

“(2) has over 1,000 professional employees,
 “(3) used a long-term contract method of account-
 ing for a substantial part of its income from the per-
 formance of architectural and engineering services,
 and
 “(4) is headquartered in Chicago, Illinois.”

ELECTION AS TO TRANSFERS IN TAXABLE YEARS
 BEGINNING BEFORE JAN. 1, 1964

Pub. L. 88-272, title II, §223(c), Feb. 26, 1964, 78 Stat. 76, provided that:

“(1) The amendments made by subsection (a) [amend-
 ing this section and section 43 of the Internal Revenue
 Code of 1939] shall not apply to any transfer of money
 or other property described in subsection (a) made in a
 taxable year beginning before January 1, 1964, if the
 taxpayer elects, in the manner provided by regulations
 prescribed by the Secretary of the Treasury or his dele-
 gate, to have this paragraph apply. Such an election—

“(A) must be made within one year after the date
 of the enactment of this Act [Feb. 26, 1964],

“(B) may not be revoked after the expiration of
 such one-year period, and

“(C) shall apply to all transfers described in the
 first sentence of this paragraph (other than transfers
 described in paragraph (2)).

In the case of any transfer to which this paragraph ap-
 plies, the deduction shall be allowed only for the tax-
 able year in which the contest with respect to such
 transfer is settled.

“(2) Paragraph (1) shall not apply to any transfer if
 the assessment of any deficiency which would result
 from the application of the election in respect of such
 transfer is, on the date of the election under paragraph
 (1), prevented by the operation of any law or rule of
 law.

“(3) If the taxpayer makes an election under para-
 graph (1), and if, on the date of such election, the as-
 sessment of any deficiency which results from the ap-
 plication of the election in respect of any transfer is
 not prevented by the operation of any law or rule of
 law, the period within which assessment of such defi-
 ciency may be made shall not expire earlier than 2
 years after the date of the enactment of this Act [Feb.
 26, 1964].”

CERTAIN OTHER TRANSFERS IN TAXABLE YEARS
 BEGINNING BEFORE JAN. 1, 1964

Pub. L. 88-272, title II, §223(d), Feb. 26, 1964, 78 Stat. 77, provided that: “The amendments made by sub-
 section (a) [amending this section and section 43 of the
 Internal Revenue Code of 1939] shall not apply to any
 transfer of money or other property described in sub-
 section (a) made in a taxable year beginning before
 January 1, 1964, if—

“(1) no deduction has been allowed in respect of
 such transfer for any taxable year before the taxable
 year in which the contest with respect to such trans-
 fer is settled, and

“(2) refund or credit of any overpayment which
 would result from the application of such amend-
 ments to such transfer is prevented by the operation
 of any law or rule of law.

In the case of any transfer to which this subsection ap-
 plies, the deduction shall be allowed for the taxable
 year in which the contest with respect to such transfer
 is settled.”

[§ 462. Repealed. June 15, 1955, ch. 143, § 1(b), 69 Stat. 134]

Section, act Aug. 16, 1954, ch. 736 68A Stat. 158, relat-
 ed to reserves for estimated expenses.

EFFECTIVE DATE OF REPEAL

Repeal effective with respect to taxable years begin-
 ning after Dec. 31, 1953, and ending after Aug. 16, 1954,
 see section 3 of Act June 15, 1955, set out as an Effective
 Date of 1955 Amendment note under section 381 of this
 title.

SAVINGS PROVISION

For provisions concerning increase in tax in any tax-
 able year ending on or before June 15, 1955 by reason of
 enactment of act June 15, 1955, see section 4 of act June
 15, 1955, set out as a note under section 381 of this title.

[§ 463. Repealed. Pub. L. 100-203, title X, § 10201(a), Dec. 22, 1987, 101 Stat. 1330-387]

Section, added Pub. L. 93-625, §4(a), Jan. 3, 1974, 88
 Stat. 2109; amended Pub. L. 94-455, title XIX,
 §1906(b)(13)(A), Oct. 4, 1976, 90 Stat. 1834; Pub. L. 98-369,
 div. A, title V, §561(a), July 18, 1984, 98 Stat. 901; Pub.
 L. 99-514, title XI, §1165(a), Oct. 22, 1986, 100 Stat. 2511,
 related to deduction allowable for accrual basis tax-
 payers under section 162(a) of this title with respect to
 vacation pay.

EFFECTIVE DATE OF REPEAL

Repeal applicable to taxable years beginning after
 Dec. 31, 1987, see section 10201(c)(1) of Pub. L. 100-203,
 set out as an Effective Date of 1987 Amendment note
 under section 404 of this title.

CHANGE IN METHOD OF ACCOUNTING REQUIRED BY
 PUB. L. 100-203

Pub. L. 100-203, title X, §10201(c)(2), Dec. 22, 1987, 101
 Stat. 1330-388, provided that: “In the case of any tax-
 payer who elected to have section 463 of the Internal
 Revenue Code of 1986 apply for such taxpayer’s last tax-
 able year beginning before January 1, 1988, and who is
 required to change his method of accounting by reason
 of the amendments made by this section [amending
 sections 404, 419, and 461 of this title, repealing sections
 81 and 463 of this title, and enacting provisions set out
 as a note under section 404 of this title]—

“(A) such change shall be treated as initiated by
 the taxpayer,

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

“(C) the net amount of adjustments required by
 section 481 of such Code to be taken into account by
 the taxpayer—

“(i) shall be reduced by the balance in the sus-
 pense account under section 463(c) of such Code as
 of the close of such last taxable year, and

“(ii) shall be taken into account over the 4-tax-
 able year period beginning with the taxable year
 following such last taxable year as follows:

“In the case of the:	The percentage taken into account is:
1st year	25
2nd year	5
3rd year	35
4th year	35.

Notwithstanding subparagraph (C)(ii), if the period
 the adjustments are required to be taken into ac-
 count under section 481 of such Code is less than 4
 years, such adjustments shall be taken into account
 ratably over such shorter period.”

**§ 464. Limitations on deductions for certain farm-
 ing**

(a) General rule

In the case of any farming syndicate (as de-
 fined in subsection (c)), a deduction (otherwise
 allowable under this chapter) for amounts paid
 for feed, seed, fertilizer, or other similar farm
 supplies shall only be allowed for the taxable
 year in which such feed, seed, fertilizer, or other
 supplies are actually used or consumed, or, if
 later, for the taxable year for which allowable as
 a deduction (determined without regard to this
 section).

(b) Certain poultry expenses

In the case of any farming syndicate (as defined in subsection (c))—

(1) the cost of poultry (including egg-laying hens and baby chicks) purchased for use in a trade or business (or both for use in a trade or business and for sale) shall be capitalized and deducted ratably over the lesser of 12 months or their useful life in the trade or business, and

(2) the cost of poultry purchased for sale shall be deducted for the taxable year in which the poultry is sold or otherwise disposed of.

(c) Farming syndicate defined**(1) In general**

For purposes of this section, the term “farming syndicate” means—

(A) a partnership or any other enterprise other than a corporation which is not an S corporation engaged in the trade or business of farming, if at any time interests in such partnership or enterprise have been offered for sale in any offering required to be registered with any Federal or State agency having authority to regulate the offering of securities for sale, or

(B) a partnership or any other enterprise other than a corporation which is not an S corporation engaged in the trade or business of farming, if more than 35 percent of the losses during any period are allocable to limited partners or limited entrepreneurs.

(2) Holdings attributable to active management

For purposes of paragraph (1)(B), the following shall be treated as an interest which is not held by a limited partner or a limited entrepreneur:

(A) in the case of any individual who has actively participated (for a period of not less than 5 years) in the management of any trade or business of farming, any interest in a partnership or other enterprise which is attributable to such active participation,

(B) in the case of any individual whose principal residence is on a farm, any partnership or other enterprise engaged in the trade or business of farming such farm,

(C) in the case of any individual who is actively participating in the management of any trade or business of farming or who is an individual who is described in subparagraph (A) or (B), any participation in the further processing of livestock which was raised in such trade or business (or in the trade or business referred to in subparagraph (A) or (B)),

(D) in the case of an individual whose principal business activity involves active participation in the management of a trade or business of farming, any interest in any other trade or business of farming, and,

(E) any interest held by a member of the family (or a spouse of any such member) or a grandparent of an individual described in subparagraph (A), (B), (C), or (D) if the interest in the partnership or the enterprise is attributable to the active participation of the individual described in subparagraph (A), (B), (C), or (D).

For purposes of subparagraph (A), where one farm is substituted for or added to another farm, both farms shall be treated as one farm. For purposes of subparagraph (E), the term “family” has the meaning given to such term by section 267(c)(4).

(d) Exception

Subsection (a) shall not apply to any amount paid for supplies which are on hand at the close of the taxable year on account of fire, storm, or other casualty, or on account of disease or drought.

(e) Definitions

For purposes of this section—

(1) Farming

The term “farming” means the cultivation of land or the raising or harvesting of any agricultural or horticultural commodity including the raising, shearing, feeding, caring for, training, and management of animals. For purposes of the preceding sentence, trees (other than trees bearing fruit or nuts) shall not be treated as an agricultural or horticultural commodity.

(2) Limited entrepreneur

The term “limited entrepreneur” means a person who—

(A) has an interest in an enterprise other than as a limited partner, and

(B) does not actively participate in the management of such enterprise.

(f) Subsections (a) and (b) to apply to certain persons prepaying 50 percent or more of certain farming expenses**(1) In general**

In the case of a taxpayer to whom this subsection applies, subsections (a) and (b) shall apply to the excess prepaid farm supplies of such taxpayer in the same manner as if such taxpayer were a farming syndicate.

(2) Taxpayer to whom subsection applies

This subsection applies to any taxpayer for any taxable year if such taxpayer—

(A) does not use an accrual method of accounting,

(B) has excess prepaid farm supplies for the taxable year, and

(C) is not a qualified farm-related taxpayer.

(3) Qualified farm-related taxpayer**(A) In general**

For purposes of this subsection, the term “qualified farm-related taxpayer” means any farm-related taxpayer if—

(i)(I) the aggregate prepaid farm supplies for the 3 taxable years preceding the taxable year are less than 50 percent of,

(II) the aggregate deductible farming expenses (other than prepaid farm supplies) for such 3 taxable years, or

(ii) the taxpayer has excess prepaid farm supplies for the taxable year by reason of any change in business operation directly attributable to extraordinary circumstances.

(B) Farm-related taxpayer

For purposes of this paragraph, the term “farm-related taxpayer” means any taxpayer—

- (i) whose principal residence (within the meaning of section 121) is on a farm,
- (ii) who has a principal occupation of farming, or
- (iii) who is a member of the family (within the meaning of subsection (c)(2)(E)) of a taxpayer described in clause (i) or (ii).

(4) Definitions

For purposes of this subsection—

(A) Excess prepaid farm supplies

The term “excess prepaid farm supplies” means the prepaid farm supplies for the taxable year to the extent the amount of such supplies exceeds 50 percent of the deductible farming expenses for the taxable year (other than prepaid farm supplies).

(B) Prepaid farm supplies

The term “prepaid farm supplies” means any amounts which are described in subsection (a) or (b) and would be allowable for a subsequent taxable year under the rules of subsections (a) and (b).

(C) Deductible farming expenses

The term “deductible farming expenses” means any amount allowable as a deduction under this chapter (including any amount allowable as a deduction for depreciation or amortization) which is properly allocable to the trade or business of farming.

(g) Termination

Except as provided in subsection (f), subsections (a) and (b) shall not apply to any taxable year beginning after December 31, 1986.

(Added Pub. L. 94-455, title II, § 207(a)(1), Oct. 4, 1976, 90 Stat. 1536; amended Pub. L. 95-600, title VII, § 701(l)(3), Nov. 6, 1978, 92 Stat. 2907; Pub. L. 97-354, § 5(a)(30), Oct. 19, 1982, 96 Stat. 1695; Pub. L. 99-514, title IV, § 404(a), (b)(1), title VIII, § 803(b)(8), Oct. 22, 1986, 100 Stat. 2223, 2224, 2356; Pub. L. 100-647, title I, § 1008(a)(4), Nov. 10, 1988, 102 Stat. 3437; Pub. L. 105-34, title III, § 312(d)(1), Aug. 5, 1997, 111 Stat. 839.)

AMENDMENTS

1997—Subsec. (f)(3)(B)(i). Pub. L. 105-34 substituted “section 121” for “section 1034”.

1988—Subsec. (g). Pub. L. 100-647 added subsec. (g).

1986—Pub. L. 99-514, § 404(b)(1), substituted “for certain farming” for “in case of farming syndicates” in section catchline.

Subsec. (d). Pub. L. 99-514, § 803(b)(8), substituted “Exception” for “Exceptions” as heading and amended text generally. Prior to amendment, text read as follows: “Subsection (a) shall not apply to—

“(1) any amount paid for supplies which are on hand at the close of the taxable year on account of fire, storm, flood, or other casualty or on account of disease or drought, or

“(2) any amount required to be charged to capital account under section 278.”

Subsec. (f). Pub. L. 99-514, § 404(a), added subsec. (f).

1982—Subsec. (c)(1)(A), (B). Pub. L. 97-354 substituted “an S corporation” for “an electing small business corporation (as defined in section 1371(b))”.

1978—Subsec. (c)(2). Pub. L. 95-600 substituted in subpar. (E) “(or a spouse of any such member)” for “(with-in the meaning of section 267(c)(4))” and provided that for purposes of subpar. (E) the term “family” has the meaning given to such term by section 267(c)(4).

EFFECTIVE DATE OF 1997 AMENDMENT

Amendment by Pub. L. 105-34 applicable to sales and exchanges after May 6, 1997, with certain exceptions, see section 312(d) of Pub. L. 105-34, set out as a note under section 121 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 1986 AMENDMENT

If any interest costs incurred after Dec. 31, 1986, are attributable to costs incurred before Jan. 1, 1987, the amendment by section 803(b)(8) of 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.

Pub. L. 99-514, title IV, § 404(c), Oct. 22, 1986, 100 Stat. 2224, provided that: “The amendments made by this section [amending this section] shall apply to amounts paid or incurred after March 1, 1986, in taxable years beginning after such date.”

Amendment by section 803(b)(8) of 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.

EFFECTIVE DATE OF 1978 AMENDMENT

Amendment by Pub. L. 95-600 effective as if included in this section or section 447 of this title at the time of their enactment, Oct. 4, 1976, see section 701(l)(4) of Pub. L. 95-600, set out as a note under section 447 of this title.

EFFECTIVE DATE

Pub. L. 94-455, title II, § 207(a)(3), Oct. 4, 1976, 90 Stat. 1537, provided that:

“(A) IN GENERAL.—Except as provided in subparagraph (B), the amendments made by this subsection [enacting this section] shall apply to taxable years beginning after December 31, 1975.

“(B) TRANSITIONAL RULE.—In the case of a farming syndicate in existence on December 31, 1975, and for which there was no change of membership throughout its taxable year beginning in 1976, the amendments made by this subsection shall apply to taxable years beginning after December 31, 1976.”

§ 465. Deductions limited to amount at risk**(a) Limitation to amount at risk****(1) In general**

In the case of—

- (A) an individual, and