(f) Examples. The provisions of this section may be illustrated by the following examples:

Example 1. M Corporation, a domestic common carrier by railroad, uses the calendar year as its taxable year. M owns and uses several gondola cars to which an election under section 263(e) applies for its taxable years 1970–1972. Gondola car No.1 has a basis (defined in paragraph (b)(1) of this section) of $10,000. No expenditures properly chargeable to the section 263(e) record are made on gondola car No. 1 in 1970 and 1971, except in January 1971. In January 1971, M at a cost of $1,500 performed rehabilitation work on gondola car No. 1. Such amount was properly entered in the section 263(e) record for gondola car No. 1. Since the expenditures in such record do not exceed an amount equal to 20 percent of the basis of gondola car No. 1 ($2,000) during any period of 12 calendar months in which January 1971 falls, the expenditures during January 1971 shall be treated as a deductible expense regardless of what the treatment would have been if section 263(e) had not been enacted.

Example 2. Assume the same facts as in Example 1. Assume further that for 1970, 1971, and 1972, only the following expenditures in connection with rehabilitation which would, but for section 263(e), be properly chargeable to capital account were deemed included for gondola car No. 2:

- (a) December 1970 .................................................... $1,500
- (b) November 1971 .................................................... 600
- (c) December 1971 .................................................... 400
- (d) January 1972 .................................................... 1,050

Assume further that gondola car No. 2 has a basis (as defined in paragraph (b)(1) of this section) equal to $10,000, that M files its tax return for gondola car No. 2, the expenditures of December 1970 are treated as deductible repairs at the time M’s income tax return for 1970 is filed because, based on the information available when the income tax return for 1970 is filed, such expenditure would be deductible by reason of application of section 263(e) but for the fact that it cannot be established whether the 20-percent limitation in paragraph (d)(1) of this section will be exceeded. Nevertheless, because such expenditures during the period of 12 calendar months including calendar months December 1970 and November 1971 exceed $2,000, the December 1970 rehabilitation expenditures are not subject to the provisions of section 263(e). Because such rehabilitation expenditures during the period of 12 calendar months including calendar months February 1971 and January 1972 exceed $2,000, rehabilitation expenditures in 1971 are not subject to the provisions of section 263(e). Similarly, the 1972 rehabilitation expenditures are not subject to the provisions of section 263(e).
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(10) Certain property that is substantially constructed.

(11) Certain property provided incident to services.

(i) In general.

(ii) Definition of services.

(iii) De minimis property provided incident to services.

(12) De minimis rule for certain producers with total indirect costs of $200,000 or less.

(13) Exception for the origination of loans.

(1) General operation of section 263A.

(i) The regulations under section 263A shall be applied to the determination of.

(ii) Corporate expenses.

(iii) Capitalization.

(iv) Recovery of capitalized costs.

(14) Exception for the origination of loans.

(c) General operation of section 263A.

(1) Allocations.

(2) Otherwise deductible.

(3) Capitalize.

(4) Recovery of capitalized costs.

(d) Definitions.

(1) Self-constructed assets.

(2) Section 471 costs.

(i) In general.

(ii) New taxpayers.

(iii) Method changes.

(3) Additional section 263A costs.

(4) Section 263A costs.

(e) Types of costs subject to capitalization.

(1) In general.

(2) Direct costs.

(3) Indirect costs.

(4) Capitalize.

(5) Recovery of capitalized costs.

(i) Definitions.

(1) Self-constructed assets.

(2) Section 263A costs.

(ii) Otherwise deductible.

(iii) Capitalize.

(iv) Recovery of capitalized costs.

(15) Exception for the origination of loans.

(c) General operation of section 263A.

(1) Allocations.

(2) Otherwise deductible.

(3) Capitalize.

(4) Recovery of capitalized costs.

(d) Definitions.

(1) Self-constructed assets.

(2) Section 471 costs.

(i) In general.

(ii) New taxpayers.

(iii) Method changes.

(3) Additional section 263A costs.

(4) Section 263A costs.

(e) Types of costs subject to capitalization.

(1) In general.

(2) Direct costs.

(3) Indirect costs.

(i) In general.

(ii) Examples of indirect costs required to be capitalized.

(A) Indirect labor costs.

(B) Officers’ compensation.

(C) Pension and other related costs.

(D) Employee benefit expenses.

(E) Indirect material costs.

(F) Purchasing costs.

(G) Handling costs.

(H) Storage costs.

(i) Cost recovery.

(J) Depletion.

(K) Rent.

(L) Taxes.

(M) Insurance.

(N) Utilities.

(O) Repairs and maintenance.

(P) Engineering and design costs.

(Q) Spoilage.

(R) Tools and equipment.

(S) Quality control.

(T) Bidding costs.

(U) Licensing and franchise costs.

(V) Interest.

(W) Capitalizable service costs.

(1) Indirect costs not capitalized.

(A) Selling and distribution costs.

(B) Research and experimental expenditures.

(C) Section 179 costs.

(D) Section 165 losses.

(E) Cost recovery allowances on temporarily idle equipment and facilities.

(F) In general.

(2) Examples.

(F) Taxes assessed on the basis of income.

(G) Strike expenses.

(H) Warranty and product liability costs.

(I) On-site storage costs.

(J) Unsuccessful bidding expenses.

(K) Deductible service costs.

(1) Service costs.

(i) Introduction.

(A) Definition of service costs.

(B) Definition of service departments.

(ii) Various service cost categories.

(A) Capitalizable service costs.

(B) Deductible service costs.

(C) Mixed service costs.

(iii) Examples of capitalizable service costs.

(iv) Examples of deductible service costs.

(i) Cost allocation methods.

(1) Introduction.

(2) Specific identification method.

(i) Burden rate and standard cost methods.

(A) In general.

(B) Development of burden rates.

(ii) Standard cost method.

(A) In general.

(B) Treatment of variances.

(4) Reasonable allocation methods.

(5) Allocating categories of costs.

(1) Direct materials.

(2) Direct labor.

(3) Indirect costs.

(4) Service costs.

(i) In general.

(ii) De minimis rule.

(iii) Methods for allocating mixed service costs.

(A) Direct reallocation method.

(B) Step-allocation method.

(C) Examples.

(iv) Illustrations of mixed service cost allocations using reasonable factors or relationships.

(A) Security services.

(B) Legal services.

(C) Centralized payroll services.

(D) Centralized data processing services.

(E) Engineering and design services.

(F) Safety engineering services.

(V) Accounting method change.

(h) Simplified service cost method.

(1) Introduction.

(2) Eligible property.

(i) In general.

(A) Inventory property.

(B) Non-inventory property held for sale.

(C) Certain self-constructed assets.

(D) Self-constructed assets produced on a repetitive basis.

(ii) Election to exclude self-constructed assets.

(3) General allocation formula.

(4) Labor-based allocation ratio.

(5) Production cost allocation ratio.

(6) Definition of total mixed service costs.
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(7) Costs allocable to more than one business.

(b) De minimis rule.

(9) Separate election.

(i) [Reserved]

(j) Special rules.

(1) Costs provided by a related person.

(2) Exception.

(3) Trade or business application.

(4) Transfers with a principal purpose of tax avoidance. [Reserved]

§ 1.263A–2 Rules Relating to Property Produced by the Taxpayer.

(a) In general.

(1) Produce.

(2) In general.

(ii) Ownership.

(A) General rule.

(B) Property produced for the taxpayer under a contract.

(i) In general.

(ii) Definition of contract.

(C) Home construction contracts.

(i) In general.

(ii) Period costs eligible for capitalization.

(iii) Trade or business application.

(iv) Transfers with a principal purpose of tax avoidance. [Reserved]

(b) Optional capitalization of period costs.

(i) In general.

(ii) Period costs eligible for capitalization.

(3) Trade or business application.

(4) Transfers with a principal purpose of tax avoidance. [Reserved]

§ 1.263A–3 Rules Relating to Property Acquired for Resale

(a) Capitalization rules for property acquired for resale.

(1) In general.

(2) Resellers with production activities.

(i) In general.

(ii) Exception for small resellers.

(iii) De minimis production activities.

(A) In general.

(B) Example.

(3) Resellers with property produced under a contract.

(iv) Application of simplified resale method.

(b) Gross receipts exception for small resellers.

(1) In general.

(2) Definition of gross receipts.

(i) In general.

(ii) Amounts excluded.

(iii) Aggregation of gross receipts.

(B) Section 471 costs remaining on hand at year end.

(III) De minimis rule for producers with total indirect costs of $200,000 or less.

(A) In general.

(B) Related party and aggregation rules.

(iv) Examples.

(B) Section 471 costs remaining on hand at year end.

(III) De minimis rule for producers with total indirect costs of $200,000 or less.

(A) In general.

(B) Related party and aggregation rules.

(iv) Examples.
(ii) Single employer defined.

(iii) Gross receipts of a single employer.

(iv) Examples.

(c) Purchasing, handling, and storage costs.

(1) In general.

(2) Costs attributable to purchasing, handling, and storage.

(3) Purchasing costs.

(i) In general.

(ii) Determination of whether personnel are engaged in purchasing activities.

(A) \( \frac{1}{3} - \frac{2}{3} \) rule for allocating labor costs.

(B) Example.

(3) Handling costs.

(i) In general.

(ii) Processing costs.

(iii) Assembling costs.

(iv) Repackaging costs.

(v) Transportation costs.

(vi) Costs not considered handling costs.

(A) Distribution costs.

(B) Delivery of custom-ordered items.

(C) Repackaging after sale occurs.

(5) Storage costs.

(i) In general.

(ii) Definitions.

(A) On-site storage facility.

(B) Retail sales facility.

(C) An integral part of a retail sales facility.

(D) On-site sales.

(E) Retail customer.

(7) In general.

(2) Certain non-retail customers treated as retail customers.

(F) Off-site storage facility.

(G) Dual-function storage facility.

(iii) Treatment of storage costs incurred at a dual-function storage facility.

(A) In general.

(B) Dual-function storage facility allocation ratio.

(i) In general.

(2) Illustration of ratio allocation.

(3) Appropriate adjustments for other uses of a dual-function storage facility.

(C) De minimis 90-10 rule for dual-function storage facilities.

(iv) Costs not attributable to an off-site storage facility.

(v) Examples.

(d) Simplified resale method.

(1) Introduction.

(2) Eligible property.

(3) Simplified resale method without historic absorption ratio election.

(i) General allocation formula.

(A) In general.

(B) Effect of allocation.

(C) Definitions.

(j) Combined absorption ratio.

(2) Section 471 costs remaining on hand at year end.

(D) Storage and handling costs absorption ratio.

(E) Purchasing costs absorption ratio.

(F) Allocable mixed service costs.

(ii) LIFO taxpayers electing simplified resale method.

(A) In general.

(B) LIFO increment.

(C) LIFO decrement.

(iii) Permissible variations of the simplified resale method.

(iv) Examples.

(4) Simplified resale method with historic absorption ratio election.

(i) In general.

(ii) Operating rules and definitions.

(A) Historic absorption ratio.

(B) Test period.

(C) Tax shelter.

(i) In general.

(2) Updated test period.

(C) Qualifying period.

(i) In general.

(2) Extension of qualifying period.

(iii) Method of accounting.

(A) Adoption and use.

(B) Revocation of election.

(iv) Reporting and recordkeeping requirements.

(A) Reporting.

(B) Recordkeeping.

(C) Transition rules.

(v) Example.

(5) Additional simplified methods for resellers.

(e) Cross reference.

§1.263A-4 Rules for property produced in a farming business.

(a) Introduction.

(1) In general.

(2) Exception.

(i) In general.

(ii) Tax shelter.

(A) In general.

(B) Presumption.

(iii) Examples.

(3) Costs required to be capitalized or inventoried under another provision.

(4) Farming business.

(i) In general.

(A) Plant.

(B) Animal.

(ii) Incidental activities.

(A) In general.

(B) Activities that are not incidental.

(iii) Examples.

(b) Application of section 263A to property produced in a farming business.

(1) In general.

(i) Plants.

(ii) Animals.

(2) Preproductive period.

(i) Plant.

(A) In general.

(B) Applicability of section 263A.

(C) Actual preproductive period.

(i) Beginning of the preproductive period.

(2) End of the preproductive period.

(i) In general.

(ii) Marketable quantities.
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(D) Examples.

(ii) Animal.

(A) Beginning of the preproductive period.

(B) End of the preproductive period.

(C) Allocation of costs between animal and first yield.

(c) Inventory methods.

(i) In general.

(2) Available for property used in a trade or business.

(3) Exclusion of property to which section 263A does not apply.

(d) Election not to have section 263A apply.

(1) Introduction.

(2) Availability of the election.

(3) Time and manner of making the election.

(i) Automatic election.

(ii) Nonautomatic election.

(4) Special rules.

(i) Section 1245 treatment.

(ii) Required use of alternative depreciation system.

(iii) Related person.

(A) In general.

(B) Members of family.

(5) Examples.

(e) Exception for certain costs resulting from casualty losses.

(1) In general.

(2) Ownership.

(3) Examples.

(4) Special rule for citrus and almond groves.

(i) In general.

(ii) Example.

(5) Effective date and change in method of accounting.

(1) Effective date.

(2) Change in method of accounting.

§ 1.263A–7 Changing a method of accounting under section 263A.

(a) Introduction.

(1) Purpose.

(2) Taxpayers that adopt a method of accounting under section 263A.

(3) Taxpayers that change a method of accounting under section 263A.

(4) Effective date.


(b) Rules applicable to a change in method of accounting.

(1) General rules.

(2) Special rules.

(3) Ordering rules when multiple changes in method of accounting occur in the year of change.

(A) In general.

(B) Exceptions to the general ordering rule.

(1) Change from the LIFO inventory method.

(2) Change from the specific goods LIFO inventory method.

(3) Change in overall method of accounting.

(4) Change in method of accounting for depreciation.

(ii) Adjustment required by section 481(a).

(iii) Base year.

(A) Need for a new base year.

(1) Facts and circumstances revaluation method used.

(2) 3-year average method used.

(i) Simplified method not used.

(ii) Simplified method used.

(B) Computing a new base year.

(c) Inventory.

(1) Need for adjustments.

(2) Revaluing beginning inventory.

(i) In general.

(ii) Methods to revalue inventory.

(iii) Facts and circumstances revaluation method.

(A) In general.

(B) Exception.

(C) Estimates and procedures allowed.

(D) Use by dollar-value LIFO taxpayers.

(E) Examples.

(iv) Weighted average method.

(A) In general.

(B) Weighted average method for FIFO taxpayers.

(1) In general.

(2) Example.

(C) Weighted average method for specific goods LIFO taxpayers.

(1) In general.

(2) Example.

(D) Adjustments to inventory costs from prior years.

(1) 3-year average method.

(A) In general.

(B) Consecutive year requirement.

(C) Example.

(D) Short taxable years.

(E) Adjustments to inventory costs from prior years.

(1) General rule.

(2) Examples of costs eligible for restatement adjustment procedure.

(F) Restatement adjustment procedure.

(1) In general.

(2) Examples of restatement adjustment procedure.

(3) Intercompany items.

(i) Revaluing intercompany transactions.

(ii) Example.

(iii) Availability of revaluation methods.

(iv) Anti-abuse rule.

(1) In general.

(ii) Deemed avoidance of this section.

(A) Scope.

(B) General rule.

(iii) Election to use transferor’s LIFO layers.

(iv) Tax avoidance intent not required.

(v) Related corporation.

(d) Non-inventory property.

(1) Need for adjustments.

(2) Revaluing property.
§ 1.263A–8 Requirement to capitalize interest.

(a) In general.
   (1) General rule.
   (2) Treatment of interest required to be capitalized.
   (3) Methods of accounting under section 263A(f).
   (4) Special definitions.
      (i) Related person.
      (ii) Placed in service.
      (b) Designated property.
         (1) In general.
         (2) Special rules.
            (i) Application of thresholds.
            (ii) Relevant activities and costs.
            (iii) Production period and cost of production.
         (d) Production.
            (1) Definition of produce.
            (2) Property produced under a contract.
               (i) Customer.
               (ii) Contractor.
               (iii) Definition of a contract.
            (iv) Determination of whether thresholds are satisfied.
               (A) Customer.
               (B) Contractor.
            (v) Exclusion for property subject to long-term contract rules.
            (6) Improvements to existing property.
               (i) In general.
               (ii) Real property.
               (iii) Tangible personal property.

§ 1.263A–9 The avoided cost method.

(a) In general.
   (1) Description.
   (2) Overview.
   (i) In general.
   (ii) Rules that apply in determining amounts.
      (b) Definitions of interest and incurred.
      (c) Definition of eligible debt.
      (d) Traced debt amount.
      (i) General rule.
      (ii) Identification and definition of traced debt.
      (3) Example.
      (4) Excess expenditure amount.
      (5) Definitions.
         (i) Nontraced debt.
         (A) Defined.
         (B) Example.
         (ii) Average excess expenditures.
            (A) General rule.
            (B) Example.
         (iii) Weighted average interest rate.
            (A) Determination of rate.
            (B) Interest incurred on nontraced debt.
            (C) Average nontraced debt.
            (D) Special rules if taxpayer has no nontraced debt or rate is contingent.
            (6) Examples.
            (7) Special rules where the excess expenditure amount exceeds incurred interest.
               (i) Allocation of total incurred interest to units.
               (ii) Application of related person rules to average excess expenditures.
               (iii) Special rule for corporations.
      (d) Election not to trace debt.
         (1) General rule.
      (2) Example.
      (3) Example.
   (4) Election to use external rate.
      (1) In general.
      (2) Eligible taxpayer.
   (5) Selection of computation period and measurement dates and application of averaging conventions.
      (1) Computation period.
         (i) In general.
         (ii) Method of accounting.
         (iii) Production period beginning or ending during the computation period.
      (2) Measurement dates.
         (i) In general.
         (ii) Measurement period.
         (iii) Measurement dates on which accumulated production expenditures must be taken into account.
      (4) More frequent measurement dates.
      (3) Examples.
      (g) Special rules.
         (1) Ordering rules.
         (i) Provisions preempted by section 263A(f).
         (ii) Deferral provisions applied before this section.
      (2) Application of section 263A(f) to deferred interest.
         (i) In general.
         (ii) Capitalization of deferral amount.
         (iii) Deferred capitalization.
         (iv) Substitute capitalization.
            (A) General rule.
            (B) Capitalization of amount carried forward.
            (C) Method of accounting.
            (v) Examples.
      (3) Simplified inventory method.
         (i) In general.
         (ii) Segmentation of inventory.
            (A) General rule.
            (B) Example.
      (iii) Aggregate interest capitalization amount.
(A) Computation period and weighted average interest rate.
(B) Computation of the tentative aggregate interest capitalization amount.
(C) Coordination with other interest capitalization computations.
   (1) In general.
   (2) Deferred interest.
   (3) Other coordinating provisions.
   (D) Treatment of increases or decreases in the aggregate interest capitalization amount.
   (E) Example.
   (iv) Method of accounting.
   (4) Financial accounting method disregarded.
   (5) Treatment of intercompany transactions.
      (i) General rule.
      (ii) Special rule for consolidated group with limited outside borrowing.
      (iii) Example.
   (6) Notional principal contracts and other derivatives. [Reserved]

§ 1.263A–10 Unit of property.

(a) In general.
(b) Units of real property.
   (1) In general.
   (2) Functional interdependence.
   (3) Common features.
   (4) Allocation of costs to unit.
   (b) Treatment of costs when a common feature is included in a unit of real property.
      (i) General rule.
      (ii) Production activity not undertaken on benefitted property.
      (A) Direct production activity not undertaken.
      (B) Land attributable to a benefitted property.
      (C) Accumulated direct production expenditures.
      (D) Common feature placed in service before the end of production of a benefitted property.
      (iv) Benefitted property sold before production completed on common feature.
      (v) Benefitted property placed in service before production completed on common feature.
   (b) Examples.
   (c) Units of tangible personal property.
   (d) Treatment of installations.
   § 1.263A–11 Accumulated production expenditures.

(a) General rule.
(b) When costs are first taken into account.
   (1) In general.
   (2) Dedication rule for materials and supplies.
   (c) Property produced under a contract.
      (1) Customer.
      (2) Contractor.
   (d) Property used to produce designated property.
      (1) In general.
      (2) Example.
      (3) Excluded equipment and facilities.
   (e) Improvements.
      (1) General rule.
      (2) De minimis rule.
      (f) Mid-production purchases.
      (g) Related person costs.
      (h) Installation.

§ 1.263A–12 Production period.

(a) In general.
(b) Related person activities.
(c) Beginning of production period.
   (1) In general.
   (2) Real property.
   (3) Tangible personal property.
   (d) End of production period.
      (1) In general.
      (2) Special rules.
      (3) Sequential production or delivery.
      (4) Examples.
   (e) Physical production activities.
      (1) In general.
      (2) Illustrations.
   (f) Activities not considered physical production.
      (1) Planning and design.
      (2) Incidental repairs.
   (g) Suspension of production period.
      (1) In general.
      (2) Special rule.
      (3) Method of accounting.
      (4) Example.

§ 1.263A–13 Oil and gas activities.

(a) In general.
(b) Generally applicable rules.
   (1) Beginning of production period.
      (i) Onshore activities.
      (ii) Offshore activities.
   (2) End of production period.
   (3) Accumulated production expenditures.
      (i) Costs included.
      (ii) Improvement unit.
   (c) Special rules when definite plan not established.
      (1) In general.
      (2) Oil and gas units.
         (i) First productive well unit.
         (ii) Subsequent units.
      (3) Beginning of production period.
         (i) First productive well unit.
         (ii) Subsequent wells.
      (4) End of production period.
      (5) Accumulated production expenditures.
         (i) First productive well unit.
         (ii) Subsequent well unit.
      (6) Allocation of interest capitalized with respect to first productive well unit.
      (7) Examples.
§ 1.263A–14  Rules for related persons.

§ 1.263A–15  Effective dates, transitional rules, and anti-abuse rule.

(a) Effective dates.
(b) Transitional rule for accumulated production expenditures.
(1) In general.
(2) Property used to produce designated property.
(c) Anti-abuse rule.


§ 1.263A–1  Uniform capitalization of costs.

(a) Introduction—(1) In general. The regulations under §§1.263A–1 through 1.263A–6 provide guidance to taxpayers that are required to capitalize certain costs under section 263A. These regulations generally apply to all costs required to be capitalized under section 263A except for interest that must be capitalized under section 263A(f) and the regulations thereunder. Statutory or regulatory exceptions may provide that section 263A does not apply to certain activities or costs; however, those activities or costs may nevertheless be subject to capitalization requirements under other provisions of the Internal Revenue Code and regulations.

(2) Effective dates. (i) In general, this section and §§1.263A–2 and 1.263A–3 apply to costs incurred in taxable years beginning after December 31, 1993. In the case of property that is inventory in the hands of the taxpayer, however, these sections are effective for taxable years beginning after December 31, 1993. Changes in methods of accounting necessary as a result of the rules in this section and §§1.263A–2 and 1.263A–3 must be made under terms and conditions prescribed by the Commissioner. Under these terms and conditions, the principles of §1.263A–7 must be applied in revaluing inventory property.

(ii) For taxable years beginning before January 1, 1994, taxpayers must take reasonable positions on their federal income tax returns when applying section 263A. For purposes of this paragraph (a)(2)(iii), a reasonable position is a position consistent with the temporary regulations, revenue rulings, revenue procedures, notices, and announcements concerning section 263A applicable in taxable years beginning before January 1, 1994. See §601.601(d)(2)(ii)(b) of this chapter.

(iii) General scope—(1) Property to which section 263A applies. Taxpayers subject to section 263A must capitalize all direct costs and certain indirect costs properly allocable to—
(A) Real property and tangible personal property produced by the taxpayer; and
(B) Real property and personal property described in section 1221(1), which is acquired by the taxpayer for resale.

(ii) Property produced. Taxpayers that produce real property and tangible personal property (producers) must capitalize all the direct costs of producing the property and the property’s properly allocable share of indirect costs (described in paragraphs (e)(2)(i) and (3) of this section), regardless of whether the property is sold or used in the taxpayer’s trade or business. See §1.263A–2 for rules relating to producers.

(iii) Property acquired for resale. Retailers, wholesalers, and other taxpayers that acquire property described in section 1221(1) for resale (resellers) must capitalize the direct costs of acquiring the property and the property’s properly allocable share of indirect costs (described in paragraphs (e)(2)(i) and (3) of this section). See §1.263A–3 for rules relating to resellers. See also section 263A(b)(2)(B), which excepts from section 263A personal property acquired for resale by a small reseller.

(iv) Inventories valued at market. Section 263A does not apply to inventories valued at market under either the market method or the lower of cost or market method if the market valuation used by the taxpayer generally equals the property’s fair market value. For purposes of this paragraph (a)(3)(iv), the term fair market value means the price at which the taxpayer sells its inventory to its customers (e.g., as in the market value definition provided in §1.471–4(b)) less, if applicable, the direct cost of disposing of the inventory. However, section 263A does apply in determining the market value of any inventory for which market is determined with reference to replacement.