



Building a better working world

# Executives react to the final Section 263A regulations

April 2019

## The final Section 263A regulations

The final regulations for the allocation of costs under the simplified methods of accounting under Section 263A (uniform capitalization rules) were recently released. Simultaneously, Revenue Procedure 2018-56 (2018-50 IRB) was issued to provide automatic method change procedures through which a taxpayer can conform to these final regulations. Similar to the 2012 proposed regulations, the final regulations contain a highly anticipated new modified simplified production method (MSPM) and a new definition of Section 471 costs. In addition, there are new definitions, methods, de minimis rules and a safe harbor to help taxpayers comply with the new rules.

## Survey results

During a recent Ernst & Young LLP webcast, we surveyed more than 1,100 executives about the 263A regulations. Executives' responses demonstrated some amount of uncertainty as to whether the new regulations would be advantageous to their companies. For example, **nearly two-thirds (61%) don't know if the MSPM will benefit their company**, while 28% said it will. In addition, **57% don't know if their company will be able to utilize the new de minimis rules and/or safe harbor when complying with the new definition of Section 471 costs**, while 30% stated they would be able to utilize them. However, there was more certainty around negative adjustments. When asked if their company has negative adjustments, 47% said yes, 33% don't know and 20% said no.

Will the modified simplified production method (MSPM) be beneficial to your company?



I don't know



Yes



No

Does your company have negative adjustments?



Yes



I don't know



No

What is your company's current method for allocating additional costs to ending inventory?



Simplified production method (SPM)



I don't know



Simplified resale method (SRM)



Other method of accounting



Facts and circumstances method

Will your company be able to utilize the new de minimis rules and/or safe harbor when complying with the new definition of Section 471 costs?



I don't know



Yes



No

### Webcast replay

For more information, please watch the webcast replay, *Final Section 263A regulations: new definitions, methods and the treatment of negative adjustments*.

## For more information, please contact

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