

IRC Section 263A(d)(3)(A)

Election Out of the Uniform Capitalization Rules by Farmers

Overview

IRC Section 263A sets forth the uniform capitalization rules which require capitalization and inclusion in inventory of certain direct and indirect costs incurred in the production of property for sale or use in a taxpayer's business. The uniform capitalization rules apply to certain property produced in a farming business. According to §263A(d)(1)(A) and (B), the only farm property which falls under the uniform capitalization rules are plants which have a preproductive period of more than two years. However, in the case of a corporation, partnership, or tax shelter required to use an accrual method of accounting under §447 or §448(a)(3), no exception to the uniform capitalization rules is available. Section 263A(d)(3)(A), however, permits certain taxpayers to elect not to have the uniform capitalization rules apply to any plant produced in a farming business conducted by the taxpayer.

Unless consent is obtained from the Commissioner, the election may only be made for a taxpayer's first taxable year that begins after December 31, 1986 and during which the taxpayer engages in a farming business. Once the election is made, it is revocable only with the consent of the Commissioner.

Certain taxpayers are precluded from making a §263A(d)(3)(A) election. Corporations and partnerships required to use the accrual method of accounting under §447 and tax shelters required to use the accrual method of accounting under §448(a)(3) are not permitted to make the election. In addition, no election may be made with respect to the costs incurred for the planting, cultivation, maintenance or development of citrus or almond groves (or any part thereof) to the extent that such costs are incurred within the first four years in which the trees were planted.

If the election is made by a taxpayer or a "related person," the alternative depreciation system (§168(g)(2)) must be applied to all property used predominately in any farming business of the taxpayer or "related person" and placed in service in any taxable year during which the election is in effect. (See the special definition of "related person" in §263A(e)(2)(B)). The taxpayer is also required to treat the disposition of any qualified property as §1245 property and

recapture the preproductive expenses that would have been capitalized if the election had not been made.

The §263A(d)(3)(A) election is made on Schedule E or Schedule F of Form 1040, or other schedule required to be attached to the income tax return for the first taxable year for which the election is effective. According to the regulations, the election is treated as having been made if a taxpayer takes a current expense deduction and does not capitalize the costs of producing property in a farming business under the uniform capitalization rules. However, it is recommended that a taxpayer attach a written statement to his or her income tax return that a §263A(d)(3)(A) election is being made. In the case of a partnership or S corporation, the election must be made by the partner or shareholder.

When to File

The election should be made by attaching a statement to the taxpayer's income tax return for the first taxable year in which the taxpayer engages in a farming business.

Where to File

The election statement is attached to the taxpayer's income tax return, which is mailed to the designated Internal Revenue Service Center.

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1. Code Section: 263A, 168, 447, 448, 1245
2. Topic: Accounting Periods and Methods, Agriculture
3. Return Type: 1040

Authorities

IRC §263A(d)(3)(A); Reg. §1.263A-1T(c)(6)