

Part III

Administrative, Procedural, and Miscellaneous

26 CFR 601.204: Changes in accounting periods and in methods of accounting.
(Also: §§ 446, 451)

Rev. Proc. 2004-32

SECTION 1. PURPOSE

This revenue procedure allows credit card issuers described in Rev. Rul. 2004-52, 2004-22 I.R.B. dated June 1, 2004, this Bulletin, to account for annual fee income using the Ratable Inclusion Method for Credit Card Annual Fees, which is set forth in section 4 of this revenue procedure. The procedure also provides automatic consent procedures for a credit card issuer within the scope of this revenue procedure to change its method of accounting for annual fee income.

SECTION 2. BACKGROUND

.01 Rev. Rul. 2004-52 describes certain taxpayers that issue credit cards. Each card allows the cardholder to access a revolving line of credit to make purchases of

goods and services and, if otherwise provided by the applicable cardholder agreement, to obtain cash advances. These taxpayers may charge cardholders a credit card annual fee. Rev. Rul. 2004-52 holds that credit card annual fees are not interest for federal income tax purposes and that they are includible in income when the all events test under § 451 of the Internal Revenue Code is satisfied. Under the facts of Rev. Rul. 2004-52, the all events test is satisfied when the credit card annual fee becomes due and payable under the taxpayer's cardholder agreements.

.02 Any change in a taxpayer's treatment of income from credit card annual fees, including a change to conform the taxpayer's method to either Rev. Rul. 2004-52 or to the Ratable Inclusion Method for Credit Card Annual Fees, which is permitted by section 4 of this revenue procedure, is a change in method of accounting to which the provisions of §§ 446 and 481 apply.

.03 Under § 446(e) and § 1.446-1(e)(2)(i) of the Income Tax Regulations, a taxpayer generally must secure the consent of the Commissioner before changing a method of accounting for federal income tax purposes. Section 1.446-1(e)(3)(ii) authorizes the Commissioner to prescribe administrative procedures setting forth the terms and conditions necessary to obtain consent to change a method of accounting. Rev. Proc. 2002-9, 2002-1 C.B. 327 (as modified and clarified by Announcement 2002-17, 2002-1 C.B. 561, modified and amplified by Rev. Proc. 2002-19, 2002-1 C.B. 696, and amplified, clarified, and modified by Rev. Proc. 2002-54, 2002-2 C.B. 432), provides procedures by which a taxpayer may obtain automatic consent to change to the methods of accounting described in the Appendix of Rev. Proc. 2002-9. Section 5.03 of Rev. Proc. 2002-9 provides that, unless otherwise provided, a taxpayer making a

change in method of accounting under the revenue procedure must take into account a § 481(a) adjustment in the manner provided in section 5.04 of Rev. Proc. 2002-9.

SECTION 3. SCOPE

This revenue procedure applies to a taxpayer that uses an overall accrual method of accounting for federal income tax purposes and that issues credit cards to, and receives annual fees from, cardholders under agreements that allow each cardholder to use a credit card to access a revolving line of credit to make purchases of goods and services and, if so authorized, to obtain cash advances.

SECTION 4. RATABLE INCLUSION METHOD FOR CREDIT CARD ANNUAL FEES

.01 Permission to use the Ratable Inclusion Method for Credit Card Annual Fees.

The Commissioner in an exercise of his discretion under § 446 permits taxpayers within the scope of this revenue procedure to account for their income from credit card annual fees using the Ratable Inclusion Method for Credit Card Annual Fees, which is described in this section 4.

.02 Description of method. Under the Ratable Inclusion Method for Credit Card Annual Fees, a credit card annual fee is recognized in income ratably over the period covered by the fee.

.03 Special rules. A taxpayer's use of the Ratable Inclusion Method for Credit Card Annual Fees does not clearly reflect its credit card annual fee income (and thus the Commissioner does not permit its use) unless the taxpayer also complies with the rules in section 4.03(1) and 4.03(2) of this revenue procedure.

(1) Closed accounts. If a credit card is cancelled or if a cardholder account is otherwise closed during a taxable year, any remaining unrecognized portion of the

credit card annual fee that is allocable to the account must be recognized in income in that year, unless the remaining portion is refunded.

(2) Fees billed in installments. If a credit card annual fee is due and payable in installments, each installment must be recognized ratably over the period to which the installment relates.

.04 Aggregation of fees. Taxpayers may account for income from credit card annual fees in an aggregate manner. A taxpayer that accounts for annual fees in an aggregate manner must establish that its recognition of credit card annual fee income satisfies the rules in sections 4.02 and 4.03 of this revenue procedure.

SECTION 5. CHANGE IN METHOD OF ACCOUNTING

A taxpayer within the scope of this revenue procedure that wants to change its method of accounting for income from credit card annual fees, either to a method that satisfies the all events test in accordance with Rev. Rul. 2004-52 or to the Ratable Inclusion Method for Credit Card Annual Fees that is described in section 4 of this revenue procedure, must follow the provisions of Rev. Proc. 2002-9 (or its successor), with the following modifications:

.01 The scope limitations in section 4.02 of Rev. Proc. 2002-9 do not apply to a taxpayer that wants to make the change for either its first or second taxable year ending on or after December 31, 2003; and

.02 The taxpayer must prepare and file a Form 3115 in accordance with section 6 of Rev. Proc. 2002-9 and must enter the designated number for the automatic change in method in Line 1a of Form 3115.

(1) The designated number for the automatic accounting method change to include credit card annual fees in income as required by Rev. Rul. 2004-52 is “80”.

(2) The designated number for the automatic accounting method change to the Ratable Inclusion Method for Credit Card Annual Fees is “81”.

SECTION 6. AUDIT PROTECTION

If a taxpayer within the scope of this revenue procedure currently uses the method described in section 4 of this revenue procedure, the method of accounting for the taxpayer’s credit card annual fees will not be raised as an issue by the Service in a taxable year that ends before December 31, 2003. Also, if a taxpayer currently uses the method described in section 4 of this revenue procedure, and its use of that method is an issue under consideration (within the meaning of section 3.09 of Rev. Proc. 2002-9) in examination, before an appeals office, or before the U.S. Tax Court for any taxable year that ends before December 31, 2003, that issue will not be further pursued by the Service.

SECTION 7. EFFECT ON OTHER DOCUMENTS

Rev. Proc. 2002-9 is modified and amplified to include this automatic change in the APPENDIX.

SECTION 8. EFFECTIVE DATE

This revenue procedure is effective for taxable years ending on or after December 31, 2003.

DRAFTING INFORMATION

The principal authors of this revenue procedure are Rebecca E. Asta, Alexa Dubert and Tina Jannotta of the Office of Associate Chief Counsel (Financial Institutions

and Products). For further information regarding this revenue procedure contact the principal authors on (202) 622-3930 (not a toll free call).