

1971—Pub. L. 91-680, §1(c), Jan. 12, 1971, 84 Stat. 2064, inserted “and almond” after “citrus” in item 278.

1969—Pub. L. 91-172, title I, §121(b)(3)(B), title II, §§213(c)(2), 216(b), title IV, §411(b), Dec. 30, 1969, 83 Stat. 541, 572, 574, 608, struck out item 270 “Limitation on deductions allowable to individuals in certain cases”, and added items 277 to 279.

1966—Pub. L. 89-368, title III, §301(b), Mar. 15, 1966, 80 Stat. 67, added item 276.

1964—Pub. L. 88-272, title II, §§207(b)(3)(B), 227(b)(4), Feb. 26, 1964, 78 Stat. 42, 98, inserted “or domestic iron ore” in item 272, and added item 275.

1962—Pub. L. 87-834, §4(a)(2), Oct. 16, 1962, 76 Stat. 976, added item 274.

§ 261. General rule for disallowance of deductions

In computing taxable income no deduction shall in any case be allowed in respect of the items specified in this part.

(Aug. 16, 1954, ch. 736, 68A Stat. 76.)

§ 262. Personal, living, and family expenses

(a) General rule

Except as otherwise expressly provided in this chapter, no deduction shall be allowed for personal, living, or family expenses.

(b) Treatment of certain phone expenses

For purposes of subsection (a), in the case of an individual, any charge (including taxes thereon) for basic local telephone service with respect to the 1st telephone line provided to any residence of the taxpayer shall be treated as a personal expense.

(Aug. 16, 1954, ch. 736, 68A Stat. 76; Pub. L. 100-647, title V, §5073(a), Nov. 10, 1988, 102 Stat. 3682.)

AMENDMENTS

1988—Pub. L. 100-647 amended section generally. Prior to amendment, section read as follows: “Except as otherwise expressly provided in this chapter, no deduction shall be allowed for personal, living, or family expenses.”

EFFECTIVE DATE OF 1988 AMENDMENT

Pub. L. 100-647, title V, §5073(b), Nov. 10, 1988, 102 Stat. 3682, provided that: “The amendment made by subsection (a) [amending this section] shall apply to taxable years beginning after December 31, 1988.”

§ 263. Capital expenditures

(a) General rule

No deduction shall be allowed for—

(1) Any amount paid out for new buildings or for permanent improvements or betterments made to increase the value of any property or estate. This paragraph shall not apply to—

(A) expenditures for the development of mines or deposits deductible under section 616,

(B) research and experimental expenditures deductible under section 174,

(C) soil and water conservation expenditures deductible under section 175,

(D) expenditures by farmers for fertilizer, etc., deductible under section 180,

(E) expenditures for removal of architectural and transportation barriers to the handicapped and elderly which the taxpayer elects to deduct under section 190,

(F) expenditures for tertiary injectants with respect to which a deduction is allowed under section 193;¹

(G) expenditures for which a deduction is allowed under section 179;¹

[(H) Repealed. Pub. L. 113-295, div. A, title II, §221(a)(34)(D), Dec. 19, 2014, 128 Stat. 4042.]

(I) expenditures for which a deduction is allowed under section 179B,

(J) expenditures for which a deduction is allowed under section 179C,

(K) expenditures for which a deduction is allowed under section 179D, or

(L) expenditures for which a deduction is allowed under section 179E.

(2) Any amount expended in restoring property or in making good the exhaustion thereof for which an allowance is or has been made.

[(b) Repealed. Pub. L. 101-508, title XI, §11801(a)(16), Nov. 5, 1990, 104 Stat. 1388-520]

(c) Intangible drilling and development costs in the case of oil and gas wells and geothermal wells

Notwithstanding subsection (a), and except as provided in subsection (i), regulations shall be prescribed by the Secretary under this subtitle corresponding to the regulations which granted the option to deduct as expenses intangible drilling and development costs in the case of oil and gas wells and which were recognized and approved by the Congress in House Concurrent Resolution 50, Seventy-ninth Congress. Such regulations shall also grant the option to deduct as expenses intangible drilling and development costs in the case of wells drilled for any geothermal deposit (as defined in section 613(e)(2)) to the same extent and in the same manner as such expenses are deductible in the case of oil and gas wells. This subsection shall not apply with respect to any costs to which any deduction is allowed under section 59(e) or 291.

(d) Expenditures in connection with certain railroad rolling stock

In the case of expenditures in connection with the rehabilitation of a unit of railroad rolling stock (except a locomotive) used by a domestic common carrier by railroad which would, but for this subsection, be properly chargeable to capital account, such expenditures, if during any 12-month period they do not exceed an amount equal to 20 percent of the basis of such unit in the hands of the taxpayer, shall, at the election of the taxpayer, be treated (notwithstanding subsection (a)) as deductible repairs under section 162 or 212. An election under this subsection shall be made for any taxable year at such time and in such manner as the Secretary prescribes by regulations. An election may not be made under this subsection for any taxable year to which an election under subsection (e) applies to railroad rolling stock (other than locomotives).

[(e) Repealed. Pub. L. 97-34, title II, §201(c), Aug. 13, 1981, 95 Stat. 219]

(f) Railroad ties

In the case of a domestic common carrier by rail (including a railroad switching or terminal

¹ So in original. The semicolon probably should be a comma.

company) which uses the retirement-replacement method of accounting for depreciation of its railroad track, expenditures for acquiring and installing replacement ties of any material (and fastenings related to such ties) shall be accorded the same tax accounting treatment as expenditures for replacement ties of wood (and fastenings related to such ties).

(g) Certain interest and carrying costs in the case of straddles

(1) General rule

No deduction shall be allowed for interest and carrying charges properly allocable to personal property which is part of a straddle (as defined in section 1092(c)). Any amount not allowed as a deduction by reason of the preceding sentence shall be chargeable to the capital account with respect to the personal property to which such amount relates.

(2) Interest and carrying charges defined

For purposes of paragraph (1), the term “interest and carrying charges” means the excess of—

(A) the sum of—

(i) interest on indebtedness incurred or continued to purchase or carry the personal property, and

(ii) all other amounts (including charges to insure, store, or transport the personal property) paid or incurred to carry the personal property, over

(B) the sum of—

(i) the amount of interest (including original issue discount) includible in gross income for the taxable year with respect to the property described in subparagraph (A),

(ii) any amount treated as ordinary income under section 1271(a)(3)(A), 1276, or 1281(a) with respect to such property for the taxable year,

(iii) the excess of any dividends includible in gross income with respect to such property for the taxable year over the amount of any deduction allowable with respect to such dividends under section 243 or 245, and

(iv) any amount which is a payment with respect to a security loan (within the meaning of section 512(a)(5)) includible in gross income with respect to such property for the taxable year.

For purposes of subparagraph (A), the term “interest” includes any amount paid or incurred in connection with personal property used in a short sale.

(3) Exception for hedging transactions

This subsection shall not apply in the case of any hedging transaction (as defined in section 1256(e)).

(4) Application with other provisions

(A) Subsection (c)

In the case of any short sale, this subsection shall be applied after subsection (h).

(B) Section 1277 or 1282

In the case of any obligation to which section 1277 or 1282 applies, this subsection shall be applied after section 1277 or 1282.

(h) Payments in lieu of dividends in connection with short sales

(1) In general

If—

(A) a taxpayer makes any payment with respect to any stock used by such taxpayer in a short sale and such payment is in lieu of a dividend payment on such stock, and

(B) the closing of such short sale occurs on or before the 45th day after the date of such short sale,

then no deduction shall be allowed for such payment. The basis of the stock used to close the short sale shall be increased by the amount not allowed as a deduction by reason of the preceding sentence.

(2) Longer period in case of extraordinary dividends

If the payment described in paragraph (1)(A) is in respect of an extraordinary dividend, paragraph (1)(B) shall be applied by substituting “the day 1 year after the date of such short sale” for “the 45th day after the date of such short sale”.

(3) Extraordinary dividend

For purposes of this subsection, the term “extraordinary dividend” has the meaning given to such term by section 1059(c); except that such section shall be applied by treating the amount realized by the taxpayer in the short sale as his adjusted basis in the stock.

(4) Special rule where risk of loss diminished

The running of any period of time applicable under paragraph (1)(B) (as modified by paragraph (2)) shall be suspended during any period in which—

(A) the taxpayer holds, has an option to buy, or is under a contractual obligation to buy, substantially identical stock or securities, or

(B) under regulations prescribed by the Secretary, a taxpayer has diminished his risk of loss by holding 1 or more other positions with respect to substantially similar or related property.

(5) Deduction allowable to extent of ordinary income from amounts paid by lending broker for use of collateral

(A) In general

Paragraph (1) shall apply only to the extent that the payments or distributions with respect to any short sale exceed the amount which—

(i) is treated as ordinary income by the taxpayer, and

(ii) is received by the taxpayer as compensation for the use of any collateral with respect to any stock used in such short sale.

(B) Exception not to apply to extraordinary dividends

Subparagraph (A) shall not apply if one or more payments or distributions is in respect of an extraordinary dividend.

(6) Application of this subsection with subsection (g)

In the case of any short sale, this subsection shall be applied before subsection (g).

(i) Special rules for intangible drilling and development costs incurred outside the United States

In the case of intangible drilling and development costs paid or incurred with respect to an oil, gas, or geothermal well located outside the United States—

- (1) subsection (c) shall not apply, and
- (2) such costs shall—

(A) at the election of the taxpayer, be included in adjusted basis for purposes of computing the amount of any deduction allowable under section 611 (determined without regard to section 613), or

(B) if subparagraph (A) does not apply, be allowed as a deduction ratably over the 10-taxable year period beginning with the taxable year in which such costs were paid or incurred.

This subsection shall not apply to costs paid or incurred with respect to a nonproductive well.

(Aug. 16, 1954, ch. 736, 68A Stat. 77; Pub. L. 86-779, §6(c), Sept. 14, 1960, 74 Stat. 1001; Pub. L. 87-834, §21(b), Oct. 16, 1962, 76 Stat. 1064; Pub. L. 88-563, §4, Sept. 2, 1964, 78 Stat. 845; Pub. L. 89-243, §4(p)(1), (2), Oct. 9, 1965, 79 Stat. 964; Pub. L. 91-172, title VII, §706(a), Dec. 30, 1969, 83 Stat. 674; Pub. L. 92-178, title I, §109(b), (c), Dec. 10, 1971, 85 Stat. 509; Pub. L. 94-455, title XVII, §1701(a), title XIX, §§1904(b)(10)(A)(i), 1906(b)(13)(A), title XXI, §2122(b)(2), Oct. 4, 1976, 90 Stat. 1759, 1817, 1834, 1915; Pub. L. 95-618, title IV, §402(a), Nov. 9, 1978, 92 Stat. 3201; Pub. L. 96-223, title II, §251(a)(2)(B), Apr. 2, 1980, 94 Stat. 287; Pub. L. 97-34, title II, §§201(c), 202(d)(1), title V, §502, Aug. 13, 1981, 95 Stat. 219, 221, 327; Pub. L. 97-248, title II, §204(c)(1), Sept. 3, 1982, 96 Stat. 426; Pub. L. 97-448, title I, §105(b)(1), title III, §306(a)(9)(A), Jan. 12, 1983, 96 Stat. 2385, 2403; Pub. L. 98-369, div. A, title I, §§56(a), 102(e)(7), (8), July 18, 1984, 98 Stat. 573, 624, 625; Pub. L. 99-514, title IV, §§402(b)(1), 411(b)(1), title VII, §701(e)(4)(D), title XVIII, §1808(b), Oct. 22, 1986, 100 Stat. 2221, 2225, 2343, 2817; Pub. L. 100-647, title I, §1007(g)(5), Nov. 10, 1988, 102 Stat. 3435; Pub. L. 101-508, title XI, §§11801(a)(16), 11815(b)(3), Nov. 5, 1990, 104 Stat. 1388-520, 1388-558; Pub. L. 105-34, title XVI, §1604(a)(1), Aug. 5, 1997, 111 Stat. 1097; Pub. L. 108-311, title IV, §408(a)(10), Oct. 4, 2004, 118 Stat. 1191; Pub. L. 108-357, title III, §338(b)(1), Oct. 22, 2004, 118 Stat. 1481; Pub. L. 109-58, title XIII, §§1323(b)(2), 1331(b)(4), Aug. 8, 2005, 119 Stat. 1015, 1024; Pub. L. 109-432, div. A, title IV, §404(b)(1), Dec. 20, 2006, 120 Stat. 2956; Pub. L. 113-295, div. A, title II, §221(a)(34)(D), (41)(G), Dec. 19, 2014, 128 Stat. 4042, 4044.)

AMENDMENTS

2014—Subsec. (a)(1)(H). Pub. L. 113-295, §221(a)(34)(D), struck out subpar. (H) which read as follows: “expenditures for which a deduction is allowed under section 179A.”

Subsec. (g)(2)(B)(iii). Pub. L. 113-295, §221(a)(41)(G), struck out “, 244,” after “section 243”.

2006—Subsec. (a)(1)(L). Pub. L. 109-432 added subpar. (L).

2005—Subsec. (a)(1)(J). Pub. L. 109-58, §1323(b)(2), added subpar. (J).

Subsec. (a)(1)(K). Pub. L. 109-58, §1331(b)(4), added subpar. (K).

2004—Subsec. (a)(1)(I). Pub. L. 108-357 added subpar. (I).

Subsec. (g)(2)(B)(ii). Pub. L. 108-311 substituted “1276” for “1278”.

1997—Subsec. (a)(1)(H). Pub. L. 105-34 added subpar. (H).

1990—Subsec. (b). Pub. L. 101-508, §11801(a)(16), struck out subsec. (b) “Expenditures for advertising and good will” which read as follows: “If a corporation has, for the purpose of computing its excess profits tax credit under chapter 2E or subchapter D of chapter 1 of the Internal Revenue Code of 1939 claimed the benefits of the election provided in section 733 or section 451 of such code, as the case may be, no deduction shall be allowable under section 162 to such corporation for expenditures for advertising or the promotion of good will which, under the rules and regulations prescribed under section 733 or section 451 of such code, as the case may be, may be regarded as capital investments.”

Subsec. (c). Pub. L. 101-508, §11815(b)(3), substituted “section 613(e)(2)” for “section 613(e)(3)”.

1988—Subsec. (c). Pub. L. 100-647 substituted “section 59(e)” for “section 59(d)”.

1986—Subsec. (a)(1)(E) to (H). Pub. L. 99-514, §402(b)(1), struck out subpar. (E) relating to non-application of par. (1) to expenditures by farmers for clearing land deductible under section 182, and redesignated subpars. (F) to (H) as (E) to (G), respectively.

Subsec. (c). Pub. L. 99-514, §701(e)(4)(D), substituted “59(d)” for “58(i)”.

Pub. L. 99-514, §411(b)(1)(B), inserted “and except as provided in subsection (i).”

Subsec. (g)(2)(B)(iv). Pub. L. 99-541, §1808(b), added cl. (iv).

Subsec. (i). Pub. L. 99-514, §411(b)(1)(A), added subsec. (i).

1984—Subsec. (g)(2). Pub. L. 98-369, §102(e)(7), amended par. (2) generally, striking out “charges for temporary use of the personal property in a short sale, or” after “(including” in subpar. (A)(ii), substituting “any amount treated as ordinary income under section 1271(a)(3)(A), 1278, or 1281(a) with respect to such property for the taxable year, and” for “any amount treated as ordinary income under section 1232(a)(3)(A) with respect to such property for the taxable year” in subpar. (B)(ii), and adding subpar. (B)(iii).

Subsec. (g)(4). Pub. L. 98-369, §102(e)(8), added par. (4).

Subsec. (h). Pub. L. 98-369, §56(a), added subsec. (h).

1983—Subsec. (g)(2)(A)(ii). Pub. L. 97-448, §105(b)(1), substituted “all other amounts (including charges for temporary use of the personal property in a short sale, or to insure, store, or transport the personal property) paid or incurred to carry the personal property, over” for “amounts paid or incurred to insure, store, or transport the personal property, over”.

Subsec. (g)(2)(B)(ii). Pub. L. 97-448, §306(a)(9)(A), substituted “section 1232(a)(3)(A)” for “section 1232(a)(4)(A)”.

1982—Subsec. (c). Pub. L. 97-248, §204(c)(1), inserted provision that this subsection not apply with respect to any costs to which any deduction is allowed under section 58(i) or 291.

1981—Subsec. (a)(1)(H). Pub. L. 97-34, §202(d)(1), added subpar. (H).

Subsec. (e). Pub. L. 97-34, §201(c), struck out subsec. (e) which related to the allowance of repair expenses or specified repair, rehabilitation, or improvement expenditures.

Subsec. (g). Pub. L. 97-34, §502, added subsec. (g).

1980—Subsec. (a)(1)(G). Pub. L. 96-223 added subpar. (G).

1978—Subsec. (c). Pub. L. 95-618 inserted “and geothermal wells” after “gas wells” in heading and in text inserted provision that such regulations also grant the option to deduct as expenses intangible drilling and development costs in the case of wells drilled for any geothermal deposit (as defined in section 613(e)(3)) to the same extent and in the same manner as such expenses are deductible in the case of oil and gas wells.

1976—Subsec. (a)(1)(F). Pub. L. 94-455, §2122(b)(2), added subpar. (F).

Subsec. (a)(3). Pub. L. 94-455, §1904(b)(10)(A)(i)(I), struck out par. (3) which provided that no deduction be allowed for amounts paid as tax under section 4911 (relating to imposition of interest equalization tax) except as provided in subsec. (d).

Subsec. (d). Pub. L. 94-455, §§1904(b)(10)(A)(i)(I), (II), 1906(b)(13)(A), redesignated subsec. (e) as (d) and struck out “or his delegate” after “Secretary” and substituted “subsection (e)” for “subsection (f)”. Former subsec. (d) was struck out.

Subsec. (e). Pub. L. 94-455, §§1904(b)(10)(A)(i)(I), 1906(b)(13)(A), redesignated subsec. (f) as (e) and struck out “or his delegate” after “Secretary”. Former subsec. (e) redesignated (d).

Subsec. (f). Pub. L. 94-455, §§1701(a), 1904(b)(10)(A)(i)(I), added subsec. (f). Former subsec. (f) redesignated (e).

1971—Subsec. (e). Pub. L. 92-178, §109(c), substituted “shall, at the election of the taxpayer, be treated” for “shall be treated” and inserted provisions respecting making of election under this subsection for any taxable year at such time and in such manner as Secretary or his delegate prescribed by regulation and prohibiting making of election for any taxable year to which an election under subsec. (f) applies to railroad rolling stock (other than locomotives).

Subsec. (f). Pub. L. 92-178, §109(b), added subsec. (f).

1969—Subsec. (e). Pub. L. 91-172 added subsec. (e).

1965—Subsec. (a)(3). Pub. L. 89-243, §4(p)(1), inserted “Except as provided in subsection (d)”, and struck out “except to the extent that any amount attributable to the amount paid as tax is included in gross income for the taxable year” after parenthetical provision.

Subsec. (d). Pub. L. 89-243, §4(p)(2), added subsec. (d).

1964—Subsec. (a)(3). Pub. L. 88-563 added par. (3).

1962—Subsec. (a)(1)(E). Pub. L. 87-834 added subpar. (E).

1960—Subsec. (a)(1)(D). Pub. L. 86-779 added subpar. (D).

EFFECTIVE DATE OF 2014 AMENDMENT

Amendment by section 221(a)(41)(G) of Pub. L. 113-295 not applicable to preferred stock issued before Oct. 1, 1942 (determined in the same manner as under section 247 of this title as in effect before its repeal by Pub. L. 113-295), see section 221(a)(41)(K) of Pub. L. 113-295, set out as a note under section 172 of this title.

Except as otherwise provided in section 221(a) of Pub. L. 113-295, amendment by Pub. L. 113-295 effective Dec. 19, 2014, subject to a savings provision, see section 221(b) of Pub. L. 113-295, set out as a note under section 1 of this title.

EFFECTIVE DATE OF 2006 AMENDMENT

Amendment by Pub. L. 109-432 applicable to costs paid or incurred after Dec. 20, 2006, see section 404(c) of Pub. L. 109-432, set out as an Effective Date note under section 179E of this title.

EFFECTIVE DATE OF 2005 AMENDMENT

Amendment by section 1323(b)(2) of Pub. L. 109-58 applicable to properties placed in service after Aug. 8, 2005, see section 1323(c) of Pub. L. 109-58, set out as an Effective Date note under section 179C of this title.

Amendment by section 1331(b)(4) of Pub. L. 109-58 applicable to property placed in service after Dec. 31, 2005, see section 1331(d) of Pub. L. 109-58, set out as an Effective Date note under section 179D of this title.

EFFECTIVE DATE OF 2004 AMENDMENT

Amendment by Pub. L. 108-357 applicable to expenses paid or incurred after Dec. 31, 2002, in taxable years ending after such date, see section 338(c) of Pub. L. 108-357, set out as an Effective Date note under section 179B of this title.

EFFECTIVE DATE OF 1997 AMENDMENT

Pub. L. 105-34, title XVI, §1604(a)(4), Aug. 5, 1997, 111 Stat. 1097, provided that: “The amendments made by

this subsection [amending this section and sections 312 and 1245 of this title] shall take effect as if included in the amendments made by section 1913 of the Energy Policy Act of 1992 [Pub. L. 102-486].”

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

Amendment by section 402(b)(1) of Pub. L. 99-514 applicable to amounts paid or incurred after Dec. 31, 1985, in taxable years ending after such date, see section 402(c) of Pub. L. 99-514 set out as an Effective Date of Repeal note under former section 182 of this title.

Pub. L. 99-514, title IV, §411(c), Oct. 22, 1986, 100 Stat. 2227, provided that:

“(1) IN GENERAL.—The amendments made by this section [amending this section and sections 243, 291, 381, 616, and 617 of this title] shall apply to costs paid or incurred after December 31, 1986, in taxable years ending after such date.

“(2) TRANSITION RULE.—The amendments made by this section shall not apply with respect to intangible drilling and development costs incurred by United States companies pursuant to a minority interest in a license for Netherlands or United Kingdom North Sea development if such interest was acquired on or before December 31, 1985.”

Amendment by section 701(e)(4)(D) of Pub. L. 99-514 applicable to taxable years beginning after Dec. 31, 1986, with certain exceptions and qualifications, see section 701(f) of Pub. L. 99-514, set out as an Effective Date note under section 55 of this title.

Amendment by section 1808(b) of Pub. L. 99-514 effective, except as otherwise provided, as if included in the provisions of the Tax Reform Act of 1984, Pub. L. 98-369, div. A, to which such amendment relates, see section 1881 of Pub. L. 99-514, set out as a note under section 48 of this title.

EFFECTIVE DATE OF 1984 AMENDMENT

Amendment by section 56(a) of Pub. L. 98-369 applicable to short sales after July 18, 1984, in taxable years ending after that date, see section 56(d) of Pub. L. 98-369, set out as a note under section 163 of this title.

Amendment by section 102(e)(7), (8) of Pub. L. 98-369 applicable to positions established after July 18, 1984, in taxable years ending after that date, except as otherwise provided, see section 102(f), (g) of Pub. L. 98-369, set out as a note under section 1256 of this title.

EFFECTIVE DATE OF 1983 AMENDMENT

Pub. L. 97-448, title I, §105(b)(2), Jan. 12, 1983, 96 Stat. 2385, provided that: “The amendment made by paragraph (1) [amending this section] shall apply to property acquired, and positions established, by the taxpayer after September 22, 1982, in taxable years ending after such date.”

Amendment by section 306 of Pub. L. 97-448 effective as if included in the provisions of the Tax Equity and Fiscal Responsibility Act of 1982, Pub. L. 97-248, to which such amendment relates, see section 311(d) of Pub. L. 97-448, set out as a note under section 31 of this title.

EFFECTIVE DATE OF 1982 AMENDMENT

Amendment by Pub. L. 97-248 applicable to taxable years beginning after December 31, 1982, see section 204(d)(1) of Pub. L. 97-248, set out as an Effective Date note under section 291 of this title.

EFFECTIVE DATE OF 1981 AMENDMENT

Amendment by sections 201(c) and 202(d)(1) of Pub. L. 97-34 applicable to property placed in service after Dec.

31, 1980, in taxable years ending after that date, see section 209(a) of Pub. L. 97-34, set out as an Effective Date note under section 168 of this title.

Amendment by section 502 of Pub. L. 97-34 applicable to property acquired and positions established by the taxpayer after June 23, 1981, in taxable years ending after such date, and applicable when so elected with respect to property held on June 23, 1981, see section 508 of Pub. L. 97-34, set out as an Effective Date note under section 1092 of this title.

EFFECTIVE DATE OF 1980 AMENDMENT

Amendment by Pub. L. 96-223 applicable to taxable years beginning after Dec. 31, 1979, see section 251(b) of Pub. L. 96-223, set out as an Effective Date note under section 193 of this title.

EFFECTIVE DATE OF 1978 AMENDMENT

Pub. L. 95-618, title IV, § 402(e), Nov. 9, 1978, 92 Stat. 3203, as amended by Pub. L. 99-514, § 2, Oct. 22, 1986, 100 Stat. 2095, provided that:

“(1) IN GENERAL.—The amendments made by this section [amending this section and sections 57, 465, 751, and 1254 of this title] shall apply with respect to wells commenced on or after October 1, 1978, in taxable years ending on or after such date.

“(2) ELECTION.—The taxpayer may elect to capitalize or deduct any costs to which section 263(c) of the Internal Revenue Code of 1986 [formerly I.R.C. 1954] applies by reason of the amendments made by this section [amending this section and sections 57, 465, 751, and 1254 of this title]. Any such election shall be made before the expiration of the time for filing claim for credit or refund of any overpayment of tax imposed by chapter 1 of such Code [section 1 et seq. of this title] with respect to the taxpayer's first taxable year to which the amendments made by this section apply and for which he pays or incurs costs to which such section 263(c) applies by reason of the amendments made by this section. Any election under this paragraph may be changed or revoked at any time before the expiration of the time referred to in the preceding sentence, but after the expiration of such time such election may not be changed or revoked.”

EFFECTIVE DATE OF 1976 AMENDMENT

Pub. L. 94-455, title XIX, § 1904(b)(10)(A)(vii), Oct. 4, 1976, 90 Stat. 1817, provided that: “The amendments made by this subparagraph [amending this section and sections 6011, 6611, and 6651 of this title and repealing sections 6076 and 6680 of this title] shall apply with respect to acquisitions of stock or debt obligations made after June 30, 1974, except that the repeal of paragraph (2) of section 6011(d) under clause (ii) shall apply with respect to loans and commitments made after such date.”

Amendment by section 2122(b)(2) of Pub. L. 94-455, as amended by Pub. L. 96-167, § 9(c), Dec. 29, 1979, 93 Stat. 1278, applicable to taxable years beginning after Dec. 31, 1976, see section 2122(c) of Pub. L. 94-455, as amended, set out as an Effective Date note under section 190 of this title.

EFFECTIVE DATE OF 1971 AMENDMENT

Pub. L. 92-178, title I, § 109(d)(2), (3), Dec. 10, 1971, 85 Stat. 509, provided that:

“(2) The amendment made by subsection (b) [amending this section] shall apply to taxable years ending after December 31, 1970.

“(3) The amendments made by subsection (c) [amending this section] shall apply to taxable years beginning after December 31, 1969.”

EFFECTIVE DATE OF 1969 AMENDMENT

Pub. L. 91-172, title VII, § 706(b), Dec. 30, 1969, 83 Stat. 674, provided that: “The amendment made by subsection (a) [amending this section] shall apply with respect to taxable years beginning after December 31, 1969.”

EFFECTIVE DATE OF 1965 AMENDMENT

Pub. L. 89-243, § 4(p)(3), Oct. 9, 1965, 79 Stat. 965, provided that: “The amendments made by this subsection [amending this section] shall apply to taxable years ending after September 2, 1964.”

Pub. L. 89-243, § 4(q), Oct. 9, 1965, 79 Stat. 965, provided in part that: “Except as otherwise specifically provided in this section and in the amendments made by this section [amending this section and sections 4912, 4914, 4916, 4917, 4919, 4920, and 4931 of this title], such amendments shall apply with respect to acquisitions of stock and debt obligations made after February 10, 1965.”

EFFECTIVE DATE OF 1962 AMENDMENT

Pub. L. 87-834, § 21(d), Oct. 16, 1962, 76 Stat. 1064, provided that: “The amendments made by this section [enacting section 182 of this title and amending this section] shall apply with respect to taxable years beginning after December 31, 1962.”

EFFECTIVE DATE OF 1960 AMENDMENT

Amendment by Pub. L. 86-779 applicable to taxable years beginning after Dec. 31, 1959, see section 6(d) of Pub. L. 86-779, set out as an Effective Date note under section 180 of this title.

SHORT TITLE OF 1965 AMENDMENT

Pub. L. 89-243, § 1(a), Oct. 9, 1965, 79 Stat. 954, provided that: “This Act [amending this section and sections 4912, 4914, 4916, 4917, 4919, 4920, and 4931 of this title, and enacting provisions set out as notes under sections 6011 and 6076 of this title] may be cited as the ‘Interest Equalization Tax Extension Act of 1965’.”

SHORT TITLE OF 1964 AMENDMENT

Pub. L. 88-563, § 1(a), Sept. 2, 1964, 78 Stat. 809, provided that: “This Act [enacting sections 4911 to 4920, 4931, 6076, 6680, 6681, and 7241 of this title, amending this section and sections 1232, 6011, and 6103 of this title, and enacting provisions set out as notes under section 6011 of this title] may be cited as the ‘Interest Equalization Tax Act’.”

SAVINGS PROVISION

For provisions that nothing in amendment by Pub. L. 101-508 be construed to affect treatment of certain transactions occurring, property acquired, or items of income, loss, deduction, or credit taken into account prior to Nov. 5, 1990, for purposes of determining liability for tax for periods ending after Nov. 5, 1990, see section 11821(b) of Pub. L. 101-508, set out as a note under section 45K of this title.

APPLICABILITY OF CERTAIN AMENDMENTS BY PUB. L. 99-514 IN RELATION TO TREATY OBLIGATIONS OF UNITED STATES

For applicability of amendment by section 701(e)(4)(D) of Pub. L. 99-514 notwithstanding any treaty obligation of the United States in effect on Oct. 22, 1986, with provision that for such purposes any amendment by title I of Pub. L. 100-647 be treated as if it had been included in the provision of Pub. L. 99-514 to which such amendment relates, see section 1012(aa)(2), (4) of Pub. L. 100-647, set out as a note under section 861 of this title.

PLAN AMENDMENTS NOT REQUIRED UNTIL JANUARY 1, 1989

For provisions directing that if any amendments made by subtitle A or subtitle C of title XI [§§ 1101-1147 and 1171-1177] or title XVIII [§§ 1800-1899A] of Pub. L. 99-514 require an amendment to any plan, such plan amendment shall not be required to be made before the first plan year beginning on or after Jan. 1, 1989, see section 1140 of Pub. L. 99-514, as amended, set out as a note under section 401 of this title.

§ 263A. Capitalization and inclusion in inventory costs of certain expenses

(a) Nondeductibility of certain direct and indirect costs

(1) In general

In the case of any property to which this section applies, any costs described in paragraph (2)—

(A) in the case of property which is inventory in the hands of the taxpayer, shall be included in inventory costs, and

(B) in the case of any other property, shall be capitalized.

(2) Allocable costs

The costs described in this paragraph with respect to any property are—

(A) the direct costs of such property, and

(B) such property's proper share of those indirect costs (including taxes) part or all of which are allocable to such property.

Any cost which (but for this subsection) could not be taken into account in computing taxable income for any taxable year shall not be treated as a cost described in this paragraph.

(b) Property to which section applies

Except as otherwise provided in this section, this section shall apply to—

(1) Property produced by taxpayer

Real or tangible personal property produced by the taxpayer.

(2) Property acquired for resale

(A) In general

Real or personal property described in section 1221(a)(1) which is acquired by the taxpayer for resale.

(B) Exception for taxpayer with gross receipts of \$10,000,000 or less

Subparagraph (A) shall not apply to any personal property acquired during any taxable year by the taxpayer for resale if the average annual gross receipts of the taxpayer (or any predecessor) for the 3-taxable year period ending with the taxable year preceding such taxable year do not exceed \$10,000,000.

(C) Aggregation rules, etc.

For purposes of subparagraph (B), rules similar to the rules of paragraphs (2) and (3) of section 448(c) shall apply.

For purposes of paragraph (1), the term "tangible personal property" shall include a film, sound recording, video tape, book, or similar property.

(c) General exceptions

(1) Personal use property

This section shall not apply to any property produced by the taxpayer for use by the taxpayer other than in a trade or business or an activity conducted for profit.

(2) Research and experimental expenditures

This section shall not apply to any amount allowable as a deduction under section 174.

(3) Certain development and other costs of oil and gas wells or other mineral property

This section shall not apply to any cost allowable as a deduction under section 167(h), 179B, 263(c), 263(i), 291(b)(2), 616, or 617.

(4) Coordination with long-term contract rules

This section shall not apply to any property produced by the taxpayer pursuant to a long-term contract.

(5) Timber and certain ornamental trees

This section shall not apply to—

(A) trees raised, harvested, or grown by the taxpayer other than trees described in clause (ii) of subsection (e)(4)(B) (after application of the last sentence thereof), and

(B) any real property underlying such trees.

(6) Coordination with section 59(e)

Paragraphs (2) and (3) shall apply to any amount allowable as a deduction under section 59(e) for qualified expenditures described in subparagraphs (B), (C), (D), and (E) of paragraph (2) thereof.

(d) Exception for farming businesses

(1) Section not to apply to certain property

(A) In general

This section shall not apply to any of the following which is produced by the taxpayer in a farming business:

(i) Any animal.

(ii) Any plant which has a preproductive period of 2 years or less.

(B) Exception for taxpayers required to use accrual method

Subparagraph (A) shall not apply to any corporation, partnership, or tax shelter required to use an accrual method of accounting under section 447 or 448(a)(3).

(2) Treatment of certain plants lost by reason of casualty

(A) In general

If plants bearing an edible crop for human consumption were lost or damaged (while in the hands of the taxpayer) by reason of freezing temperatures, disease, drought, pests, or casualty, this section shall not apply to any costs of the taxpayer of replanting plants bearing the same type of crop (whether on the same parcel of land on which such lost or damaged plants were located or any other parcel of land of the same acreage in the United States).

(B) Special rule for person with minority interest who materially participates

Subparagraph (A) shall apply to amounts paid or incurred by a person (other than the taxpayer described in subparagraph (A)) if—

(i) the taxpayer described in subparagraph (A) has an equity interest of more than 50 percent in the plants described in subparagraph (A) at all times during the taxable year in which such amounts were paid or incurred, and

(ii) such other person holds any part of the remaining equity interest and materi-