Form 3115 filed after September 4, 2026. Three transition dates follow: September 21, 2026 (non-automatic Form 3115 filed before this date may be converted to automatic), October 21, 2026 (date by which the IRS must be notified of intent to convert), and November 15, 2026 (grandfathering for a duplicate automatic consent Form 3115 already filed under the pre-modification rules).

Background

Rev. Proc. 2026-32 does not change any of the substantive rules governing methods of accounting for R&E costs and does not provide additional guidance on the rules for applying § 174 or 174A. The One, Big, Beautiful Bill Act (OBBBA or OB3)[2] made changes to the methods of accounting for R&E expenses and additional guidance in the form of proposed regulations is expected at a later date. This guidance governs how a taxpayer can implement these changes with automatic IRS consent.

Three regimes now run side-by-side:

- **TCJA § 174 (tax years beginning after 2021 and before 2025):** All specified R&E expenditures ("SRE") are capitalized and amortized; 5 years for domestic R&E costs, 15 years for foreign, beginning with the midpoint of the tax year incurred.
- **§ 174 as amended by OB3 (tax years beginning after 2024):** Applies only to foreign R&E costs, which remain subject to a 15-year amortization period.
- **New § 174A (post-2024):** Restores current deductibility for domestic R&E costs, with an optional election under § 174A(c) to capitalize and amortize over not less than 60 months.[3]

Rev. Proc. 2026-32 provides updated procedures, terms, and conditions for changing methods without filing an advance consent request by the end of the year of change, and thus on a timely-filed return with extensions.

What Rev. Proc. 2026-32 Changes

R&E Expenditures

- **Eligibility-rule waiver extended three years.** The eligibility rules in section 5.01(1)(d) and (f) of Rev. Proc. 2015-13, the final year of a trade or business and a change for the same item within the prior 5 years, do not apply to an R&E change made for any taxable year beginning before 2028.
- **Foreign R&E sunset removed.** The prior limitation restricting an automatic foreign R&E change to comply with the changes made to § 174 by OB3 (including, for example, application of § 174(d)) to years beginning before January 1, 2026, is eliminated, keeping the automatic change for such costs available beyond 2025.
- **The timing of a § 481(a) adjustment from a domestic TCJA § 174 change is now tied to the OB3 recovery election.** A taxpayer that elects to accelerate its remaining unamortized 2022-2024 domestic R&E costs over one or two years under OB3 and then makes a change for TCJA §174 costs must take the unfavorable § 481(a) adjustment into account over the remaining OB3 acceleration period it elects.

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2 Pub. L. No. 119-21. See also New R&E Expensing Procedures Are Complex With Favorable Options.

3 Notably, Rev. Proc. 2026-32 did not provide any clarification regarding the use of the § 174A(c) method.

Terms and Conditions by Category of Change

The table below summarizes the principal terms and conditions for each of the three categories of R&E method changes under section 7 of Rev. Proc. 2025-23, as modified by Rev. Proc. 2026-32.

Item, method, term or condition	Section 7.01 — Domestic R&E, TCJA § 174 (2022–2024)	Section 7.02 — Domestic R&E, § 174A (post-2024; applicable only for tax years beginning in 2025)	Section 7.03 — Foreign R&E, § 174 (post-2021)
Expenditures covered	Domestic SRE costs paid or incurred in tax years beginning after 12/31/2021 and before 1/1/2025	Domestic R&E costs paid or incurred in tax years beginning after 12/31/2024, plus pre-2025 unamortized amounts	Foreign SRE and foreign R&E costs paid or incurred in tax years beginning after 12/31/2021
Method	Capitalize and amortize over 5 years from the midpoint of the tax year incurred	Current deduction under § 174A(a) or amortization over not less than 60 months under § 174A(c). For the "recovery of unamortized amount" method a taxpayer can elect to recover remaining amortization either in full in year one or ratably over 2 tax years.	Capitalize and amortize over 15 years from the midpoint of the tax year incurred
§ 481(a) adjustment or cut-off	Modified § 481(a) adjustment (captures only 2022–2024 expenditures); cut-off permitted if the modified adjustment is negative. If the recovery of unamortized amount method was elected in a prior year, the adjustment must reflect it.	Cut-off basis for § 174A(a) change made for the first tax year beginning after December 31, 2024, and for any § 174A(c) change. Modified § 481(a) adjustment (includes only costs paid or incurred in tax years beginning after 12/31/2024) for § 174A(a) change made for a year of change later than the first tax year beginning after 12/31/2024.	Modified § 481(a) adjustment for change to comply with TCJA § 174 (captures only 2022–2024 expenditures); cut-off permitted if the modified adjustment is negative. Cut-off basis for change to comply with OB3 for first tax year beginning after 12/31/2024. Modified § 481(a) adjustment for change to comply with OB3 for a tax year later than the first tax year beginning after 12/31/2024 (includes only costs paid or incurred in tax years beginning after 12/31/2024).
§ 481(a) adjustment spread period	**Coordinated with any recovery of unamortized amount method:** • Concurrent change: net positive adjustment follows the elected accelerated recovery method period (either in full in year one or ratably over 2 tax years) • Prior-year recovery method: taken over the accelerated	Modified § 481(a) adjustment for § 174A(a) method and cut-off for § 174A(c) method	Standard § 481(a) adjustment spread periods apply (generally 1 tax year for a net negative, 4 tax years for a net positive, absent an applicable exception).

Item, method, term or condition	Section 7.01 — Domestic R&E, TCJA § 174 (2022–2024)	Section 7.02 — Domestic R&E, § 174A (post-2024; applicable only for tax years beginning in 2025)	Section 7.03 — Foreign R&E, § 174 (post-2021)
	amortization period remaining under that method		
Eligibility-rule waiver (final year of trade or business and prior 5-year change scope restrictions)	Any tax year beginning before 1/1/2028	Any tax year beginning before 1/1/2028 (Note that this change remains non-automatic for post-2025 tax years, but we anticipate it will become automatic again when proposed regulations are issued)	Any tax year beginning before 1/1/2028
Successive year rule (waives the normal 2-year rule for adopting an impermissible method- i.e., if impermissible method used for only the tax year before the year of change)	Available	Not provided	Available
Audit Protection	Available only for costs incurred in 2022, 2023, and 2024	Available only for costs incurred after 2024	If changing pre-2025 costs, only for costs incurred in 2022, 2023, and 2024; if changing post-2024 costs only for costs incurred after 2024

Note: The § 481(a) adjustment spread periods shown for section 7.03 reflect the general rules of Rev. Proc. 2015-13; specific outcomes depend on the taxpayer’s facts and any applicable exceptions.

Domestic Research: The § 481(a) Adjustment Spread Period Coordination

For taxpayers making a domestic TCJA § 174 change, the change is made with a modified § 481(a) adjustment that captures only expenditures paid or incurred in tax years beginning after 2021 and before 2025. If that modified adjustment is negative, the taxpayer may instead implement the change on a cut-off basis.

Rev. Proc. 2026-32 coordinates this change with the OB3 “recovery of unamortized amount” method (“the recovery method”) as follows:

- **Concurrent changes:** if the domestic TCJA § 174 change and the recovery method change are both made for the first tax year beginning after 2024, any net positive § 481(a) adjustment from the domestic TCJA

§ 174 change follows the elected recovery period for the recovery method change: all in 2025 or ratably over two tax years.

- **Prior-year recovery:** if the recovery method was adopted in an earlier year, any net positive § 481(a) adjustment is taken into account over the amortization period remaining under that method. As a practical matter, this means that if a taxpayer makes a TCJA change for the first tax year after 2025 and elected to recover the full unamortized amount in 2025, then there would be no net positive adjustment for a TCJA change. If instead the taxpayer elected 2-year amortization under the recovery method, then any positive § 481(a) adjustment from the TCJA change would be recognized in full in 2026.

Practical point. Absent the coordination rule, a net positive adjustment would be spread over four tax years under Rev. Proc. 2015-13. For a taxpayer that has already accelerated its remaining TCJA-era amortization, the adjustment now lands in one or two tax years. Taxpayers should confirm whether and when they adopted the recovery of unamortized amount method before computing the adjustment or assuming a spread period. Note, however, that if a taxpayer made a TCJA change for domestic § 174 costs in 2024 or 2023, then a subsequent election in 2025 to accelerate the remaining unamortized costs would not result in acceleration of the remaining spread period for the TCJA change.

Foreign Research: The Sunset on Method Changes Is Removed

OB3 retained the requirement to capitalize and amortize foreign R&E costs over a 15-year period, and expanded § 174(d) to disallow any reduction of amount realized for unamortized foreign R&E costs in cases where the taxpayer disposes of any property developed with such costs and instead require continued amortization of such amounts. Prior to OB3, only loss deductions were disallowed. This change applies to dispositions after May 12, 2025. Rev. Proc. 2025-28 initially limited automatic consent for a change to comply with the changes made to § 174 by OB3, including the amendment to § 174(d), for changes made for tax years beginning before 2026. Rev. Proc. 2026-32 **removes** such filing limitation. Hence, the automatic change to comply with the OB3 changes to § 174 remains available beyond the 2025 filing cycle.

Transition Rules and Deadlines

The modified section 7 procedures apply to any § 174 or 174A method change filed after September 4, 2026. The revenue procedure also provides transition relief for taxpayers whose method changes were already filed.

Key date	Why it matters
Pending non-automatic Form 3115 on Sept. 21, 2026	A **non-automatic Form 3115** for a change in method of accounting for R&E costs that is pending with the IRS national office on Sept. 21, 2026, may be converted to be filed under the automatic procedures if the taxpayer is otherwise eligible.
Notification later of Oct. 21, 2026, or consent agreement	Deadline (or the date a ruling is issued, if later) to notify the IRS national office of an intent to **convert a pending non-automatic Form 3115** to the automatic procedures. If the non-automatic Form 3115 is converted, the IRS will return the user fee.
Automatic Form 3115 filed on or before	A **duplicate Form 3115**[4] properly filed on or before this date[5] for an R&E change under section 7 of Rev. Proc. 2025-23, prior to modification by Rev. Proc. 2026-32, is not

4 In the case of domestic 174A R&E or recovery of unamortized amount changes under the automatic consent procedures for the first tax year beginning after 2024, a statement in lieu of Form 3115 is permitted and the duplicate Form 3115 filing requirement is waived.

5 Note that this does not extend the requirement that the duplicate Form 3115 be filed no later than the date the original Form 3115 is filed with the taxpayer's tax return for the year of change.

Key date	Why it matters
Nov. 15, 2026, grandfathering rule	subject to the effective date of Rev. Proc. 2026-32. Taxpayers may choose to implement the change as described in either section 7 of Rev. Proc. 2025-23, prior to modification by Rev. Proc. 2026-32, or section 7 of Rev. Proc. 2025-23, as modified by Rev. Proc. 2026-32 (but not both).
Filing of tax return for year of change	**Duplicate Form 3115** required to be filed no later than the date the taxpayer files the Form 3115 under the revised automatic change procedures with its federal income tax return for the year of change (e.g., by October 15, 2026, for a calendar year C corporation making an R&E change under Rev. Proc. 2026-32 for 2025).
Tax years beginning before 2028	The eligibility-rule waivers for changes made in the final year of a trade or business or within the prior 5 years apply to all method changes provided in section 7 of Rev. Proc. 2025-23 as modified by Rev. Proc. 2026-32 — a three-year extension through 2027 of the prior window which generally only waived the eligibility rule for changes made in 2023 and 2024.

The November 15 window gives some taxpayers a choice, depending on the due date of the return for a 2025 year of change. A taxpayer that properly filed the duplicate Form 3115 for a *pre-modification* R&E change on or before that date is not subject to the new procedures and may implement the change under either pre-modification or the modified rules, but not both. Choosing the modified rules requires resubmitting a signed duplicate of the Form 3115 (if required by the change) to the IRS in Ogden with the following statement on page 1: “FILED UNDER REV. PROC. 2026-32, AS PROVIDED IN SECTION 6.02(2)(b) OF REV. PROC. 2026-32”. Note that if the taxpayer had filed a non-automatic change for domestic TCJA § 174 costs resulting in a positive § 481(a) adjustment, the IRS has informally advised that it will apply the coordination rule in the non-automatic consent letter, so there would be no advantage to not converting unless the taxpayer seeks to challenge the IRS National Office’s decision to modify the § 481(a) spread period in the context of an adverse conference of right. For purposes of the eligibility and other rules, the resubmitted copy is treated as filed on the date the original duplicate copy was filed.

What You Should Do Now

- **Identify returns requiring immediate revisiting and review.** The most time-sensitive steps to take include identifying R&E changes previously filed or in the process of being filed for a fiscal 2025 year of change (whether domestic TCJA § 174, domestic OB3 § 174A, or foreign § 174 changes) and determining if any such changes are eligible to be filed under or converted to the revised automatic consent procedures.
- **Reconstruct the election history.** Confirm whether the recovery of unamortized amount method is being/was adopted before computing any § 481(a) adjustment and spread period for a domestic TCJA § 174 change.
- **Note the deadlines for various actions discussed above.** These are September 4, September 21, October 21, and November 15, 2026.
- **Decide whether to resubmit.** For duplicate Form 3115 copies filed before November 15, weigh the old versus new version and decide if it’s worth resubmitting.

How We Can Help

Our Accounting Methods team can assess which method changes apply to your entities, model the § 481(a) adjustment under each transition option, and prepare the Forms 3115, including any resubmission needed to elect the modified procedures before the applicable deadline. Please contact an AMCS or WNT Accounting Methods and Credits professional to discuss next steps.

This article summarizes Rev. Proc. 2026-32 and the provisions it modifies for general information only. It is not intended as, and should not be relied upon as, tax or legal advice. The application of these procedures depends on your specific facts, particularly the § 481(a) coordination and transition elections and should be confirmed against the primary guidance before any Form 3115 is filed.