### **Table of Contents**

### Chapter 1.

### Scope of Inventory Rules

#### 1. INTRODUCTION

- § 1:1 Unique treatment of inventories
- § 1:2 Effects of inventory valuation on taxable income
- § 1:3 Goal of inventory accounting
- § 1:4 Sources of inventory rules
- § 1:5 GAAP requirements
- § 1:6 Decreasing significance of GAAP

#### 2. TAXPAYERS WHO MUST APPLY INVENTORY RULES

- § 1:7 In general
- § 1:8 Service-versus-product distinction
- § 1:9 Servicing of customer's property
- § 1:10 Businesses providing products and services
- § 1:11 Other examples of businesses involving products and services
- § 1:12 In general
- § 1:13 Materials and supplies not acquired for sale
- § 1:14 Materials consumed in production
- § 1:15 Materials identified in finished product
- § 1:16 Cash basis election for small business
- § 1:17 Gross receipts test
- § 1:18 Which gross receipts?
- § 1:19 Whose gross receipts?
- § 1:20 Gross receipts for individuals
- § 1:21 Three-year rolling average look-back
- § 1:22 Accounting method used to measure the average annual gross receipts
- § 1:23 Inventories Accounted for as Non-incidental Materials and Supplies
- § 1:24 The cost of inventories accounted for as non-incidental materials and supplies
- § 1:25 Conformity requirement
- § 1:26 Making the change

#### 3. PROPERTY INCLUDED IN INVENTORIES

- § 1:27 Property for sale, but not for profit
- § 1:28 Conversion from business use to inventories
- § 1:29 Property held as investment rather than for resale
- § 1:30 Inventory versus depreciable asset
- § 1:31 Dual purposes
- § 1:32 Goods in transit

#### 4. SPECIAL SITUATIONS

- § 1:33 Real estate
- § 1:34 Long-term contracts
- § 1:35 Farmers
- § 1:36 Authors, artists and photographers
- § 1:37 Impracticality
- § 1:38 Production and Sales of illegal substances

#### 5. INVENTORIES AT COST

- § 1:39 In general
- § 1:40 Trade discounts
- § 1:41 Cash discounts
- § 1:42 Discounts in exchange for services
- § 1:43 Otherwise nondeductible expenses
- § 1:44 Advertising charges included in the prices of goods

#### 6. ELECTIONS AND CHANGES IN ACCOUNTING METHODS

§ 1:45 In general

## 7. RECAP OF SMALL BUSINESSES EXCEPTIONS FROM THE INVENTORY RULES

- § 1:46 In general
- APPENDIX 1A. Joint Committee on Taxation, General Explanation of Public Law 115-97 (JCS-1-18, Dec. 2018)
- APPENDIX 1B. Tax Accounting Changes Under the Tax Cut and Jobs Act of 2017
- APPENDIX 1C. T.D. 9442, Small Business Taxpayer Exceptions Under Sections 263A, 448, 460 and 471

### Chapter 2.

### **Producers Valuation at Cost**

#### 1. INTRODUCTION

§ 2:1 In general

- § 2:2 Role of regulation
- § 2:3 Who is a producer?
- § 2:4 Property produced under contract for subsequent resale
- § 2:5 Exemptions
- § 2:6 Resellers with production activities
- § 2:7 Costs to be capitalized
- § 2:8 Timing issues

#### 2. COST CLASSIFICATIONS

- § 2:9 In general
- § 2:10 Direct production costs
- § 2:11 Indirect costs
- § 2:12 Supplies
- § 2:13 Taxes
- § 2:14 Excess depreciation
- § 2:15 Administrative costs and compensation of officers attributable to production
- § 2:16 Insurance
- § 2:17 Storage, warehousing and handling
- § 2:18 Rework, labor, scrap and spoilage
- § 2:19 Bidding costs
- § 2:20 Engineering and design
- § 2:21 Period costs
- § 2:22 Interest
- § 2:23 Losses
- § 2:24 I.R.C. § 179 deduction
- § 2:25 Depreciation of idle facilities
- § 2:26 General administration
- § 2:27 Research and experimental (R&E) costs
- § 2:28 Mixed services costs
- § 2:29 Purchasing

#### 3. COST ALLOCATIONS IN GENERAL

- § 2:30 In general
- § 2:31 Preliminary allocations
- § 2:32 Reasonably relate
- § 2:33 Payroll taxes
- § 2:34 Other employee benefits

- § 2:35 Depreciation
- § 2:36 Property taxes
- § 2:37 Transportation
- § 2:38 Allocating mixed services costs
- § 2:39 Bases for allocation
- § 2:40 Simplified method for mixed services costs
- § 2:41 Sales based royalties under the simplified method

#### 4. COMPREHENSIVE ILLUSTRATION OF MIXED SERVICE COST ALLOCATIONS

- § 2:42 Introduction to T company
- § 2:43 Direct method
- § 2:44 Step-down allocations
- § 2:45 Simplified mixed service method
- § 2:46 Simplified mixed services—Labor method
- § 2:47 Summary

#### 5. ALLOCATING PRODUCTION COSTS TO INVENTORIES

- § 2:48 Cost accounting techniques
- § 2:49 Burden rate and standard cost methods
- § 2:50 Simplified production methods
- § 2:51 Eligibility
- § 2:52 Exemption for small producers
- § 2:53 Taxpayer-developed simplifications
- § 2:54 Simplified production method with historic absorption ratio
- § 2:55 The 2018 UNICAP Simplified Production and Resale Methods
- APPENDIX 2A. Table of Indirect Costs
- APPENDIX 2B. Schedule of Simplified Method to Allocate Mixed Services Costs to Production—Cost Method
- APPENDIX 2C. Schedule of Simplified Method to Allocate Mixed Services Costs to Production—Labor Method
- APPENDIX 2D. Schedule of Simplified Method to Allocate Additional Section 263A Costs to Production
- APPENDIX 2E. Schedule of Modified Simplified Method to Allocate Additional Section 263A Costs to Production
- APPENDIX 2F. Final Regulations on Allocation of Costs Under Simplified Methods of Accounting
- APPENDIX 2G. The Capitalization of Tangible Assets Regulations
- APPENDIX 2H. Revenue Procedure 2016-39
- APPENDIX 2I. Tangible Property Regulations FAQ

### Chapter 3.

### **Resellers Valuation at Cost**

#### 1. INTRODUCTION

§ 3:1 In general

#### 2. GROSS-RECEIPTS EXCEPTION

- § 3:2 In general
- § 3:3 Resale versus production for pre-2017 tax years
- § 3:4 Services and resellers
- § 3:5 Intangible and real property
- § 3:6 Three-year period
- § 3:7 Predecessor
- § 3:8 Short periods
- § 3:9 Determining gross receipts
- § 3:10 Aggregating rules
- § 3:11 Accounting methods implications
- § 3:12 Changes in methods under the small reseller exception

#### 3. CAPITALIZATION OF INDIRECT COSTS

- § 3:13 In general
- § 3:14 Purchasing
- § 3:15 Handling
- § 3:16 Processing activities
- § 3:17 Storage and warehousing
- § 3:18 Definition of on-site storage facility
- § 3:19 Dual-function facilities
- § 3:20 90-10 rule
- § 3:21 Overlap with handling costs
- § 3:22 Transportation costs
- § 3:23 Distribution costs
- § 3:24 Delivery of custom-ordered goods

#### 4. COST ALLOCATIONS

- § 3:25 Mixed services
- § 3:26 Purchasing costs
- § 3:27 Storage costs

#### § 3:28 Handling costs

#### 5. SIMPLIFIED METHODS

- § 3:29 In general
- § 3:30 Simplified mixed services method (SMS)
- § 3:31 Simplified resale method (SRM)
- § 3:32 SRM for LIFO taxpayers
- § 3:33 Simplified historical resale method
- § 3:34 Resellers who are also producers
- § 3:35 Small reseller-producer (Pre-2018 Tax Years)
- § 3:36 Other reseller-producers
- § 3:37 Trade or business
- § 3:38 Accounting methods
- § 3:39 Former small resellers and former large resellers
- § 3:40 Reseller's bidding expenses

#### 6. COMPREHENSIVE ILLUSTRATION

- § 3:41 Introduction to XYZ Wholesalers Inc.
- § 3:42 Analyses of cost accounting issues
- § 3:43 Bases for allocating storage, purchasing and handling costs in Figure 3–5
- APPENDIX 3A. Schedule of Reseller's Simplified Mixed Services Cost Allocations Formula
- APPENDIX 3B. Schedule of Simplified Resale Method
- APPENDIX 3C. Revenue Procedure 2010-44

### Chapter 4.

### **Inventories Not Valued at Cost**

#### 1. INTRODUCTION

§ 4:1 In general

#### 2. SUBNORMAL GOODS AND NORMAL GOODS VALUED AT MARKET

§ 4:2 In general

#### 3. SUBNORMAL GOODS

- § 4:3 In general
- § 4:4 Other similar causes
- § 4:5 Bona fide selling price

- § 4:6 Raw materials and goods in process
- § 4:7 Scrapped goods

#### 4. NORMAL GOODS

- § 4:8 In general
- § 4:9 Replacement costs; Purchased goods
- § 4:10 Replacement costs; Produced goods
- § 4:11 Firm contract exception
- § 4:12 Replacement cost and UNICAP
- § 4:13 Third comparative: Goods offered for less than replacement cost
- § 4:14 Final calculations
- § 4:15 Lower of cost or market election

#### 5. FARMERS

- § 4:16 In general
- § 4:17 Exceptions
- § 4:18 Farming regulations
- § 4:19 Options for noncash basis farmers
- § 4:20 Farm price method
- § 4:21 Unit livestock method
- § 4:22 Reduced depreciation in lieu of capitalization
- § 4:23 Case of compounded complexities

#### 6. DEALERS IN SECURITIES

- § 4:24 In general
- § 4:25 Security and dealer defined
- § 4:26 Change in accounting method
- § 4:27 Market
- APPENDIX 4A. Rules for Property Produced in a Farming Business Regulation § 1.263A-4
- APPENDIX 4B. Notice 2000-45
- APPENDIX 4C. Revenue Procedure 2003-20
- APPENDIX 4D. Revenue Procedure 2002-17
- APPENDIX 4E. Notice 2013-18

### Chapter 5.

### **Flow of Costs**

#### 1. INTRODUCTION

§ 5:1 In general

- § 5:2 Untraceable goods
- § 5:3 Burden of tracing
- § 5:4 Need for physical inventories
- § 5:5 Shrinkage

#### 2. FIFO FLOW

§ 5:6 In general

#### 3. AVERAGE COST

§ 5:7 In general

#### 4. RETAIL METHOD

- § 5:8 In general
- § 5:9 Retail inventory formula
- § 5:10 More complex calculations
- § 5:11 Promotional discounts
- § 5:12 Subnormal goods
- § 5:13 Other averaging consequences
- § 5:14 Goods in transit
- § 5:15 Lower of cost or market
- § 5:16 UNICAP add on
- § 5:17 Eligibility

APPENDIX 5A. Revenue Procedure 2008-43

### Chapter 6.

### Specific Goods LIFO/General LIFO

#### 1. INTRODUCTION

- § 6:1 In general
- § 6:2 Specific goods LIFO illustrated
- § 6:3 Cost of goods sold
- § 6:4 Item issue
- § 6:5 Change in input, no change in product
- § 6:6 Change in input, change in product
- § 6:7 Regulations
- § 6:8 Tax court
- § 6:9 Purchasing and producing the same item

- § 6:10 Use of averages
- § 6:11 Conclusions on item issue
- § 6:12 Material content
- § 6:13 Components of cost

#### 2. REQUIREMENTS INCIDENT TO LIFO

- § 6:14 Beginning inventories
- § 6:15 Lower of cost or market
- § 6:16 Incorrect former method
- § 6:17 Subnormal goods
- § 6:18 Write-ups as deterrent to LIFO
- § 6:19 Average cost
- § 6:20 Layers
- § 6:21 Inventories at cost
- § 6:22 Bargain purchases
- § 6:23 Storage costs
- § 6:24 Valuation of layers under the simplified methods
- § 6:25 Retroactive changes in cost
- § 6:26 Financial reporting conformity
- § 6:27 Income statements
- § 6:28 Supplemental information
- § 6:29 Period less than taxable year
- § 6:30 Inventory asset value disclosure
- § 6:31 Internal management reports
- § 6:32 Market value
- § 6:33 Difference between financial accounting LIFO and tax LIFO
- § 6:34 Reports of subsidiaries
- § 6:35 Commonly encountered conformity problem situations
- APPENDIX 6A. Revenue Procedure 2006-14
- APPENDIX 6B. FAA 20114702F: LIFO Conformity Violation

### Chapter 7.

### **Dollar-Value LIFO**

#### 1. INTRODUCTION

§ 7:1 In general

#### 2. DOLLAR-VALUE PRICING

§ 7:2 In general

- § 7:3 Double-extension method
- § 7:4 New items
- § 7:5 New items with no base-period prices
- § 7:6 Old items with no current prices
- § 7:7 Index method
- § 7:8 Link-chain method
- § 7:9 Order of acquisition link-chain
- § 7:10 Proving impracticality of double-extension
- § 7:11 Conclusions

#### 3. POOLING

- § 7:12 In general
- § 7:13 General pooling principles—Manufacturers and processors
- § 7:14 Components of cost pooling
- § 7:15 Purchased and produced goods
- § 7:16 Multiple pools
- § 7:17 Raw materials
- § 7:18 Finished goods and goods in process
- § 7:19 Miscellaneous pools
- § 7:20 Conclusions on multiple pooling
- § 7:21 General pooling principles—Retailers, wholesalers, and other distributors

#### 4. LIFO APPLIED TO RETAIL INVENTORY METHOD

- § 7:22 In general
- § 7:23 Eligibility
- § 7:24 UNICAP add on
- § 7:25 Simplified resale method

#### 5. SIMPLIFIED LIFO

- § 7:26 In general
- § 7:27 Retailers using retail method
- § 7:28 Other taxpayers
- § 7:29 Eligibility
- § 7:30 Scope of election
- § 7:31 Conclusions on simplified LIFO
- § 7:32 Transitory rules
- § 7:33 Cessation of method

- § 7:34 The IPIC method
- § 7:35 New IPIC regulations
- § 7:36 Pooling
- § 7:37 Pricing
- § 7:38 Appropriate BLS table
- § 7:39 Producer's goods in process
- § 7:40 The 10% method
- § 7:41 Appropriate month
- § 7:42 Converting inventory to base period prices
- § 7:43 Adjusting indexes
- § 7:44 Rebates and other price adjustments
- § 7:45 Double-extension and link-chain methods as alternatives
- § 7:46 Changing methods

#### 6. ALTERNATIVE LIFO METHOD FOR AUTOMOBILE DEALERS

- § 7:47 Introduction
- § 7:48 Benefits of alternative LIFO
- § 7:49 Description of alternative LIFO
- § 7:50 Scope of the method and pools
- § 7:51 Inventory items
- § 7:52 LIFO index
- § 7:53 New items not in existence in prior period
- § 7:54 New items in existence in previous period but not in stock
- § 7:55 Adjusting for options, accessories and other costs
- § 7:56 Conditions to the change
- § 7:57 Dealers using simplified inventory price index method
- § 7:58 Other procedural matters
- § 7:59 Summary and conclusions
- § 7:60 Alternative LIFO for used vehicles

#### 7. VEHICLE-POOL METHOD

- § 7:61 In general
- APPENDIX 7A. Revenue Procedure 97-36
- APPENDIX 7B. Dollar-Value LIFO Regulations
- APPENDIX 7C. Revenue Procedure 2001-23
- APPENDIX 7D. Revenue Procedure 2002-17
- APPENDIX 7E. TAM 200328001

APPENDIX 7F. Revenue Procedure 2008-23

APPENDIX 7G. Adjustments to LIFO Layers, Change in Base Year, Change in Method

### Chapter 8.

### **LIFO Elections**

#### 1. INTRODUCTION

§ 8:1 In general

#### 2. MAKING LIFO ELECTIONS

- § 8:2 In general
- § 8:3 Election process
- § 8:4 Form 970
- § 8:5 Initial or subsequent election
- § 8:6 Scope of election
- § 8:7 Taxpayer agreement
- § 8:8 Goods subject to the election
- § 8:9 Former inventory method
- § 8:10 Exclusions from the election
- § 8:11 Conformity to financial accounting
- § 8:12 Specific goods LIFO
- § 8:13 The dollar-value method
- § 8:14 The IPIC method
- § 8:15 Description of cost system used
- § 8:16 Previous uses of LIFO
- § 8:17 Compliance with election procedures

#### 3. MORE ON SCOPE OF ELECTION

- § 8:18 Manufacturers
- § 8:19 Limited to phase of production
- § 8:20 Wholesalers and retailers
- § 8:21 Excluding items
- § 8:22 Subnormal goods

#### 4. INVOLUNTARY TERMINATION OF LIFO

§ 8:23 Grounds for termination

#### 5. VOLUNTARY CHANGES IN LIFO ELECTION

§ 8:24 In general

- § 8:25 Change in scope
- § 8:26 Change from specific goods to dollar-value
- § 8:27 Combining and splitting pools
- § 8:28 Pricing layers
- § 8:29 Change of base year
- § 8:30 Change in elements of cost
- § 8:31 Change in bases of allocations
- § 8:32 Change in underlying facts

#### 6. INVOLUNTARY CHANGES IN LIFO METHODS

§ 8:33 In general

#### 7. VOLUNTARY TERMINATION OF LIFO

§ 8:34 In general

### Chapter 9.

### Other Inventory Issues

#### 1. CHANGES IN INVENTORY METHODS AND CORRECTIONS OF ERRORS

- § 9:1 Changes in methods
- § 9:2 Significance of error-versus-method distinction
- § 9:3 Reasons for I.R.C. § 481 adjustment
- § 9:4 Error-versus-erroneous-method cases
- § 9:5 Mitigation provisions
- § 9:6 F.W. Boelter Co., Inc. v. U.S.
- § 9:7 Change in method versus change in underlying facts
- § 9:8 Changes under LIFO election
- § 9:9 Changes in LIFO layers under I.R.C. § 263A

#### 2. BUILT-IN GAINS UPON S ELECTIONS

- § 9:10 In general
- § 9:11 Market value at time of election
- § 9:12 LIFO inventories

#### 3. TRANSFERS TO CONTROLLED CORPORATIONS

- § 9:13 In general
- § 9:14 Incorrect inventory
- § 9:15 Errors in inventory

- § 9:16 Incorrect inventory method
- § 9:17 FIFO transfer to new LIFO taxpayer
- § 9:18 Determining cost of transferred FIFO inventory
- § 9:19 Transfer of FIFO inventories to operating corporations
- § 9:20 Transfers of LIFO inventories
- § 9:21 Transfers under proposed regulations
- § 9:22 Transfer to a partnership
- § 9:23 Bargain purchases and inventory transfers

#### 4. INVENTORIES AND ALTERNATIVE MINIMUM TAX

- § 9:24 In general
- § 9:25 Depreciation adjustments
- § 9:26 ACE adjustment
- § 9:27 Simplifying the depreciation adjustments
- § 9:28 LIFO adjustments for C corporations
- § 9:29 AMT thresholds

APPENDIX 9A. Chief Counsel Advisory 201442051

APPENDIX 9B. Revenue Procedure 2015-14, Sections 11, 14, 21, 22, and 23

Appendix 9C. Revenue Procedure 2024-23

### Chapter 10.

### **Interest Capitalization**

#### 1. INTRODUCTION

§ 10:1 In general

#### 2. PROPERTY SUBJECT TO INTEREST CAPITALIZATION

- § 10:2 In general
- § 10:3 Real property
- § 10:4 Real estate contractor exemption?
- § 10:5 Twenty-year property
- § 10:6 De minimis exception
- § 10:6.50 Exception for Aging Process for Beer, Wine, and Distilled Spirits
- § 10:7 Other tangible personal property
- § 10:8 Tangible versus intangible

#### 3. WHEN PRODUCTION BEGINS AND ENDS

§ 10:9 In general

- § 10:10 Real property
- § 10:11 Suspension of production
- § 10:12 End of production
- § 10:13 Unit of property
- § 10:14 Functional interdependence
- § 10:15 Common features
- § 10:16 Land cost
- § 10:17 Illustrations of treatment of land and common features costs
- § 10:18 Benefitted property held for sale
- § 10:19 Benefitted property held for rents (or otherwise for production of income)
- § 10:20 Benefitted property sold before completion of common features

#### 4. COSTS SUBJECT TO INTEREST CAPITALIZATION

- § 10:21 In general
- § 10:22 Property used to produce qualified property
- § 10:23 Interest on property used in production
- § 10:24 Service department property

#### 5. MATCHING LIABILITIES AND PRODUCTION EXPENDITURES

- § 10:25 In general
- § 10:26 Eligible debts
- § 10:27 Debt tracing
- § 10:28 Borrowing from third parties
- § 10:29 Disposition of debt financed property
- § 10:30 Avoided cost debt
- § 10:31 Post-expenditure debts
- § 10:32 Illustration of measurement processes
- § 10:33 Avoided cost interest, passive activities and investment interest
- § 10:34 Allocating interest to building and improvements to land
- § 10:35 Simplified method for inventories

#### 6. ELECTING OUT OF TRACING

- § 10:36 In general
- § 10:37 Election to use an external interest rate

#### 7. FLOW-THROUGH ENTITIES

- § 10:38 In general
- © 2024 Thomson Reuters, 11/2024

- § 10:39 Partner debt—Deferred asset method
- § 10:40 De minimis rule
- § 10:41 Partner debt—Substitute cost method
- § 10:42 Partnership debts
- § 10:43 Partnership debt allocated to production by another partnership
- § 10:44 Guaranteed payments to partners
- § 10:45 S versus C corporation status

#### 8. PARENT-SUBSIDIARY

- § 10:46 Inter-company loans
- § 10:47 Deferred asset method
- § 10:48 Substitute cost method
- § 10:49 Ordering rules
- § 10:50 Parent-subsidiary defined

#### 9. GENERAL ANTI-ABUSE RULES

§ 10:51 In general

## 10. CHANGING METHODS OF ACCOUNTING TO COMPLY WITH THE REGULATIONS

§ 10:52 In general

### Chapter 11.

### **Long-Term Contracts**

#### 1. INTRODUCTION

§ 11:1 In general

#### 2. SCOPE OF RULES AND THEIR SIGNIFICANCE

- § 11:2 In general
- § 11:3 LIFO accrual-basis taxpayers

#### 3. LONG-TERM CONTRACT DEFINED

- § 11:4 In general
- § 11:5 Building as subject matter of contract
- § 11:6 Producing property versus providing service
- § 11:7 Architects and engineers
- § 11:8 Installation
- § 11:9 Intangible property

#### § 11:10 Warranty and service contracts

#### 4. UNIQUENESS OF PRODUCTS

- § 11:11 In general
- § 11:12 Letter Ruling 8941003
- § 11:13 Objective tests for unique property
- § 11:14 Applications
- § 11:15 Change in method of accounting
- § 11:16 Relation to research and experimentation provisions

#### 5. TWELVE-MONTH TEST FOR MANUFACTURING CONTRACTS

- § 11:17 In general
- § 11:18 When production begins and ends
- § 11:19 Related parties

#### 6. PERCENTAGE OF COMPLETION FORMULA

- § 11:20 In general
- § 11:21 The ten percent method
- § 11:22 Errors in estimates
- § 11:23 Look-back method
- § 11:24 Exemption from look-back rules
- § 11:25 Look-back rules applied to flow-through entities

#### 7. OTHER ISSUES REGARDING CONTRACT COSTS

- § 11:26 Costs to be capitalized
- § 11:27 Nondeductible expenses
- § 11:28 Interest capitalization
- § 11:29 Allocating costs to particular contracts
- § 11:30 LIFO costs for materials
- § 11:31 Long-term and self-constructed property
- § 11:32 Simplified method
- § 11:33 10% rule

#### 8. WHEN COSTS MUST BE ADDED TO CONTRACT

- § 11:34 In general
- § 11:35 Pre-entry costs
- § 11:36 Work by subcontractors
- § 11:37 Contract to sell versus contract to build

- § 11:38 Related parties
- § 11:39 Parents and their subsidiaries

#### 9. COMPLETION

- § 11:40 In general
- § 11:41 Costs incurred after completion
- § 11:42 Look-back method and post-completion costs
- § 11:43 Severing and aggregating contracts
- § 11:44 Terminated contracts
- § 11:45 Disputed contracts
- § 11:46 Percentage of completion method

#### 10. EXCEPTIONS

- § 11:47 In general
- § 11:48 Small contractors' real estate contracts
- § 11:49 Home builders
- § 11:50 Nonexempt speculative builder
- § 11:51 Residential contracts other than home construction

#### 11. ACCOUNTING FOR CONTRACTS EXEMPTED FROM IRC § 460

- § 11:52 In general
- § 11:53 Accrual method
- § 11:54 Cash method
- § 11:55 Alternative minimum tax
- § 11:56 Simplified methods

#### 12. TRANSFERS OF CONTRACTS

- § 11:57 In general
- § 11:58 Transfer to partnership
- § 11:59 Transfer to controlled corporation

#### 13. LOOK-BACK METHOD, IN GENERAL

§ 11:60 In general

## 14. CONTRACTS SUBJECT TO LOOK-BACK UNDER PROPOSED REGULATIONS

- § 11:61 In general
- § 11:62 Regular tax
- § 11:63 Alternative minimum tax (AMT)

#### 15. LOOK-BACK CALCULATIONS UNDER THE REGULATIONS

- § 11:64 In general
- § 11:65 Contract completion
- § 11:66 Discounting post-completion adjustments
- § 11:67 Electing out of discounting
- § 11:68 Revenue acceleration rule
- § 11:69 Delayed reapplication method
- § 11:70 Re-computation—Effect on hypothetical taxable income
- § 11:71 —AMT implications
- § 11:72 —Effects on other years
- § 11:73 NOL carrybacks applied to redetermination year
- § 11:74 Simplified marginal impact method (SMIM)
- § 11:75 SMIM election
- § 11:76 Mandatory SMIM
- § 11:77 Changes in ownership
- § 11:78 C to S change
- § 11:79 Calculating interest
- § 11:80 Look-back taxes and look-back interest
- § 11:81 Section 199 applied to production under contract
- APPENDIX 11A. Final Regulations on Accounting for Income from Long-Term Contracts
- APPENDIX 11B. Form 8697, Interest Computation Under the Look-Back Method for Long-Term Contracts
- APPENDIX 11C. PLR 202046001, Percentage of Completion Costs Incurred

### Chapter 12.

# Section 199 Domestic Production Activities Income Deduction

#### I. INTRODUCTION

- § 12:1 In general
- § 12:2 Qualifying production property and other property eligible for the deduction
- § 12:3 Domestic production gross receipts (DPGR)
- § 12:4 Production under contract: Who is the producer?
- § 12:5 Real estate and Federal contracts
- § 12:6 Substantial production
- § 12:7 Installation

- § 12:8 The item issue
- § 12:9 United States
- § 12:10 Expanded affiliated groups (EAG)
- § 12:11 Derived from lease, rental, license, sale, exchange, or other disposition
- § 12:12 Embedded and nonqualified property
- § 12:13 Advertising revenues
- § 12:14 Allocating revenues between QPP, non-QPP, and services
- § 12:15 De minimis rules
- § 12:16 The food and beverage exception
- § 12:17 Timing of gross receipts
- § 12:18 Real estate construction
- § 12:19 Gross receipt from materials
- § 12:20 "Construction" distinguished from "engineering or architectural services"
- § 12:21 Self constructed for self-use
- § 12:22 The real estate contractor's land

#### II. COST OF GOODS SOLD AND COST ALLOCATIONS

- § 12:23 In general
- § 12:24 Cost of goods sold (category 1 costs)
- § 12:25 LIFO allocations
- § 12:26 Change in relative LIFO base-year method
- § 12:27 LIFO/FIFO ratio method
- § 12:28 Other expenses or losses allocable to DPRG
- § 12:29 Directly allocable (category 2 costs)
- § 12:30 State income tax
- § 12:31 Interest expense
- § 12:32 Category 3
- § 12:33 Charitable contributions
- § 12:34 Simplified methods
- § 12:35 The simplified deduction method
- § 12:36 Small business simplified overall method
- § 12:37 Comprehensive illustration
- § 12:38 Allocations under the simplified deductions method
- § 12:39 Allocations under the small business overall simplified method

## III. SECTION 199 APPLIED TO PARTNERSHIPS AND OTHER FLOW-THROUGH ENTITIES

§ 12:40 In general

§ 12:41 W-2 wages

#### IV. THE TAXABLE INCOME LIMITATION

§ 12:42 In general

#### V. THE W-2 WAGES LIMITATION

- § 12:43 In general
- § 12:44 Unmodified Box method
- § 12:45 Modified Box 1 method
- § 12:46 Tracking wages method
- § 12:47 Allocating wages to domestic production
- APPENDIX 12A. Table of Cost Classifications
- APPENDIX 12B. Notice 2005-14: Income Attributable to Domestic Production Activities
- APPENDIX 12C. Guidance for Examiners on I.R.C. § 199 Benefits and Burdens of Ownership Analysis in Contract Manufacturing Arrangements
- APPENDIX 12D. Proposed Amendments to Section 199 Regulations

### **General Appendixes**

- APPENDIX 1. Regulation § 1.471 [Inventories]
- APPENDIX 2. Regulation § 1.472 [LIFO Inventories]
- APPENDIX 3. Regulations under § 263A
- APPENDIX 4. Regulations under § 1.199
- APPENDIX 5. Revenue Procedure 2006-22
- APPENDIX 6. TAM 200736026

**Table of Laws and Rules** 

Table of Cases

Index