§ 1.461–0

TAXABLE YEAR FOR WHICH DEDUCTIONS TAKEN

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§ 1.461–1 General rule for taxable year of deduction.

(a) General rule—(1) Taxpayer using cash receipts and disbursements method. Under the cash receipts and disbursements method of accounting, amounts representing allowable deductions shall, as a general rule, be taken into account for the taxable year in which paid. Further, a taxpayer using this method may also be entitled to certain deductions in the computation of taxable income which do not involve cash disbursements during the taxable year, such as the deductions for depreciation, depletion, and losses under sections 167, 611, and 165, respectively. If an expenditure results in the creation of an asset having a useful life which extends substantially beyond the close of the taxable year, such an expenditure may not be deductible, or may be deductible only in part, for the taxable year in which made. An example is an expenditure for the construction of improvements by the lessee on leased property where the estimated life of the improvements is in excess of the remaining period of the lease. In such a case, in lieu of the allowance for depreciation provided by section 167, the basis shall be amortized ratably over the remaining period of the lease. See section 178 and the regulations thereunder for rules governing the effect to be given renewal options in determining whether the useful life of the improvements exceeds the remaining term of the lease where a lessee begins improvements on leased property after July 28, 1958, other than improvements which on such date and at all times thereafter, the lessee was under a binding legal obligation to make. See section 263 and the regulations thereunder for rules relating to capital expenditures. See section 467 and the regulations thereunder for rules under which a liability arising out of the use of property pursuant to a section 467 rental agreement is taken into account.

(2) Taxpayer using an accrual method—

(1) In general. Under an accrual method of accounting, a liability (as defined in §1.446–1(c)(1)(ii)(B)) is incurred, and generally is taken into account for Federal income tax purposes, in the taxable year in which all the events have occurred that establish the fact of the liability, the amount of the liability can be determined with reasonable accuracy, and economic performance has occurred with respect to the liability. (See paragraph (a)(2)(ii)(A) of this section for examples of liabilities that may not be taken into account until a taxable year subsequent to the taxable year incurred, and see §§1.461–4 through 1.461–6 for rules relating to economic performance.) Applicable provisions of the Code, the Income Tax Regulations, and other guidance published by the Secretary prescribe the manner in which a liability is taken into account. See also paragraphs (b)(1) and (b)(2) of this section for examples of liabilities that may not be taken into account until a taxable year subsequent to the taxable year incurred.

(b) Exception to general rule—(1) Exceptions to the general rule. The general rule described in paragraph (a) of this section will not apply to a liability if there are facts and circumstances which indicate that the ability to perform with respect to the liability is not reasonably assured at the time the liability is incurred. See paragraphs (b)(2) and (b)(3) of this section for examples of liabilities that may not be taken into account until a taxable year subsequent to the taxable year incurred.

(b) Exception to general rule—(2) Exception to the general rule. The general rule described in paragraph (a) of this section will not apply to a liability if there are facts and circumstances which indicate that the ability to perform with respect to the liability is not reasonably assured at the time the liability is incurred. See paragraphs (b)(2) and (b)(3) of this section for examples of liabilities that may not be taken into account until a taxable year subsequent to the taxable year incurred.

(b) Exception to general rule—(3) Exception to the general rule. The general rule described in paragraph (a) of this section will not apply to a liability if there are facts and circumstances which indicate that the ability to perform with respect to the liability is not reasonably assured at the time the liability is incurred. See paragraphs (b)(2) and (b)(3) of this section for examples of liabilities that may not be taken into account until a taxable year subsequent to the taxable year incurred.

(2) Exception to general rule—(2) Exception to the general rule. The general rule described in paragraph (a) of this section will not apply to a liability if there are facts and circumstances which indicate that the ability to perform with respect to the liability is not reasonably assured at the time the liability is incurred. See paragraphs (b)(2) and (b)(3) of this section for examples of liabilities that may not be taken into account until a taxable year subsequent to the taxable year incurred.