

1976—Pub. L. 94-455, title II, § 207(c)(1)(B), Oct. 4, 1976, 90 Stat. 1541, added item 447.

§ 446. General rule for methods of accounting

(a) General rule

Taxable income shall be computed under the method of accounting on the basis of which the taxpayer regularly computes his income in keeping his books.

(b) Exceptions

If no method of accounting has been regularly used by the taxpayer, or if the method used does not clearly reflect income, the computation of taxable income shall be made under such method as, in the opinion of the Secretary, does clearly reflect income.

(c) Permissible methods

Subject to the provisions of subsections (a) and (b), a taxpayer may compute taxable income under any of the following methods of accounting—

- (1) the cash receipts and disbursements method;
- (2) an accrual method;
- (3) any other method permitted by this chapter; or
- (4) any combination of the foregoing methods permitted under regulations prescribed by the Secretary.

(d) Taxpayer engaged in more than one business

A taxpayer engaged in more than one trade or business may, in computing taxable income, use a different method of accounting for each trade or business.

(e) Requirement respecting change of accounting method

Except as otherwise expressly provided in this chapter, a taxpayer who changes the method of accounting on the basis of which he regularly computes his income in keeping his books shall, before computing his taxable income under the new method, secure the consent of the Secretary.

(f) Failure to request change of method of accounting

If the taxpayer does not file with the Secretary a request to change the method of accounting, the absence of the consent of the Secretary to a change in the method of accounting shall not be taken into account—

- (1) to prevent the imposition of any penalty, or the addition of any amount to tax, under this title, or
- (2) to diminish the amount of such penalty or addition to tax.

(Aug. 16, 1954, ch. 736, 68A Stat. 151; Pub. L. 94-455, title XIX, § 1906 (b)(13)(A), Oct. 4, 1976, 90 Stat. 1834; Pub. L. 98-369, div. A, title I, § 161(a), July 18, 1984, 98 Stat. 696.)

AMENDMENTS

1984—Subsec. (f). Pub. L. 98-369 added subsec. (f).

1976—Subsecs. (b), (c), (e). Pub. L. 94-455 struck out “or his delegate” after “Secretary”.

EFFECTIVE DATE OF 1984 AMENDMENT

Pub. L. 98-369, div. A, title I, § 161(b), July 18, 1984, 98 Stat. 697, provided that: “The amendment made by this

section [amending this section] shall apply to taxable years beginning after the date of the enactment of this Act [July 18, 1984].”

§ 447. Method of accounting for corporations engaged in farming

(a) General rule

Except as otherwise provided by law, the taxable income from farming of—

- (1) a corporation engaged in the trade or business of farming, or
- (2) a partnership engaged in the trade or business of farming, if a corporation is a partner in such partnership,

shall be computed on an accrual method of accounting. This section shall not apply to the trade or business of operating a nursery or sod farm or to the raising or harvesting of trees (other than fruit and nut trees).

(b) Preproductive period expenses

For rules requiring capitalization of certain preproductive period expenses, see section 263A.

(c) Exception for certain corporations

For purposes of subsection (a), a corporation shall be treated as not being a corporation if it is—

- (1) an S corporation, or
- (2) a corporation the gross receipts of which meet the requirements of subsection (d).

(d) Gross receipts requirements

(1) In general

A corporation meets the requirements of this subsection if, for each prior taxable year beginning after December 31, 1975, such corporation (and any predecessor corporation) did not have gross receipts exceeding \$1,000,000. For purposes of the preceding sentence, all corporations which are members of the same controlled group of corporations (within the meaning of section 1563(a)) shall be treated as 1 corporation.

(2) Special rules for family corporations

(A) In general

In the case of a family corporation, paragraph (1) shall be applied—

- (i) by substituting “December 31, 1985,” for “December 31, 1975,”; and
- (ii) by substituting “\$25,000,000” for “\$1,000,000”.

(B) Gross receipts test

(i) Controlled groups

Notwithstanding the last sentence of paragraph (1), in the case of a family corporation—

(I) except as provided by the Secretary, only the applicable percentage of gross receipts of any other member of any controlled group of corporations of which such corporation is a member shall be taken into account, and

(II) under regulations, gross receipts of such corporation or of another member of such group shall not be taken into account by such corporation more than once.

(ii) Pass-thru entities

For purposes of paragraph (1), if a family corporation holds directly or indirectly