

- (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.)

**Editorial Notes**

**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”.

**Statutory Notes and Related Subsidiaries**

**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 for any taxable year if it is—

- (1) an S corporation, or
- (2) a corporation which meets the gross receipts test of section 448(c) for such taxable year.

**(d) Coordination with section 481**

Any change in method of accounting made pursuant to this section shall be treated for purposes of section 481 as initiated by the taxpayer and made with the consent of the Secretary.

**(e) 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.

(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; Pub. L. 115-97, title I, §13102(a)(5), Dec. 22, 2017, 131 Stat. 2102.)

**Editorial Notes**

AMENDMENTS

2017—Subsec. (c). Pub. L. 115-97, §13102(a)(5)(A)(i), in introductory provisions, inserted “for any taxable year” after “not being a corporation”.

Subsec. (c)(2). Pub. L. 115-97, §13102(a)(5)(A)(ii), amended par. (2) generally. Prior to amendment, par. (2) read as follows: “a corporation the gross receipts of which meet the requirements of subsection (d).”

Subsec. (d). Pub. L. 115-97, §13102(a)(5)(C), redesignated subsec. (f) as (d) and struck out former subsec. (d) which related to gross receipts requirements.

Subsec. (e). Pub. L. 115-97, §13102(a)(5)(C), redesignated subsec. (g) as (e) and struck out former subsec. (e) which related to members of the same family.

Subsec. (f). Pub. L. 115-97, §13102(a)(5)(C)(ii), redesignated subsec. (f) as (d).

Pub. L. 115-97, §13102(a)(5)(B), amended subsec. (f) generally. Prior to amendment, subsec. (f) related to coordination with section 481.

Subsec. (g). Pub. L. 115-97, §13102(a)(5)(C)(ii), redesignated subsec. (g) as (e).

Subsecs. (h), (i). Pub. L. 115-97, §13102(a)(5)(C)(i), struck out subsecs. (h) and (i) which related to exception for certain closely held corporations and suspense account for family corporations, respectively.

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).”

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), “Corpora-

tion 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).

#### Statutory Notes and Related Subsidiaries

##### EFFECTIVE DATE OF 2017 AMENDMENT

Amendment by Pub. L. 115-97 applicable to taxable years beginning after Dec. 31, 2017, with provision for preservation of suspense account rules with respect to any existing suspense accounts, see section 13102(e) of Pub. L. 115-97, set out as a note under section 263A of this title.

##### 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 sec-

tion [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 [former] 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 [former] 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 [former] section 447(d)) owned, on October 4, 1976 (directly or through the application of such [former] 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 [former] 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 [former] section 464(c) of the Internal Revenue Code

of 1954 [now 26 U.S.C. 461(k)]) 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) [now section 447(e)(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) [now section 447(e)] 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—