reasonably similar to the method provided in §1.451–4 or its predecessors under the Internal Revenue Code of 1954;

(2) The taxpayer must make an election under section 466 of the Internal Revenue Code of 1954 according to the rules contained in §1.466–3 for its first taxable year ending after December 31, 1978; and

(3) The taxpayer must make an election under section 373(c) of the Revenue Act of 1978 according to the rules contained in §1.466–4 for its first taxable year ending after December 31, 1978.

(c) Amount to be subtracted from gross receipts. The amount the taxpayer may subtract under this section for the redemption costs of coupons shall include only:

(1) Costs of the type permitted by §1.451–4 to be included in the estimated average cost of redeeming coupons, plus

(2) Any amount designated or referred to on the coupon payable by the taxpayer to the person who allowed the discount on a sale by such person to the user of the coupon.

Nothing in this paragraph shall allow an item to be deducted more than once.

(d) Right to amend prior tax returns. This paragraph applies only to those taxpayers who have agreed in a prior year to discontinue the use of the method of accounting described in §1.451–4 for discount coupon redemptions. If the taxpayer used such method of accounting on the original return filed for the prior taxable year, and if any such year is not closed under the statute of limitations or by reason of a closing agreement with the Internal Revenue Service, a taxpayer who has made a protective election may file an amended return and a claim for refund for such years. In this amended return, the taxpayer should account for its discount coupon redemptions, according to the method of accounting described in §1.451–4 for discount coupon redemptions. If these conditions are met, the taxpayer will treat the election of the method described in paragraph (d) of this section, a method of accounting reasonably similar to the method of accounting described in §1.451–4 must have been used for the taxable year ending on or before December 31, 1978. If these conditions are met, the taxpayer will treat the election of the method under section 466 as a change in method of accounting to which the rules in section 481 and the regulations thereunder apply.

(e) Suspense account not required. If the following three conditions are satisfied, the taxpayer need not establish the suspense account otherwise required by section 466(e). First, the taxpayer must make a timely election under these rules to protect prior years. Second, the method of accounting used in those years must have been used for all discount coupons issued by the taxpayer in those years in all the taxpayer’s separate trades or businesses in which coupons were issued. Third, either before or after an amendment to the taxpayer’s tax returns as described in paragraph (d) of this section, a method of accounting reasonably similar to the method of accounting described in §1.451–4 must have been used for the taxable year ending on or before December 31, 1978. If these conditions are met, the taxpayer will treat the election of the method under section 466 as a change in method of accounting to which the rules in section 481 and the regulations thereunder apply.

(f) Definition: reasonably similar. For purposes of paragraphs (b)(1) and (e) of this section, a taxpayer will be considered to have used a method of accounting for discount coupons that is “reasonably similar” to the method of accounting described in §1.451–4 if the taxpayer followed the method of accounting described in §1.451–4 as if that method were a valid method of accounting for discount coupon redemptions.

[T.D. 8022, 50 FR 18476, May 1, 1985]

§ 1.466–3 Manner of and time for making election under section 466.

(a) In general. Section 466 provides a special method of accounting for accrual basis taxpayers who issue qualified discount coupons (as defined in section 466(b)). In order to use the special method under section 466, a taxpayer must make an election with respect to the trade or business in connection with which the qualified discount coupons are issued. If a taxpayer issues qualified discount coupons in connection with more than one trade or business, the taxpayer may use the special method of accounting under section 466 only with respect to the qualified discount coupons issued in
connection with a trade or business for which an election is made. The election
must be made in the manner prescribed in this section. The election does not
require the prior consent of the Internal Revenue Service. An election under
section 466 is effective for the taxable year for which it is made and for all
subsequent taxable years, unless the taxpayer secures the prior consent of
the Internal Revenue Service to revoke such election.

(b) Manner of and time for making election—(1) General rule. Except as pro-
vided in paragraph (b)(2) of this section, an election is made under section
466 and this section by filing a statement of election containing the infor-
mation described in paragraph (c) of this section with the taxpayer’s income
tax return for the taxpayer’s first taxable year for which the election is
made. The election must be made not later than the time prescribed by law
(including extensions thereof) for filing the income tax return for the first
taxable year for which the election is made. Thus, the election may not be
made for a taxable year by filing an amended income tax return after the
time prescribed (including extensions) for filing the original return for such
tax year.

(2) Transitional rule. If the last day of
the time prescribed by law (including extensions thereof) for filing a tax-
payer’s income tax return for the tax-
payer’s first taxable year ending after
December 31, 1978, falls before Decem-
ber 3, 1979, and the taxpayer does not
make an election under section 466
with respect to such taxable year in
the manner prescribed by paragraph
(b)(1) of this section, an election is
made under section 466 and this section
with respect to such taxable year if—

(i) Within the time prescribed by law
(including extensions thereof) for filing
the taxpayer’s income tax return for
such taxable year, the taxpayer has
made a reasonable effort to notify the
Commissioner of the taxpayer’s intent
to make an election under section 466
with respect to such taxable year, and

(ii) Before January 2, 1980, the tax-
payer files a statement of election
containing the information described
in paragraph (c) of this section to be
associated with the taxpayer’s income
tax return for such taxable year.

For purposes of paragraph (b)(2)(i) of
this section, a reasonable effort to no-
tify the Commissioner of an intent to
make an election under section 466
with respect to a taxable year includes
the timely filing of an income tax re-
turn for such taxable year if the tax-
able income reported on the return re-

cists a deduction for the redemption
costs of qualified discount coupons as
determined under section 466(a).

(c) Required information. The state-
ment of election required by paragraph
(b) of this section must indicate that
the taxpayer (identified by name, ad-
dress, and taxpayer identification num-
ber) is making an election under sec-
cion 466 and this section with respect to such taxable year if—

(1) A description of each trade or
business for which the election is
made;

(2) The first taxable year for which
the election is made;

(3) The redemption period (as defined
in section 466(c)(2)) for each trade or
business for which the election is
made;

(4) If the taxpayer is required to es-

tablish a suspense account under sec-
ction 466(e) for a trade or business for
which the election is made, the initial
opening balance of such account (as de-
defined in section 466(e)(2)) for each such
trade or business; and

(5) In the case of an election under
section 466 that results in a net in-
crease in taxable income under section
481(a)(2), the amount of such net in-
crease.

The statement of election should be
made on a Form 3115, which need con-
tain no information other than that re-
quired by this paragraph or paragraph
(c) of §1.466–4.

[T.D. 8022, 50 FR 18477, May 1, 1985]

§1.466–4 Manner of and time for mak-
ing election under section 373(c) of
the Revenue Act of 1978.

(a) In general. Section 373(c)(2) of the
Revenue Act of 1978 (92 Stat. 2865) pro-
vides an election for taxpayers who
satisfy the requirements of section
373(c)(2)(A) (i) and (ii) of the Act. The
election is made with respect to a