

shall apply to taxable years beginning after December 31, 1986.

“(2) **REQUIRED PAYMENTS.**—The amendments made by subsection (b) [enacting section 7519 of this title] shall apply to applicable election years beginning after December 31, 1986.

“(3) **ELECTIONS.**—Any election under section 444 of the Internal Revenue Code of 1986 (as added by subsection (a)) for an entity’s 1st taxable year beginning after December 31, 1986, shall not be required to be made before the 90th day after the date of the enactment of this Act [Dec. 22, 1987].

“(4) **SPECIAL RULE FOR EXISTING ENTITIES ELECTING S CORPORATION STATUS.**—If a C corporation (within the meaning of section 1361(a)(2) of the Internal Revenue Code of 1986) with a taxable year other than the calendar year—

“(A) made an election after September 18, 1986, and before January 1, 1988, under section 1362 of such Code to be treated as an S corporation, and

“(B) elected to have the calendar year as the taxable year of the S corporation, then section 444(b)(2)(B) of such Code shall be applied by taking into account the deferral period of the last taxable year of the C corporation rather than the deferral period of the taxable year being changed. The preceding sentence shall apply only in the case of an election under section 444 of such Code made for a taxable year beginning before 1989.”

PART II—METHODS OF ACCOUNTING

Subpart

- A. Methods of accounting in general.
- B. Taxable year for which items of gross income included.
- C. Taxable year for which deductions taken.
- D. Inventories.

SUBPART A—METHODS OF ACCOUNTING IN GENERAL

- Sec. 446. General rule for methods of accounting.
- 447. Method of accounting for corporations engaged in farming.
- 448. Limitation on use of cash method of accounting.

Editorial Notes

AMENDMENTS

1986—Pub. L. 99-514, title VIII, § 801(c), Oct. 22, 1986, 100 Stat. 2348, added item 448.

1976—Pub. L. 94-455, title II, § 207(c)(1)(B), Oct. 4, 1976, 90 Stat. 1541, added item 447.

§ 446. General rule for methods of accounting

(a) General rule

Taxable income shall be computed under the method of accounting on the basis of which the taxpayer regularly computes his income in keeping his books.

(b) Exceptions

If no method of accounting has been regularly used by the taxpayer, or if the method used does not clearly reflect income, the computation of taxable income shall be made under such method as, in the opinion of the Secretary, does clearly reflect income.

(c) Permissible methods

Subject to the provisions of subsections (a) and (b), a taxpayer may compute taxable income under any of the following methods of accounting—

- (1) the cash receipts and disbursements method;
- (2) an accrual method;
- (3) any other method permitted by this chapter; or
- (4) any combination of the foregoing methods permitted under regulations prescribed by the Secretary.

(d) Taxpayer engaged in more than one business

A taxpayer engaged in more than one trade or business may, in computing taxable income, use a different method of accounting for each trade or business.

(e) Requirement respecting change of accounting method

Except as otherwise expressly provided in this chapter, a taxpayer who changes the method of accounting on the basis of which he regularly computes his income in keeping his books shall, before computing his taxable income under the new method, secure the consent of the Secretary.

(f) Failure to request change of method of accounting

If the taxpayer does not file with the Secretary a request to change the method of accounting, the absence of the consent of the Secretary to a change in the method of accounting shall not be taken into account—

- (1) to prevent the imposition of any penalty, or the addition of any amount to tax, under this title, or
- (2) to diminish the amount of such penalty or addition to tax.

(Aug. 16, 1954, ch. 736, 68A Stat. 151; Pub. L. 94-455, title XIX, § 1906 (b)(13)(A), Oct. 4, 1976, 90 Stat. 1834; Pub. L. 98-369, div. A, title I, § 161(a), July 18, 1984, 98 Stat. 696.)

Editorial Notes

AMENDMENTS

1984—Subsec. (f). Pub. L. 98-369 added subsec. (f).
1976—Subsecs. (b), (c), (e). Pub. L. 94-455 struck out “or his delegate” after “Secretary”.

Statutory Notes and Related Subsidiaries

EFFECTIVE DATE OF 1984 AMENDMENT

Pub. L. 98-369, div. A, title I, § 161(b), July 18, 1984, 98 Stat. 697, provided that: “The amendment made by this section [amending this section] shall apply to taxable years beginning after the date of the enactment of this Act [July 18, 1984].”

§ 447. Method of accounting for corporations engaged in farming

(a) General rule

Except as otherwise provided by law, the taxable income from farming of—

- (1) a corporation engaged in the trade or business of farming, or
- (2) a partnership engaged in the trade or business of farming, if a corporation is a partner in such partnership,

shall be computed on an accrual method of accounting. This section shall not apply to the trade or business of operating a nursery or sod