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

any interest in a partnership, estate, trust or other pass-thru entity, such corporation shall take into account its proportionate share of the gross receipts of such entity.

(iii) Applicable percentage

For purposes of clause (i), the term ''applicable percentage'' means the percentage equal to a fraction—

(I) the numerator of which is the fair market value of the stock of another corporation held directly or indirectly as of the close of the taxable year by the family corporation, and

(II) the denominator of which is the fair market value of all stock of such corporation as of such time.

For purposes of this clause, the term ''stock'' does not include stock described in section 1563(c)(1).

(C) Family corporation

For purposes of this section, the term ''family corporation'' means—

(i) any corporation if at least 50 percent of the total combined voting power of all classes of stock entitled to vote, and at least 50 percent of all other classes of stock of the corporation, are owned by members of the same family, and

(ii) any corporation described in subsection (h).

(e) Members of the same family

For purposes of subsection (d)—

(1) the members of the same family are an individual, such individual's brothers and sisters, the brothers and sisters of such individual's parents and grandparents, the ancestors and lineal descendants or any of the foregoing, a spouse of any of the foregoing, and the estate of any of the foregoing,

(2) stock owned, directly or indirectly, by or for a partnership or trust shall be treated as owned proportionately by its partners or beneficiaries, and

(3) if 50 percent or more in value of the stock in a corporation (hereinafter in this paragraph referred to as ''first corporation'') is owned, directly or through paragraph (2), by or for members of the same family, such members shall be considered as owning each class of stock in a second corporation (or a wholly owned subsidiary of such second corporation) owned, directly or indirectly, by or for the first corporation, in that proportion which the value of the stock in the first corporation which such members so own bears to the value of all the stock in the first corporation.

For purposes of paragraph (1), individuals related by the half blood or by legal adoption shall be treated as if they were related by the whole blood.

(f) Coordination with section 481

In the case of any taxpayer required by this section to change its method of accounting for any taxable year—

(1) such change shall be treated as having been made with the consent of the Secretary,

(2) for purposes of section 481(a)(2), such change shall be treated as a change not initiated by the taxpayer, and

(3) under regulations prescribed by the Secretary, the net amount of adjustments required by section 481(a) to be taken into account by the taxpayer in computing taxable income shall be taken into account in each of the 10 taxable years (or the remaining taxable years where there is a stated future life of less than 10 taxable years) beginning with the year of change.

(g) Certain annual accrual accounting methods

(1) In general

Notwithstanding subsection (a) or section 263A, if—

(A) for its 10 taxable years ending with its first taxable year beginning after December 31, 1975, a corporation or qualified partnership used an annual accrual method of accounting with respect to its trade or business of farming,

(B) such corporation or qualified partnership raises crops which are harvested not less than 12 months after planting, and

(C) such corporation or qualified partnership has used such method of accounting for all taxable years intervening between its first taxable year beginning after December 31, 1975, and the taxable year,

such corporation or qualified partnership may continue to employ such method of accounting for the taxable year with respect to its qualified farming trade or business.

(2) Annual accrual method of accounting defined

For purposes of paragraph (1), the term ''annual accrual method of accounting'' means a method under which revenues, costs, and expenses are computed on an accrual method of accounting and the preproductive period expenses incurred during the taxable year are charged to harvested crops or deducted in determining the taxable income for such years.

(3) Certain nonrecognition transfers

For purposes of this subsection, if—

(A) a corporation acquired substantially all the assets of a qualified farming trade or business from another corporation in a transaction in which no gain or loss was recognized to the transferor or transferee corporation, or

(B) a qualified partnership acquired substantially all the assets of a qualified farming trade or business from one of its partners in a transaction to which section 721 applies,

the transferee corporation or qualified partnership shall be deemed to have computed its taxable income on an annual accrual method of accounting during the period for which the transferor corporation or partnership computed its taxable income from such trade or business on an annual accrual method.

(4) Qualified partnership defined

For purposes of this subsection—

(A) Qualified partnership

The term ''qualified partnership'' means a partnership which is engaged in a qualified farming trade or business and each of the

partners of which is a corporation other than—

(i) an S corporation, or

(ii) a personal holding company (within the meaning of section 542(a)).

(B) Qualified farming trade or business

(i) In general

The term ''qualified farming trade or business'' means the trade or business of farming—

(I) sugar cane,

(II) any plant with a preproductive period (as defined in section 263A(e)(3)) of 2 years or less, and

(III) any other plant (other than any citrus or almond tree) if an election by the corporation under this subparagraph is in effect.

In the case of a partnership and for purposes of paragraph (3)(A), subclauses (II) and (III) shall not apply.

(ii) Effect of election

For purposes of paragraphs (1) and (2) of section 263A(e), any election under this subparagraph shall be treated as if it were an election under subsection (d)(3) of section 263A.

(iii) Election

Unless the Secretary otherwise consents, an election under this subparagraph may be made only for the corporation's 1st taxable year which begins after December 31, 1986, and during which the corporation engages in a farming business. Any such election, once made, may be revoked only with the consent of the Secretary.

(h) Exception for certain closely held corporations

(1) In general

A corporation is described in this subsection if, on October 4, 1976, and at all times thereafter—

(A) members of 2 families (within the meaning of subsection (e)(1)) have owned (directly or through the application of subsection (e)) at least 65 percent of the total combined voting power of all classes of stock of such corporation entitled to vote, and at least 65 percent of the total number of shares of all other classes of stock of such corporation; or

(B)(i) members of 3 families (within the meaning of subsection (e)(1)) have owned (directly or through the application of subsection (e)) at least 50 percent of the total combined voting power of all classes of stock of such corporation entitled to vote, and at least 50 percent of the total number of shares of all other classes of stock of such corporation; and

(ii) substantially all of the stock of such corporation which is not so owned (directly or through the application of subsection (e)) by members of such 3 families is owned directly—

(I) by employees of the corporation or members of their families (within the meaning of section 267(c)(4)), or

(II) by a trust for the benefit of the employees of such corporation which is described in section 401(a) and which is exempt from taxation under section 501(a).

(2) Stock held by employees, etc.

For purposes of this subsection, stock which—

(A) is owned directly by employes[1] of the corporation or members of their families (within the meaning of section 267(c)(4)) or by a trust described in paragraph (1)(B)(ii)(II), and

(B) was acquired on or after October 4, 1976, from the corporation or from a member of a family which, on October 4, 1976, was described in subparagraph (A) or (B)(i) of paragraph (1).

shall be treated as owned by a member of a family which, on October 4, 1976, was described in subparagraph (A) or (B)(i) of paragraph (1).

(3) Corporation must be engaged in farming

This subsection shall apply only in the case of a corporation which was, on October 4, 1976, and at all times thereafter, engaged in the trade or business of farming.

(i) Suspense account for family corporations

(1) In general

If any family corporation is required by this section to change its method of accounting for any taxable year (hereinafter in this subsection referred to as the ''year of the change''), notwithstanding subsection (f), such corporation shall establish a suspense account under this subsection in lieu of taking into account adjustments under section 481(a) with respect to amounts included in the suspense account.

(2) Initial opening balance

The initial opening balance of the account described in paragraph (1) shall be the lesser of—

(A) the net adjustments which would have been required to be taken into account under section 481 but for this subsection, or

(B) the amount of such net adjustments determined as of the beginning of the taxable year preceding the year of change.

If the amount referred to in subparagraph (A) exceeds the amount referred to in subparagraph (B), notwithstanding paragraph (1), such excess shall be included in gross income in the year of the change.

(3) Inclusion where corporation ceases to be a family corporation

(A) In general

If the corporation ceases to be a family corporation during any taxable year, the amount in the suspense account (after taking into account prior reductions) shall be included in gross income for such taxable year.

(B) Special rule for certain transfers

For purposes of subparagraph (A), any transfer in a corporation after December 15,

[1] So in original.

1987, shall be treated as a transfer to a person whose ownership could not qualify such corporation as a family corporation unless it is a transfer—

(i) to a member of the family of the transferor, or

(ii) in the case of a corporation described in subsection (h), to a member of a family which on December 15, 1987, held stock in such corporation which qualified the corporation under subsection (h).

(4) Subchapter C transactions

The application of this subsection with respect to a taxpayer which is a party to any transaction with respect to which there is nonrecognition of gain or loss to any party by reason of subchapter C shall be determined under regulations prescribed by the Secretary.

(5) Termination

(A) In general

No suspense account may be established under this subsection by any corporation required by this section to change its method of accounting for any taxable year ending after June 8, 1997.

(B) Phaseout of existing suspense accounts

(i) In general

Each suspense account under this subsection shall be reduced (but not below zero) for each taxable year beginning after June 8, 1997, by an amount equal to the lesser of—

(I) the applicable portion of such account, or

(II) 50 percent of the taxable income of the corporation for the taxable year, or, if the corporation has no taxable income for such year, the amount of any net operating loss (as defined in section 172(c)) for such taxable year.

For purposes of the preceding sentence, the amount of taxable income and net operating loss shall be determined without regard to this paragraph.

(ii) Coordination with other reductions

The amount of the applicable portion for any taxable year shall be reduced (but not below zero) by the amount of any reduction required for such taxable year under any other provision of this subsection.

(iv)[2] Inclusion in income

Any reduction in a suspense account under this paragraph shall be included in gross income for the taxable year of the reduction.

(C) Applicable portion

For purposes of subparagraph (B), the term ''applicable portion'' means, for any taxable year, the amount which would ratably reduce the amount in the account (after taking into account prior reductions) to zero over the period consisting of such taxable year and the remaining taxable years in such first 20 taxable years.

(D) Amounts after 20th year

Any amount in the account as of the close of the 20th year referred to in subparagraph (C) shall be treated as the applicable portion for each succeeding year thereafter to the extent not reduced under this paragraph for any prior taxable year after such 20th year.

(Added Pub. L. 94–455, title II, §207(c)(1)(A), Oct. 4, 1976, 90 Stat. 1538; amended Pub. L. 95–600, title III, §§351(a), 353(a), title VII, §§701(*l*)(1), 703(d), Nov. 6, 1978, 92 Stat. 2846, 2847, 2906, 2939; Pub. L. 97–248, title II, §230(a), Sept. 3, 1982, 96 Stat. 495; Pub. L. 97–354, §5(a)(28), (29), Oct. 19, 1982, 96 Stat. 1695; Pub. L. 99–514, title VIII, §803(b)(7), Oct. 22, 1986, 100 Stat. 2356; Pub. L. 100–203, title X, §10205(a)–(c), Dec. 22, 1987, 101 Stat. 1330–395 to 1330–397; Pub. L. 100–647, title I, §1008(b)(5), (6), Nov. 10, 1988, 102 Stat. 3438; Pub. L. 101–508, title XI, §11702(b), Nov. 5, 1990, 104 Stat. 1388–514; Pub. L. 105–34, title X, §1081(a), Aug. 5, 1997, 111 Stat. 949.)

AMENDMENTS

1997—Subsec. (i)(3). Pub. L. 105–34 redesignated par. (5) as (3) and struck out heading and text of former par. (3). Text read as follows: ''If—

''(A) the gross receipts of the corporation from the trade or business of farming for the year of the change or any subsequent taxable year, is less than

''(B) such gross receipts for the taxpayer's last taxable year beginning before the year of the change (or for the most recent taxable year for which a reduction in the suspense account was made under this paragraph),

the amount in the suspense account (after taking into account prior reductions) shall be reduced by the percentage by which the amount described in subparagraph (A) is less than the amount described in subparagraph (B).''

Subsec. (i)(4). Pub. L. 105–34 redesignated par. (6) as (4) and struck out heading and text of former par. (4). Text read as follows: ''Any reduction in the suspense account under paragraph (3) shall be included in gross income for the taxable year of the reduction.''

Subsec. (i)(5), (6). Pub. L. 105–34 added par. (5) and redesignated former pars. (5) and (6) as (3) and (4), respectively.

1990—Subsec. (g)(1)(A). Pub. L. 101–508, §11702(b)(2), substituted ''trade or business of farming'' for ''qualified farming trade or business''.

Subsec. (g)(4)(B). Pub. L. 101–508, §11702(b)(1), amended subpar. (B) generally. Prior to amendment, subpar. (B) read as follows: ''The term 'qualified farming trade or business' means the trade or business of farming sugar cane.''

1988—Subsec. (b). Pub. L. 100–647, §1008(b)(5), substituted ''period expenses'' for ''period of expenses'' in heading and in text.

Subsec. (g)(1). Pub. L. 100–647, §1008(b)(6), substituted ''qualified farming trade or business'' for ''trade or business of farming'' in subpar. (A) and in concluding provisions.

1987—Subsec. (c). Pub. L. 100–203, §10205(a), added subsec. (c), substituting ''certain corporations'' for ''small business and family corporations'' in heading and striking out former text which read as follows: ''For purposes of subsection (a), a corporation shall be treated as not being a corporation if it is—

''(1) an S corporation,

''(2) a corporation of which at least 50 percent of the total combined voting power of all classes of stock entitled to vote, and at least 50 percent of the total number of shares of all other classes of stock of the corporation, are owned by members of the same family, or

''(3) a corporation the gross receipts of which meet the requirements of subsection (e).''

[2] So in original. Probably should be ''(iii)''.

Subsec. (d). Pub. L. 100–203, § 10205(a), added subsec. (d). Former subsec. (d) redesignated (e).

Subsec. (e). Pub. L. 100–203, § 10205(c)(1), substituted ''subsection (d)'' for ''subsection (c)(2)''.

Pub. L. 100–203, § 10205(a), redesignated former subsec. (d) as (e) and struck out former subsec. (e), ''Corporation having gross receipts of $1,000,000 or less'', which read as follows: ''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 a controlled group of corporations (within the meaning of section 1563(a)) shall be treated as one corporation.''

Subsec. (h)(1). Pub. L. 100–203, § 10205(c)(2)(A), substituted ''A corporation is described in this subsection'' for ''This section shall not apply to any corporation''.

Subsec. (h)(1)(A), (B). Pub. L. 100–203, § 10205(c)(2)(B), (C), substituted ''subsection (e)'' for ''subsection (d)'' and ''subsection (e)(1)'' for ''subsection (d)(1)'' wherever appearing.

Subsec. (i). Pub. L. 100–203, § 10205(b), added subsec. (i).

1986—Subsec. (a). Pub. L. 99–514, § 803(b)(7)(B), which directed that subsec. (a) be amended by striking out ''and with the capitalization of preproductive period of expenses described in subsection (b)'', was executed by striking out ''and with the capitalization of preproductive period expenses described in subsection (b)'' after ''accrual method of accounting'', as the probable intent of Congress.

Subsec. (b). Pub. L. 99–514, § 803(b)(7)(A), in amending subsec. (b) generally, substituted in heading ''period of expenses'' for ''period expenses'' and in text the cross reference to section 263A for former par. (1) defining ''preproductive period expenses'', par. (2) relating to exceptions, and par. (3) defining ''preproductive period''.

Subsec. (g)(1). Pub. L. 99–514, § 803(b)(7)(C), substituted ''Notwithstanding subsection (a) or section 263A, if'' for ''If''.

1982—Subsec. (c)(1). Pub. L. 97–354, § 5(a)(28), substituted ''an S corporation'' for ''an electing small business corporation (within the meaning of section 1371(b))''.

Subsec. (g)(1). Pub. L. 97–248, § 230(a)(1), inserted ''or qualified partnership'' after ''corporation'' wherever appearing.

Subsec. (g)(3). Pub. L. 97–248, § 230(a)(2), designated existing provisions from ''a corporation acquired'' through ''transferee corporation'', as subpar. (A), inserted ''qualified'' before ''farming trade'', and added subpar. (B).

Subsec. (g)(4). Pub. L. 97–354, § 5(a)(29), substituted in subpar. (A)(i) ''an S corporation'' for ''an electing small business corporation (within the meaning of section 1371(b))''.

Pub. L. 97–248, § 230(a)(3), added par. (4).

1978—Subsec. (a). Pub. L. 95–600, §§ 353(a), 703(d), substituted in provisions following par. (2) ''preproductive period expenses'' for ''preproductive expenses'' and ''nursery or sod farm'' for ''nursery''.

Subsec. (f)(3). Pub. L. 95–600, § 701(*l*)(1), struck out ''(except as otherwise provided in such regulations)'' before ''be taken'' and inserted ''(or the remaining taxable years where there is a stated future life of less than 10 taxable years)'' after ''10 taxable years''.

Subsec. (g)(2). Pub. L. 95–600, § 703(d), substituted ''preproductive period expenses'' for ''preproductive expenses''.

Subsec. (h). Pub. L. 95–600, § 351(a), added subsec. (h).

EFFECTIVE DATE OF 1997 AMENDMENT

Pub. L. 105–34, title X, § 1081(b), Aug. 5, 1997, 111 Stat. 950, provided that: ''The amendments made by this section [amending this section] shall apply to taxable years ending after June 8, 1997.''

EFFECTIVE DATE OF 1990 AMENDMENT

Amendment by Pub. L. 101–508 effective as if included in the provision of the Technical and Miscellaneous Revenue Act of 1988, Pub. L. 100–647, to which such amendment relates, see section 11702(j) of Pub. L. 101–508, set out as a note under section 59 of this title.

EFFECTIVE DATE OF 1988 AMENDMENT

Amendment by Pub. L. 100–647 effective, except as otherwise provided, as if included in the provision of the Tax Reform Act of 1986, Pub. L. 99–514, to which such amendment relates, see section 1019(a) of Pub. L. 100–647, set out as a note under section 1 of this title.

EFFECTIVE DATE OF 1987 AMENDMENT

Pub. L. 100–203, title X, § 10205(d), Dec. 22, 1987, 101 Stat. 1330–397, provided that: ''The amendments made by this section [amending this section] shall apply to taxable years beginning after December 31, 1987.''

EFFECTIVE DATE OF 1986 AMENDMENT

If any interest costs incurred after Dec. 31, 1986, are attributable to costs incurred before Jan. 1, 1987, the amendment by Pub. L. 99–514 is applicable to such interest costs only to the extent such interest costs are attributable to costs which were required to be capitalized under section 263 of the Internal Revenue Code of 1954 and which would have been taken into account in applying section 189 of the Internal Revenue Code of 1954 (as in effect before its repeal by section 803 of Pub. L. 99–514) or, if applicable, section 266 of such Code, see section 7831(d)(2) of Pub. L. 101–239, set out as an Effective Date note under section 263A of this title.

Amendment by Pub. L. 99–514 applicable to costs incurred after Dec. 31, 1986, in taxable years ending after such date, except as otherwise provided, see section 803(d) of Pub. L. 99–514, set out as an Effective Date note under section 263A of this title.

EFFECTIVE DATE OF 1982 AMENDMENT

Amendment by Pub. L. 97–354 applicable to taxable years beginning after Dec. 31, 1982, see section 6(a) of Pub. L. 97–354, set out as an Effective Date note under section 1361 of this title.

Pub. L. 97–248, title II, § 230(b), Sept. 3, 1982, 96 Stat. 496, provided that: ''The amendments made by this section [amending this section] shall apply to taxable years beginning after December 31, 1981.''

EFFECTIVE DATE OF 1978 AMENDMENT

Pub. L. 95–600, title III, § 351(b), Nov. 6, 1978, 92 Stat. 2846, provided that: ''The amendment made by subsection (a) [amending this section] shall apply to taxable years beginning after December 31, 1977.''

Pub. L. 95–600, title III, § 353(b), Nov. 6, 1978, 92 Stat. 2847, provided that: ''The amendment made by subsection (a) [amending this section] shall apply to taxable years beginning after December 31, 1976.''

Pub. L. 95–600, title VII, § 703(*l*)(4), Nov. 6, 1978, 92 Stat. 2907, as amended by Pub. L. 99–514, § 2, Oct. 22, 1986, 100 Stat. 2095, provided that: ''The amendment made by paragraphs (1) [amending this section] and (3) [amending section 464 of this title] shall take effect as if included in section 447 or 464 (as the case may be) of the Internal Revenue Code of 1986 [formerly I.R.C. 1954] at the time of the enactment of such sections [Oct. 4, 1976].''

Amendment by section 703(d) of Pub. L. 95–600 effective on Oct. 4, 1976, see section 703(r) of Pub. L. 95–600, set out as a note under section 46 of this title.

EFFECTIVE DATE

Pub. L. 94–455, title II, § 207(c)(2), Oct. 4, 1976, 90 Stat. 1541, as amended by Pub. L. 95–30, title IV, § 404, May 23, 1977, 91 Stat. 155; Pub. L. 99–514, § 2, Oct. 22, 1986, 100 Stat. 2095, provided that:

''(A) IN GENERAL.—Except as provided in subparagraph (B), the amendments made by paragraph (1) [enacting this section] shall apply to taxable years beginning after December 31, 1976.

''(B) SPECIAL RULE FOR CERTAIN CORPORATIONS.—In the case of a corporation engaged in the trade or business of farming and with respect to which—

''(i) members of two families (within the meaning of paragraph (1) of section 447(d) of the Internal Revenue Code of 1986 [formerly I.R.C. 1954], as added by paragraph (1)) owned, on October 4, 1976 (directly or through the application of such section 447(d)), at least 65 percent of the total combined voting power of all classes of stock of such corporation entitled to vote, and at least 65 percent of the total number of shares of all other classes of stock of such corporation; or

''(ii) members of three families (within the meaning of paragraph (1) of such section 447(d)) owned, on October 4, 1976 (directly or through the application of such section 447(d)), at least 50 percent of the total combined voting power of all classes of stock of such corporation entitled to vote, and at least 50 percent of the total number of shares of all other classes of stock of such corporation; and substantially all of the stock of such corporation which was not so owned (directly or through the application of such section 447(d)), by members of such three families was owned, on October 4, 1976, directly—

''(I) by employees of the corporation or members of the families (within the meaning of section 267(c)(4) of such Code) of such employees, or

''(II) by a trust for the benefit of the employees of such corporation which is described in section 401(a) of such Code and which is exempt from taxation under section 501(a) of such Code,

the amendments made by paragraph (1) shall apply to taxable years beginning after December 31, 1977.''

ACCOUNTING FOR GROWING CROPS

Pub. L. 95–600, title III, §352, Nov. 6, 1978, 92 Stat. 2846, provided that:

''(a) APPLICATION OF SECTION.—This section shall apply to a taxpayer who—

''(1) is a farmer, nurseryman, or florist,

''(2) is on an accrual method of accounting, and

''(3) is not required by section 447 of the Internal Revenue Code of 1954 to capitalize preproductive period expenses.

''(b) TAXPAYER MAY NOT BE REQUIRED TO INVENTORY GROWING CROPS.—A taxpayer to whom this section applies may not be required to inventory growing crops for any taxable year beginning after December 31, 1977.

''(c) TAXPAYER MAY ELECT TO CHANGE TO CASH METHOD.—A taxpayer to whom this section applies may, for any taxable year beginning after December 31, 1977 and before January 1, 1981, change to the cash receipts and disbursements method of accounting with respect to any trade or business in which the principal activity is growing crops.

''(d) SECTION 481 OF CODE TO APPLY.—Any change in the way in which a taxpayer accounts for the costs of growing crops resulting from the application of subsection (b) or (c)—

''(1) shall not require the consent of the Secretary of the Treasury or his delegate, and

''(2) shall be treated, for purposes of section 481 of the Internal Revenue Code of 1954 as a change in the method of accounting initiated by the taxpayer.

''(e) GROWING CROPS.—For purposes of this section, the term 'Growing crops' does not include trees grown for lumber, pulp, or other nonlife purposes.''

AUTOMATIC TEN-YEAR ADJUSTMENT FOR FARMING SYNDICATES CHANGING TO ACCRUAL ACCOUNTING

Pub. L. 95–600, title VII, §703(*l*)(2), Nov. 6, 1978, 92 Stat. 2906, provided that: ''If—

''(A) a farming syndicate (within the meaning of section 464(c) of the Internal Revenue Code of 1954) was in existence on December 31, 1975, and

''(B) such syndicate elects an accrual method of accounting (including the capitalization of preproductive period expenses described in section 447(b) of such Code) for a taxable year beginning before January 1, 1979,

then such election shall be treated as having been made with the consent of the Secretary of the Treasury or his delegate and, under regulations prescribed by the Secretary of the Treasury or his delegate, the net amount of the adjustments required by section 481(a) of such Code to be taken into account by the taxpayer in computing taxable income shall be taken into account in each of the 10 taxable years (or the remaining taxable years where there is a stated future life of less than 10 taxable years) beginning with the year of change.''

ELECTION TO CHANGE FROM STATIC VALUE METHOD TO ACCRUAL METHOD OF ACCOUNTING

Pub. L. 94–455, title II, §207(c)(3), Oct. 4, 1976, 90 Stat. 1541, as amended by Pub. L. 99–514, §2, Oct. 22, 1986, 100 Stat. 2095, provided that:

''(A) IN GENERAL.—If—

''(i) a corporation has computed its taxable income on an annual accrual method of accounting together with a static value method of accounting for deferred costs of growing crops for the 10 taxable years ending with its first taxable year beginning after December 31, 1975,

''(ii) such corporation raises crops which are harvested not less than 12 months after planting, and

''(iii) such corporation elects, within one year after the date of the enactment of this Act [Oct. 4, 1976] and in such manner as the Secretary of the Treasury or his delegate prescribes, to change to the annual accrual method of accounting (within the meaning of section 447(g)(2) of the Internal Revenue Code of 1986 [formerly I.R.C. 1954]) for taxable years beginning after December 31, 1976,

such change shall be treated as having been made with the consent of the Secretary of the Treasury, and, under regulations prescribed by the Secretary of the Treasury or his delegate, the net amount of the adjustments required by section 481(a) of the Internal Revenue Code of 1986 to be taken into account by the taxpayer in computing taxable income shall (except as otherwise provided in such regulations) be taken into account in each of the 10 taxable years beginning with the year of change.

''(B) COORDINATION WITH SECTION 447 OF THE CODE.—A corporation which elects under subparagraph (A) to change to the annual accrual method of accounting shall, for purposes of section 447(g) of the Internal Revenue Code of 1986, be deemed to be a corporation which has computed its taxable income on an annual accrual method of accounting for its 10 taxable years ending with its first taxable year beginning after December 31, 1975.

''(C) CERTAIN CORPORATE REORGANIZATIONS.—For purposes of this paragraph, if a corporation acquired substantially all the assets of a farming trade or business from another corporation in a transaction in which no gain or loss was recognized to the transferor or transferee corporation, the transferee corporation shall be deemed to have computed its taxable income on an annual accrual method of accounting together with a static value method of accounting for deferred costs of growing crops during the period for which the transferor corporation computed its taxable income from such trade or business on such accrual and static value method.''

§ 448. Limitation on use of cash method of accounting

(a) General rule

Except as otherwise provided in this section, in the case of a—

(1) C corporation,

(2) partnership which has a C corporation as a partner, or

(3) tax shelter,

taxable income shall not be computed under the cash receipts and disbursements method of accounting.