

accounting for any trade or business of providing engineering services with respect to taxable years ending after December 31, 1986, if the common parent of such group—

“(A) was incorporated in the State of Delaware in 1970.

“(B) was the successor to a corporation that was incorporated in the State of Illinois in 1949, and

“(C) used a method of accounting for long-term contracts of accounting [sic] for a substantial part of its income from the performance of engineering services.

“(5) SPECIAL RULE FOR PARAGRAPHS (2) AND (3).—If any loan, lease, contract, or evidence of any transaction to which paragraph (2) or (3) applies is transferred after June 10, 1987, to a person other than a related party (within the meaning of paragraph (2)), paragraph (2) or (3) shall cease to apply on and after the date of such transfer.”

SUBPART B—TAXABLE YEAR FOR WHICH ITEMS OF GROSS INCOME INCLUDED

- Sec. 451. General rule for taxable year of inclusion.
- [452. Repealed.]
- 453. Installment method.
- 453A. Special rules for nondealers.
- 453B. Gain or loss on disposition of installment obligations.
- [453C. Repealed.]
- 454. Obligations issued at discount.
- 455. Prepaid subscription income.
- 456. Prepaid dues income of certain membership organizations.
- 457. Deferred compensation plans of State and local governments and tax-exempt organizations.
- 457A. Nonqualified deferred compensation from certain tax indifferent parties.
- 458. Magazines, paperbacks, and records returned after the close of the taxable year.
- 460. Special rules for long-term contracts.

Editorial Notes

AMENDMENTS

Pub. L. 110-343, div. C, title VIII, §801(c), Oct. 3, 2008, 122 Stat. 3931, added item 457A.

1988—Pub. L. 100-647, title V, §5076(b)(2), Nov. 10, 1988, 102 Stat. 3683, struck out “of real property” after “rules for nondealers” in item 453A.

1987—Pub. L. 100-203, title X, §10202(a)(2), (c)(2), Dec. 22, 1987, 101 Stat. 1330-388, 1330-392, substituted “Special rules for nondealers of real property” for “Installment method for dealers in personal property” in item 453A, and struck out item 453C “Certain indebtedness treated as payments on installment obligations”.

1986—Pub. L. 99-514, title XI, §1107(b), (c), Oct. 22, 1986, 101 Stat. 2430, added item 457, applicable to taxable years beginning after Dec. 31, 1988, with certain exceptions, and struck out former item 457 “Deferred compensation plans with respect to service for State and local governments”.

Pub. L. 99-514, title VIII, §§804(c), 811(b), Oct. 22, 1986, 100 Stat. 2361, 2368, added items 453C and 460.

1980—Pub. L. 96-471, §2(d), Oct. 19, 1980, 94 Stat. 2254, added items 453 to 453B and struck out former item 453 “Installment method”.

1978—Pub. L. 95-600, title I, §131(b), title III, §372(b), Nov. 6, 1978, 92 Stat. 2782, 2862, added items 457 and 458.

1961—Pub. L. 87-109, §1(b), July 26, 1961, 75 Stat. 224, added item 456.

1958—Pub. L. 85-866, title I, §28(b), Sept. 2, 1958, 72 Stat. 1626, added item 455, effective with respect to taxable years beginning after Dec. 31, 1957. See section 28(c) of Pub. L. 85-866 set out as an Effective Date note under section 455 of this title.

1955—Act June 15, 1955, ch. 143, §2(2), 69 Stat. 135, struck out item 452 “Adjustment in case of position inconsistent with prior income tax liability”.

§ 451. General rule for taxable year of inclusion

(a) General rule

The amount of any item of gross income shall be included in the gross income for the taxable year in which received by the taxpayer, unless, under the method of accounting used in computing taxable income, such amount is to be properly accounted for as of a different period.

(b) Inclusion not later than for financial accounting purposes

(1) Income taken into account in financial statement

(A) In general

In the case of a taxpayer the taxable income of which is computed under an accrual method of accounting, the all events test with respect to any item of gross income (or portion thereof) shall not be treated as met any later than when such item (or portion thereof) is taken into account as revenue in—

- (i) an applicable financial statement of the taxpayer, or
- (ii) such other financial statement as the Secretary may specify for purposes of this subsection.

(B) Exception

This paragraph shall not apply to—

- (i) a taxpayer which does not have a financial statement described in clause (i) or (ii) of subparagraph (A) for a taxable year, or
- (ii) any item of gross income in connection with a mortgage servicing contract.

(C) All events test

For purposes of this section, the all events test is met with respect to any item of gross income if all the events have occurred which fix the right to receive such income and the amount of such income can be determined with reasonable accuracy.

(2) Coordination with special methods of accounting

Paragraph (1) shall not apply with respect to any item of gross income for which the taxpayer uses a special method of accounting provided under any other provision of this chapter, other than any provision of part V of subchapter P (except as provided in clause (ii) of paragraph (1)(B)).

(3) Applicable financial statement

For purposes of this subsection, the term “applicable financial statement” means—

(A) a financial statement which is certified as being prepared in accordance with generally accepted accounting principles and which is—

- (i) a 10-K (or successor form), or annual statement to shareholders, required to be filed by the taxpayer with the United States Securities and Exchange Commission,
- (ii) an audited financial statement of the taxpayer which is used for—
 - (I) credit purposes,
 - (II) reporting to shareholders, partners, or other proprietors, or to beneficiaries, or

(III) any other substantial nontax purpose,

but only if there is no statement of the taxpayer described in clause (i), or

(iii) filed by the taxpayer with any other Federal agency for purposes other than Federal tax purposes, but only if there is no statement of the taxpayer described in clause (i) or (ii),

(B) a financial statement which is made on the basis of international financial reporting standards and is filed by the taxpayer with an agency of a foreign government which is equivalent to the United States Securities and Exchange Commission and which has reporting standards not less stringent than the standards required by such Commission, but only if there is no statement of the taxpayer described in subparagraph (A), or

(C) a financial statement filed by the taxpayer with any other regulatory or governmental body specified by the Secretary, but only if there is no statement of the taxpayer described in subparagraph (A) or (B).

(4) Allocation of transaction price

For purposes of this subsection, in the case of a contract which contains multiple performance obligations, the allocation of the transaction price to each performance obligation shall be equal to the amount allocated to each performance obligation for purposes of including such item in revenue in the applicable financial statement of the taxpayer.

(5) Group of entities

For purposes of paragraph (1), if the financial results of a taxpayer are reported on the applicable financial statement (as defined in paragraph (3)) for a group of entities, such statement shall be treated as the applicable financial statement of the taxpayer.

(c) Treatment of advance payments

(1) In general

A taxpayer which computes taxable income under the accrual method of accounting, and receives any advance payment during the taxable year, shall—

(A) except as provided in subparagraph (B), include such advance payment in gross income for such taxable year, or

(B) if the taxpayer elects the application of this subparagraph with respect to the category of advance payments to which such advance payment belongs, the taxpayer shall—

(i) to the extent that any portion of such advance payment is required under subsection (b) to be included in gross income in the taxable year in which such payment is received, so include such portion, and

(ii) include the remaining portion of such advance payment in gross income in the taxable year following the taxable year in which such payment is received.

(2) Election

(A) In general

Except as otherwise provided in this paragraph, the election under paragraph (1)(B)

shall be made at such time, in such form and manner, and with respect to such categories of advance payments, as the Secretary may provide.

(B) Period to which election applies

An election under paragraph (1)(B) shall be effective for the taxable year with respect to which it is first made and for all subsequent taxable years, unless the taxpayer secures the consent of the Secretary to revoke such election. For purposes of this title, the computation of taxable income under an election made under paragraph (1)(B) shall be treated as a method of accounting.

(3) Taxpayers ceasing to exist

Except as otherwise provided by the Secretary, the election under paragraph (1)(B) shall not apply with respect to advance payments received by the taxpayer during a taxable year if such taxpayer ceases to exist during (or with the close of) such taxable year.

(4) Advance payment

For purposes of this subsection—

(A) In general

The term “advance payment” means any payment—

(i) the full inclusion of which in the gross income of the taxpayer for the taxable year of receipt is a permissible method of accounting under this section (determined without regard to this subsection),

(ii) any portion of which is included in revenue by the taxpayer in a financial statement described in clause (i) or (ii) of subsection (b)(1)(A) for a subsequent taxable year, and

(iii) which is for goods, services, or such other items as may be identified by the Secretary for purposes of this clause.

(B) Exclusions

Except as otherwise provided by the Secretary, such term shall not include—

(i) rent,

(ii) insurance premiums governed by subchapter L,

(iii) payments with respect to financial instruments,

(iv) payments with respect to warranty or guarantee contracts under which a third party is the primary obligor,

(v) payments subject to section 871(a), 881, 1441, or 1442,

(vi) payments in property to which section 83 applies, and

(vii) any other payment identified by the Secretary for purposes of this subparagraph.

(C) Receipt

For purposes of this subsection, an item of gross income is received by the taxpayer if it is actually or constructively received, or if it is due and payable to the taxpayer.

(D) Allocation of transaction price

For purposes of this subsection, rules similar to subsection (b)(4) shall apply.

(d) Special rule in case of death

In the case of the death of a taxpayer whose taxable income is computed under an accrual

method of accounting, any amount accrued only by reason of the death of the taxpayer shall not be included in computing taxable income for the period in which falls the date of the taxpayer's death.

(e) Special rule for employee tips

For purposes of subsection (a), tips included in a written statement furnished an employer by an employee pursuant to section 6053(a) shall be deemed to be received at the time the written statement including such tips is furnished to the employer.

(f) Special rule for crop insurance proceeds or disaster payments

In the case of insurance proceeds received as a result of destruction or damage to crops, a taxpayer reporting on the cash receipts and disbursements method of accounting may elect to include such proceeds in income for the taxable year following the taxable year of destruction or damage, if he establishes that, under his practice, income from such crops would have been reported in a following taxable year. For purposes of the preceding sentence, payments received under the Agricultural Act of 1949, as amended, or title II of the Disaster Assistance Act of 1988, as a result of (1) destruction or damage to crops caused by drought, flood, or any other natural disaster, or (2) the inability to plant crops because of such a natural disaster shall be treated as insurance proceeds received as a result of destruction or damage to crops. An election under this subsection for any taxable year shall be made at such time and in such manner as the Secretary prescribes.

(g) Special rule for proceeds from livestock sold on account of drought, flood, or other weather-related conditions

(1) In general

In the case of income derived from the sale or exchange of livestock in excess of the number the taxpayer would sell if he followed his usual business practices, a taxpayer reporting on the cash receipts and disbursements method of accounting may elect to include such income for the taxable year following the taxable year in which such sale or exchange occurs if he establishes that, under his usual business practices, the sale or exchange would not have occurred in the taxable year in which it occurred if it were not for drought, flood, or other weather-related conditions, and that such conditions had resulted in the area being designated as eligible for assistance by the Federal Government.

(2) Limitation

Paragraph (1) shall apply only to a taxpayer whose principal trade or business is farming (within the meaning of section 6420(c)(3)).

(3) Special election rules

If section 1033(e)(2) applies to a sale or exchange of livestock described in paragraph (1), the election under paragraph (1) shall be deemed valid if made during the replacement period described in such section.

(h) Special rule for utility services

(1) In general

In the case of a taxpayer the taxable income of which is computed under an accrual method

of accounting, any income attributable to the sale or furnishing of utility services to customers shall be included in gross income not later than the taxable year in which such services are provided to such customers.

(2) Definition and special rule

For purposes of this subsection—

(A) Utility services

The term “utility services” includes—

- (i) the providing of electrical energy, water, or sewage disposal,
- (ii) the furnishing of gas or steam through a local distribution system,
- (iii) telephone or other communication services, and
- (iv) the transporting of gas or steam by pipeline.

(B) Year in which services provided

The taxable year in which services are treated as provided to customers shall not, in any manner, be determined by reference to—

- (i) the period in which the customers' meters are read, or
- (ii) the period in which the taxpayer bills (or may bill) the customers for such service.

(i) Treatment of interest on frozen deposits in certain financial institutions

(1) In general

In the case of interest credited during any calendar year on a frozen deposit in a qualified financial institution, the amount of such interest includible in the gross income of a qualified individual shall not exceed the sum of—

(A) the net amount withdrawn by such individual from such deposit during such calendar year, and

(B) the amount of such deposit which is withdrawable as of the close of the taxable year (determined without regard to any penalty for premature withdrawals of a time deposit).

(2) Interest tested each year

Any interest not included in gross income by reason of paragraph (1) shall be treated as credited in the next calendar year.

(3) Deferral of interest deduction

No deduction shall be allowed to any qualified financial institution for interest not includible in gross income under paragraph (1) until such interest is includible in gross income.

(4) Frozen deposit

For purposes of this subsection, the term “frozen deposit” means any deposit if, as of the close of the calendar year, any portion of such deposit may not be withdrawn because of—

(A) the bankruptcy or insolvency of the qualified financial institution (or threat thereof), or

(B) any requirement imposed by the State in which such institution is located by reason of the bankruptcy or insolvency (or

threat thereof) of 1 or more financial institutions in the State.

(5) Other definitions

For purposes of this subsection, the terms “qualified individual”, “qualified financial institution”, and “deposit” have the same respective meanings as when used in section 165(l).

(j) Special rule for cash options for receipt of qualified prizes

(1) In general

For purposes of this title, in the case of an individual on the cash receipts and disbursements method of accounting, a qualified prize option shall be disregarded in determining the taxable year for which any portion of the qualified prize is properly includible in gross income of the taxpayer.

(2) Qualified prize option; qualified prize

For purposes of this subsection—

(A) In general

The term “qualified prize option” means an option which—

- (i) entitles an individual to receive a single cash payment in lieu of receiving a qualified prize (or remaining portion thereof), and
- (ii) is exercisable not later than 60 days after such individual becomes entitled to the qualified prize.

(B) Qualified prize

The term “qualified prize” means any prize or award which—

- (i) is awarded as a part of a contest, lottery, jackpot, game, or other similar arrangement,
- (ii) does not relate to any past services performed by the recipient and does not require the recipient to perform any substantial future service, and
- (iii) is payable over a period of at least 10 years.

(3) Partnership, etc.

The Secretary shall provide for the application of this subsection in the case of a partnership or other pass-through entity consisting entirely of individuals described in paragraph (1).

(k) Special rule for sales or dispositions to implement Federal Energy Regulatory Commission or State electric restructuring policy

(1) In general

In the case of any qualifying electric transmission transaction for which the taxpayer elects the application of this section, qualified gain from such transaction shall be recognized—

- (A) in the taxable year which includes the date of such transaction to the extent the amount realized from such transaction exceeds—
 - (i) the cost of exempt utility property which is purchased by the taxpayer during the 4-year period beginning on such date, reduced (but not below zero) by
 - (ii) any portion of such cost previously taken into account under this subsection, and

(B) ratably over the 8-taxable year period beginning with the taxable year which includes the date of such transaction, in the case of any such gain not recognized under subparagraph (A).

(2) Qualified gain

For purposes of this subsection, the term “qualified gain” means, with respect to any qualifying electric transmission transaction in any taxable year—

- (A) any ordinary income derived from such transaction which would be required to be recognized under section 1245 or 1250 for such taxable year (determined without regard to this subsection), and
- (B) any income derived from such transaction in excess of the amount described in subparagraph (A) which is required to be included in gross income for such taxable year (determined without regard to this subsection).

(3) Qualifying electric transmission transaction

For purposes of this subsection, the term “qualifying electric transmission transaction” means any sale or other disposition before January 1, 2008 (before January 1, 2021, in the case of a qualified electric utility), of—

- (A) property used in the trade or business of providing electric transmission services, or
- (B) any stock or partnership interest in a corporation or partnership, as the case may be, whose principal trade or business consists of providing electric transmission services,

but only if such sale or disposition is to an independent transmission company.

(4) Independent transmission company

For purposes of this subsection, the term “independent transmission company” means—

- (A) an independent transmission provider approved by the Federal Energy Regulatory Commission,
- (B) a person—
 - (i) who the Federal Energy Regulatory Commission determines in its authorization of the transaction under section 203 of the Federal Power Act (16 U.S.C. 824b) or by declaratory order is not a market participant within the meaning of such Commission’s rules applicable to independent transmission providers, and
 - (ii) whose transmission facilities to which the election under this subsection applies are under the operational control of a Federal Energy Regulatory Commission-approved independent transmission provider before the close of the period specified in such authorization, but not later than the date which is 4 years after the close of the taxable year in which the transaction occurs, or

(C) in the case of facilities subject to the jurisdiction of the Public Utility Commission of Texas—

- (i) a person which is approved by that Commission as consistent with Texas State law regarding an independent transmission provider, or

(ii) a political subdivision or affiliate thereof whose transmission facilities are under the operational control of a person described in clause (i).

(5) Exempt utility property

For purposes of this subsection:

(A) In general

The term “exempt utility property” means property used in the trade or business of—

- (i) generating, transmitting, distributing, or selling electricity, or
- (ii) producing, transmitting, distributing, or selling natural gas.

(B) Nonrecognition of gain by reason of acquisition of stock

Acquisition of control of a corporation shall be taken into account under this subsection with respect to a qualifying electric transmission transaction only if the principal trade or business of such corporation is a trade or business referred to in subparagraph (A).

(C) Exception for property located outside the United States

The term “exempt utility property” shall not include any property which is located outside the United States.

(6) Qualified electric utility

For purposes of this subsection, the term “qualified electric utility” means a person that, as of the date of the qualifying electric transmission transaction, is vertically integrated, in that it is both—

(A) a transmitting utility (as defined in section 3(23) of the Federal Power Act (16 U.S.C. 796(23))) with respect to the transmission facilities to which the election under this subsection applies, and

(B) an electric utility (as defined in section 3(22) of the Federal Power Act (16 U.S.C. 796(22))).

(7) Special rule for consolidated groups

In the case of a corporation which is a member of an affiliated group filing a consolidated return, any exempt utility property purchased by another member of such group shall be treated as purchased by such corporation for purposes of applying paragraph (1)(A).

(8) Time for assessment of deficiencies

If the taxpayer has made the election under paragraph (1) and any gain is recognized by such taxpayer as provided in paragraph (1)(B), then—

(A) the statutory period for the assessment of any deficiency, for any taxable year in which any part of the gain on the transaction is realized, attributable to such gain shall not expire prior to the expiration of 3 years from the date the Secretary is notified by the taxpayer (in such manner as the Secretary may by regulations prescribe) of the purchase of exempt utility property or of an intention not to purchase such property, and

(B) such deficiency may be assessed before the expiration of such 3-year period notwith-

standing any law or rule of law which would otherwise prevent such assessment.

(9) Purchase

For purposes of this subsection, the taxpayer shall be considered to have purchased any property if the unadjusted basis of such property is its cost within the meaning of section 1012.

(10) Election

An election under paragraph (1) shall be made at such time and in such manner as the Secretary may require and, once made, shall be irrevocable.

(11) Nonapplication of installment sales treatment

Section 453 shall not apply to any qualifying electric transmission transaction with respect to which an election to apply this subsection is made.

(Aug. 16, 1954, ch. 736, 68A Stat. 152; Pub. L. 89-97, title III, §313(b), July 30, 1965, 79 Stat. 382; Pub. L. 91-172, title II, §215(a), Dec. 30, 1969, 83 Stat. 573; Pub. L. 94-455, title XIX, §1906(b)(13)(A), title XXI, §§2102(a), (b), 2141(a), Oct. 4, 1976, 90 Stat. 1834, 1900, 1933; Pub. L. 99-514, title VIII, §821(a), title IX, §905(b), Oct. 22, 1986, 100 Stat. 2372, 2386; Pub. L. 100-647, title I, §1009(d)(3), title VI, §§6030(a), 6033(a), Nov. 10, 1988, 102 Stat. 3450, 3694, 3695; Pub. L. 105-34, title IX, §913(a), Aug. 5, 1997, 111 Stat. 878; Pub. L. 105-277, div. J, title V, §5301(a), Oct. 21, 1998, 112 Stat. 2681-918; Pub. L. 108-357, title III, §311(c), title VIII, §909(a), Oct. 22, 2004, 118 Stat. 1467, 1657; Pub. L. 109-58, title XIII, §1305(a), (b), Aug. 8, 2005, 119 Stat. 997; Pub. L. 110-343, div. B, title I, §109(a)-(c), Oct. 3, 2008, 122 Stat. 3821; Pub. L. 111-312, title VII, §705(a), Dec. 17, 2010, 124 Stat. 3311; Pub. L. 112-240, title IV, §411(a), Jan. 2, 2013, 126 Stat. 2343; Pub. L. 113-295, div. A, title I, §159(a), Dec. 19, 2014, 128 Stat. 4022; Pub. L. 114-113, div. Q, title I, §191(a), Dec. 18, 2015, 129 Stat. 3075; Pub. L. 115-97, title I, §13221(a), (b), Dec. 22, 2017, 131 Stat. 2113, 2115; Pub. L. 115-123, div. D, title I, §40414(a), Feb. 9, 2018, 132 Stat. 152; Pub. L. 116-94, div. Q, title I, §132(a), Dec. 20, 2019, 133 Stat. 3233.)

Editorial Notes

REFERENCES IN TEXT

The Agricultural Act of 1949, as amended, referred to in subsec. (f), is act Oct. 31, 1949, ch. 792, 63 Stat. 1051, which is classified principally to chapter 35A (§1421 et seq.) of Title 7, Agriculture. For complete classification of this Act to the Code, see Short Title note set out under section 1421 of Title 7 and Tables.

The Disaster Assistance Act of 1988, referred to in subsec. (f), is Pub. L. 100-387, Aug. 11, 1988, 102 Stat. 924. Title II of the Disaster Assistance Act of 1988 is set out as a note under section 1421 of Title 7. For complete classification of this Act to the Code, see Tables.

AMENDMENTS

2019—Subsec. (k)(3). Pub. L. 116-94 substituted “January 1, 2021” for “January 1, 2018” in introductory provisions.

2018—Subsec. (k)(3). Pub. L. 115-123 substituted “January 1, 2018” for “January 1, 2017” in introductory provisions.

2017—Subsecs. (b) to (k). Pub. L. 115-97 first added subsec. (b) and then added subsec. (c) and correspondingly redesignated former subsecs. (b) to (i) first as (c) to (j) and then as (d) to (k), respectively.

2015—Subsec. (i)(3). Pub. L. 114-113 substituted “January 1, 2017” for “January 1, 2015” in introductory provisions.

2014—Subsec. (i)(3). Pub. L. 113-295 substituted “January 1, 2015” for “January 1, 2014” in introductory provisions.

2013—Subsec. (i)(3). Pub. L. 112-240 substituted “January 1, 2014” for “January 1, 2012” in introductory provisions.

2010—Subsec. (i)(3). Pub. L. 111-312 substituted “January 1, 2012” for “January 1, 2010” in introductory provisions.

2008—Subsec. (i)(3). Pub. L. 110-343, §109(a)(1), inserted “(before January 1, 2010, in the case of a qualified electric utility)” after “January 1, 2008” in introductory provisions.

Subsec. (i)(4)(B)(ii). Pub. L. 110-343, §109(b), substituted “the date which is 4 years after the close of the taxable year in which the transaction occurs” for “December 31, 2007”.

Subsec. (i)(5)(C). Pub. L. 110-343, §109(c), added subpar. (C).

Subsec. (i)(6) to (11). Pub. L. 110-343, §109(a)(2), added par. (6) and redesignated former pars. (6) to (10) as (7) to (11), respectively.

2005—Subsec. (i)(3). Pub. L. 109-58, §1305(a), substituted “2008” for “2007” in introductory provisions.

Subsec. (i)(4)(B)(ii). Pub. L. 109-58, §1305(b), substituted “December 31, 2007” for “the close of the period applicable under subsection (a)(2)(B) as extended under paragraph (2)”.

2004—Subsec. (e)(3). Pub. L. 108-357, §311(c), added par. (3).

Subsec. (i). Pub. L. 108-357, §909(a), added subsec. (i). 1998—Subsec. (h). Pub. L. 105-277 added subsec. (h).

1997—Subsec. (e). Pub. L. 105-34 inserted “, flood, or other weather-related conditions” after “drought” in heading and substituted “drought, flood, or other weather-related conditions, and that such conditions” for “drought conditions, and that these drought conditions” in par. (1).

1988—Subsec. (d). Pub. L. 100-647, §6033(a), inserted “or title II of the Disaster Assistance Act of 1988,” after “the Agricultural Act of 1949, as amended.”

Subsec. (e)(1). Pub. L. 100-647, §6030(a), struck out “(other than livestock described in section 1231(b)(3))” after “exchange of livestock”.

Subsecs. (f), (g). Pub. L. 100-647, §1009(d)(3), redesignated subsec. (f), relating to treatment of interest on frozen deposits in certain financial institutions, as (g).

1986—Subsec. (f). Pub. L. 99-514, §905(b), added subsec. (f) relating to treatment of interest on frozen deposits in certain financial institutions.

Pub. L. 99-514, §821(a), added subsec. (f) relating to special rule for utility services.

1976—Subsec. (d). Pub. L. 94-455, §§1906(b)(13)(A), 2102(a), (b), inserted reference to disaster payments in heading, provided that payments received under the Agricultural Act of 1949, as amended, be treated as insurance proceeds received as a result of destruction or damage to crops if the payments are received as the result of destruction or damage from drought, flood, or other natural disaster, or as the result of inability to plant crops because of drought, flood, or other natural disaster, and struck out “or his delegate” after “Secretary”.

Subsec. (e). Pub. L. 94-455, §2141(a), added subsec. (e). 1969—Subsec. (d). Pub. L. 91-172 added subsec. (d). 1965—Subsec. (c). Pub. L. 89-97 added subsec. (c).

Statutory Notes and Related Subsidiaries

EFFECTIVE DATE OF 2019 AMENDMENT

Pub. L. 116-94, div. Q, title I, §132(b), Dec. 20, 2019, 133 Stat. 3233, provided that: “The amendment made by this section [amending this section] shall apply to dispositions after December 31, 2017.”

EFFECTIVE DATE OF 2018 AMENDMENT

Pub. L. 115-123, div. D, title I, §40414(b), Feb. 9, 2018, 132 Stat. 152, provided that: “The amendment made by

this section [amending this section] shall apply to dispositions after December 31, 2016.”

EFFECTIVE DATE OF 2017 AMENDMENT

Pub. L. 115-97, title I, §13221(c)-(e), Dec. 22, 2017, 131 Stat. 2116, 2117, provided that:

“(c) EFFECTIVE DATE.—The amendments made by this section [amending this section] shall apply to taxable years beginning after December 31, 2017.

“(d) COORDINATION WITH SECTION 481.—

“(1) IN GENERAL.—In the case of any qualified change in method of accounting for the taxpayer’s first taxable year beginning after December 31, 2017—

“(A) such change shall be treated as initiated by the taxpayer, and

“(B) such change shall be treated as made with the consent of the Secretary of the Treasury.

“(2) QUALIFIED CHANGE IN METHOD OF ACCOUNTING.—For purposes of this subsection, the term ‘qualified change in method of accounting’ means any change in method of accounting which—

“(A) is required by the amendments made by this section, or

“(B) was prohibited under the Internal Revenue Code of 1986 prior to such amendments and is permitted under such Code after such amendments.

“(e) SPECIAL RULES FOR ORIGINAL ISSUE DISCOUNT.—Notwithstanding subsection (c), in the case of income from a debt instrument having original issue discount—

“(1) the amendments made by this section shall apply to taxable years beginning after December 31, 2018, and

“(2) the period for taking into account any adjustments under section 481 by reason of a qualified change in method of accounting (as defined in subsection (d)) shall be 6 years.”

EFFECTIVE DATE OF 2015 AMENDMENT

Pub. L. 114-113, div. Q, title I, §191(b), Dec. 18, 2015, 129 Stat. 3075, provided that: “The amendment made by this section [amending this section] shall apply to dispositions after December 31, 2014.”

EFFECTIVE DATE OF 2014 AMENDMENT

Pub. L. 113-295, div. A, title I, §159(b), Dec. 19, 2014, 128 Stat. 4022, provided that: “The amendment made by this section [amending this section] shall apply to dispositions after December 31, 2013.”

EFFECTIVE DATE OF 2013 AMENDMENT

Pub. L. 112-240, title IV, §411(b), Jan. 2, 2013, 126 Stat. 2343, provided that: “The amendment made by this section [amending this section] shall apply to dispositions after December 31, 2011.”

EFFECTIVE DATE OF 2005 AMENDMENT

Pub. L. 109-58, title XIII, §1305(c), Aug. 8, 2005, 119 Stat. 997, provided that:

“(1) IN GENERAL.—The amendment made by subsection (a) [amending this section] shall apply to transactions occurring after the date of the enactment of this Act [Aug. 8, 2005].

“(2) TECHNICAL AMENDMENT.—The amendment made by subsection (b) [amending this section] shall take effect as if included in the amendments made by section 909 of the American Jobs Creation Act of 2004 [Pub. L. 108-357, amending this section].”

EFFECTIVE DATE OF 2010 AMENDMENT

Pub. L. 111-312, title VII, §705(b), Dec. 17, 2010, 124 Stat. 3311, provided that: “The amendment made by this section [amending this section] shall apply to dispositions after December 31, 2009.”

EFFECTIVE DATE OF 2008 AMENDMENT

Pub. L. 110-343, div. B, title I, §109(d), Oct. 3, 2008, 122 Stat. 3822, provided that:

“(1) EXTENSION.—The amendments made by subsection (a) [amending this section] shall apply to transactions after December 31, 2007.

“(2) TRANSFERS OF OPERATIONAL CONTROL.—The amendment made by subsection (b) [amending this section] shall take effect as if included in section 909 of the American Jobs Creation Act of 2004 [Pub. L. 108-357].

“(3) EXCEPTION FOR PROPERTY LOCATED OUTSIDE THE UNITED STATES.—The amendment made by subsection (c) [amending this section] shall apply to transactions after the date of the enactment of this Act [Oct. 3, 2008].”

EFFECTIVE DATE OF 2004 AMENDMENT

Pub. L. 108-357, title III, §311(d), Oct. 22, 2004, 118 Stat. 1467, provided that: “The amendments made by this section [amending this section and section 1033 of this title] shall apply to any taxable year with respect to which the due date (without regard to extensions) for the return is after December 31, 2002.”

Pub. L. 108-357, title VIII, §909(b), Oct. 22, 2004, 118 Stat. 1659, provided that: “The amendments made by this section [amending this section] shall apply to transactions occurring after the date of the enactment of this Act [Oct. 22, 2004], in taxable years ending after such date.”

EFFECTIVE DATE OF 1998 AMENDMENT

Pub. L. 105-277, div. J, title V, §5301(b), Oct. 21, 1998, 112 Stat. 2681-918, provided that:

“(1) IN GENERAL.—The amendment made by this section [amending this section] shall apply to any prize to which a person first becomes entitled after the date of enactment of this Act [Oct. 21, 1998].

“(2) TRANSITION RULE.—The amendment made by this section shall apply to any prize to which a person first becomes entitled on or before the date of enactment of this Act, except that in determining whether an option is a qualified prize option as defined in section 451(h)(2)(A) [now 451(j)(2)(A)] of the Internal Revenue Code of 1986 (as added by such amendment)—

“(A) clause (i) of such section 451(h)(2)(A) [now 451(j)(2)(A)] shall not apply, and

“(B) such option shall be treated as a qualified prize option if it is exercisable only during all or part of the 18-month period beginning on July 1, 1999.”

EFFECTIVE DATE OF 1997 AMENDMENT

Pub. L. 105-34, title IX, §913(c), Aug. 5, 1997, 111 Stat. 878, provided that: “The amendments made by this section [amending this section and section 1033 of this title] shall apply to sales and exchanges after December 31, 1996.”

EFFECTIVE DATE OF 1988 AMENDMENT

Amendment by section 1009(d)(3) of Pub. L. 100-647 effective, except as otherwise provided, as if included in the provision of the Tax Reform Act of 1986, Pub. L. 99-514, to which such amendment relates, see section 1019(a) of Pub. L. 100-647, set out as a note under section 1 of this title.

Pub. L. 100-647, title VI, §6030(b), Nov. 10, 1988, 102 Stat. 3694, provided that: “The amendment made by subsection (a) [amending this section] shall apply to sales or exchanges occurring after December 31, 1987.”

Pub. L. 100-647, title VI, §6033(b), Nov. 10, 1988, 102 Stat. 3695, as amended by Pub. L. 101-239, title VII, §7816(g), Dec. 19, 1989, 103 Stat. 2421, provided that: “The amendment made by subsection (a) [amending this section] shall apply to payments received before, on, or after the date of enactment of this Act [Nov. 10, 1988].”

EFFECTIVE DATE OF 1986 AMENDMENT

Pub. L. 99-514, title VIII, §821(b), Oct. 22, 1986, 100 Stat. 2373, as amended by Pub. L. 100-647, title I, §1008(h), Nov. 10, 1988, 102 Stat. 3444, provided that:

“(1) IN GENERAL.—The amendments made by this section [amending this section] shall apply to taxable years beginning after December 31, 1986.

“(2) CHANGE IN METHOD OF ACCOUNTING.—If a taxpayer is required by the amendments made by this section to change its method of accounting for any taxable year—

“(A) such change shall be treated as initiated by the taxpayer,

“(B) such change shall be treated as having been made with the consent of the Secretary, and

“(C) the adjustments under section 481 of the Internal Revenue Code of 1954 [now 1986] by reason of such change shall be taken into account ratably over a period no longer than the first 4 taxable years beginning after December 31, 1986.

“(3) SPECIAL RULE FOR CERTAIN CYCLE BILLING.—If a taxpayer for any taxable year beginning before August 16, 1986, for purposes of chapter 1 of the Internal Revenue Code of 1986 took into account income from services described in section 451(f) [now 451(h)] of such Code (as added by subsection (a)) on the basis of the period in which the customers' meters were read, then such treatment for such year shall be deemed to be proper. The preceding sentence shall also apply to any taxable year beginning after August 16, 1986, and before January 1, 1987, if the taxpayer treated such income in the same manner for the taxable year preceding such taxable year.”

Pub. L. 99-514, title IX, §905(c), Oct. 22, 1986, 100 Stat. 2387, as amended by Pub. L. 100-647, title I, §1009(d)(2), Nov. 10, 1988, 102 Stat. 3450, provided that:

“(1) IN GENERAL.—The amendment made by subsection (a) [amending section 165 of this title] shall apply to taxable years beginning after December 31, 1981, and, except as provided in paragraph (2), the amendment made by subsection (b) [amending this section] shall apply to taxable years beginning after December 31, 1982.

“(2) SPECIAL RULES FOR SUBSECTION (b).—

“(A) The amendment made by subsection (b) [amending this section] shall apply to taxable years beginning after December 31, 1982, and before January 1, 1987, only if the qualified individual elects to have such amendment apply for all such taxable years.

“(B) In the case of interest attributable to the period beginning January 1, 1983, and ending December 31, 1987, the interest deduction of financial institutions shall be determined without regard to paragraph (3) of section 451(f) [now 451(h)] of the Internal Revenue Code of 1986 (as added by subsection (b)).”

EFFECTIVE DATE OF 1976 AMENDMENT

Pub. L. 94-455, title XXI, §2102(c), Oct. 4, 1976, 90 Stat. 1900, provided that: “The amendments made by this section [amending this section] shall apply to payments received after December 31, 1973, in taxable years ending after such date.”

Pub. L. 94-455, title XXI, §2141(b), Oct. 4, 1976, 90 Stat. 1933, provided that: “The amendment made by this section [amending this section] applies to taxable years beginning after December 31, 1975.”

EFFECTIVE DATE OF 1969 AMENDMENT

Pub. L. 91-172, title II, §215(b), Dec. 30, 1969, 83 Stat. 573, provided that: “The amendment made by subsection (a) [amending this section] shall apply to taxable years ending after the date of the enactment of this Act [Dec. 30, 1969].”

EFFECTIVE DATE OF 1965 AMENDMENT

Amendment by Pub. L. 89-97 applicable only with respect to tips received by employees after 1965, see section 313(f) of Pub. L. 89-97, set out as an Effective Date note under section 6053 of this title.

TAX TREATMENT OF INCENTIVE PAYMENT

Voluntary separation incentives paid to members of Armed Forces under 10 U.S.C. 1175 as includable in gross income only for taxable year in which incentive

is paid, see section 662(b) of Pub. L. 102-190, set out as a note under section 1175 of Title 10, Armed Forces.

OVERPAYMENTS OR UNDERPAYMENTS OF TAX ATTRIBUTABLE TO CERTAIN AMENDMENTS BY PUB. L. 99-514 OR PUB. L. 100-647

For provisions relating to credit or refund of overpayments of tax, and assessment of underpayments of tax, due to amendments by section 905 of Pub. L. 99-514 or section 1009(d) of Pub. L. 100-647, see section 1009(d)(4) of Pub. L. 100-647, set out as a note under section 165 of this title.

MODIFICATION OF REGULATIONS ON THE COMPLETED CONTRACT METHOD OF ACCOUNTING

Pub. L. 97-248, title II, § 229, Sept. 3, 1982, 96 Stat. 493, as amended by Pub. L. 98-369, div. A, title VII, § 712(m), July 18, 1984, 98 Stat. 955, provided that:

“(a) IN GENERAL.—The Secretary of the Treasury shall modify the income tax regulations relating to accounting for long-term contracts to—

“(1) clarify the time at which a contract is to be considered completed,

“(2) clarify when—

“(A) one agreement will be treated as more than one contract, and

“(B) two or more agreements will be treated as one contract, and

“(3) properly allocate all costs which directly benefit, or are incurred by reason of, the extended period long-term contract activities of the taxpayer.

“(b) EXTENDED PERIOD LONG-TERM CONTRACTS DEFINED.—For purposes of this section—

“(1) IN GENERAL.—The term ‘extended period long-term contract’ means any long-term contract which the taxpayer estimates (at the time such contract is entered into) will not be completed within the 2-year period beginning on the contract commencement date of such contract.

“(2) CERTAIN CONSTRUCTION CONTRACTS.—

“(A) IN GENERAL.—The term ‘extended period long-term contract’ does not include any construction contract entered into by a taxpayer—

“(i) who estimates (at the time such contract is entered into) that such contract will be completed within the 3-year period beginning on the contract commencement date of such contract, or

“(ii) whose average annual gross receipts over the 3 taxable years preceding the taxable year in which such contract is entered into do not exceed \$25,000,000.

“(B) DETERMINATION OF TAXPAYER’S GROSS RECEIPTS.—For purposes of subparagraph (A), the gross receipts of—

“(i) all trades or businesses (whether or not incorporated) which are under common control with the taxpayer (within the meaning of section 52(b)), and

“(ii) all members of any controlled group of corporations of which the taxpayer is a member, for the 3 taxable years of such persons preceding the taxable year in which the contract described in subparagraph (A) is entered into shall be included in the gross receipts of the taxpayer for the period described in subparagraph (A). The Secretary shall prescribe regulations which provide attribution rules that take into account, in addition to the persons and entities described in the preceding sentence, taxpayers who engage in construction contracts through partnerships, joint ventures, and corporations.

“(C) CONTROLLED GROUP OF CORPORATIONS.—The term ‘controlled group of corporations’ has the meaning given to such term by section 1563(a), except that—

“(i) ‘more than 50 percent’ shall be substituted for ‘at least 80 percent’ each place it appears in section 1563(a)(1), and

“(ii) the determination shall be made without regard to subsections (a)(4) and (e)(3)(C) of section 1563.

“(3) CONSTRUCTION CONTRACT.—The term ‘construction contract’ means any contract for the building, construction, reconstruction, or rehabilitation of, or the installation of any integral component to, improvements to real property.

“(4) CONTRACT COMMENCEMENT DATE.—The term ‘contract commencement date’ means, with respect to any contract, the first date on which any costs (other than costs such as bidding expenses or expenses incurred in connection with negotiating the contract) allocable to such contract are incurred.

“(c) EFFECTIVE DATES; SPECIAL RULES.—

“(1) IN GENERAL.—The modifications to regulations which are required to be made under paragraphs (1) and (2) of subsection (a) shall apply with respect to taxable years ending after December 31, 1982.

“(2) COST ALLOCATION.—

“(A) IN GENERAL.—Any modification to Income Tax Regulation 1.451-3 made under subsection (a)(3) which requires additional costs to be allocated to a contract shall apply only to the applicable percentage of such additional costs incurred in taxable years beginning after December 31, 1982, with respect to contracts entered into after such date.

“(B) APPLICABLE PERCENTAGE.—For purposes of subparagraph (A), the applicable percentage shall be determined in accordance with the following table:

If the taxable year begins in calendar year:	The applicable percentage is:
1983	33 $\frac{1}{3}$
1984	66 $\frac{2}{3}$
1985 or thereafter	100.

“(3) SPECIAL RULES.—

“(A) TIME OF COMPLETION.—Any contract of a taxpayer which would (but for this paragraph) be treated as having been completed prior to the first taxable year of such taxpayer ending after December 31, 1982, solely by reason of any modification to regulations made under subsection (a)(1), shall be treated as having been completed on the first day of such taxable year.

“(B) AGGREGATION AND SEVERANCE.—Any contract of a taxpayer which would (but for this paragraph) be treated as having been completed prior to the first taxable year of such taxpayer ending after December 31, 1982—

“(i) solely by reason of any modification to regulations made under subsection (a)(2), or

“(ii) solely by reason of any modifications to regulations made under both paragraphs (1) and (2) of subsection (a),

shall be treated as having been completed on the first day after December 31, 1982, on which any contract which was severed from such contract (by reason of the modifications made by subsection (a)(2)) is completed (determined after the application of any modifications to regulations made under subsection (a)(1)).

“(4) UNDERPAYMENTS OF ESTIMATED TAX FOR 1982.—To the extent provided in regulations, no addition to tax shall be made under section 6654 or 6655 of the Internal Revenue Code of 1954 for the taxpayer’s first taxable year ending after December 31, 1982, by reason of a long-term contract, but only with respect to installments required to be paid before April 13, 1983.”

PRIVATE DEFERRED COMPENSATION PLANS; TAXABLE YEARS ENDING ON OR AFTER FEBRUARY 1, 1978

Pub. L. 95-600, title I, § 132, Nov. 6, 1978, 92 Stat. 2782, as amended by Pub. L. 99-514, § 2, Oct. 22, 1986, 100 Stat. 2095, provided that:

“(a) GENERAL RULE.—The taxable year of inclusion in gross income of any amount covered by a private deferred compensation plan shall be determined in accordance with the principles set forth in regulations,

rulings, and judicial decisions relating to deferred compensation which were in effect on February 1, 1978.

“(b) PRIVATE DEFERRED COMPENSATION PLAN DEFINED.—

“(1) IN GENERAL.—For purposes of this section, the term ‘private deferred compensation plan’ means a plan, agreement, or arrangement—

“(A) where the person for whom the service is performed is not a State (within the meaning of paragraph (1) of section 457(d) of the Internal Revenue Code of 1986 [formerly I.R.C. 1954]) and not an organization which is exempt from tax under section 501 of such Code, and

“(B) under which the payment or otherwise making available of compensation is deferred.

“(2) CERTAIN PLANS EXCLUDED.—Paragraph (1) shall not apply to—

“(A) a plan described in section 401(a) of the Internal Revenue Code of 1986 which includes a trust, exempt from tax under section 501(a) of such Code,

“(B) an annuity plan or contract described in section 403 of such Code,

“(C) a qualified bond purchase plan described in section 405(a) of such Code,

“(D) that portion of any plan which consists of a transfer of property described in section 83 (determined without regard to subsection (e) thereof of such Code, and

“(E) that portion of any plan which consists of a trust to which section 402(b) of such Code applies.

“(c) EFFECTIVE DATE.—This section shall apply to taxable years ending on or after February 1, 1978.”

YEAR OF INCLUSION FOR DISASTER OR DEFICIENCY
PAYMENTS RECEIVED IN 1978; ELECTION

Pub. L. 95-258, §1, Apr. 7, 1978, 92 Stat. 195, provided that:

“(a) IN GENERAL.—In the case of a taxpayer reporting on the cash receipts and disbursements method of accounting, if—

“(1)(A) the taxpayer receives in his first taxable year beginning in 1978 payments under the Agricultural Act of 1949, as amended, [see Short Title note set out under section 1421 of Title 7, Agriculture], as a result of—

“(i) the destruction or damage to crops caused by drought, flood, or any other natural disaster, or

“(ii) the inability to plant crops because of such a natural disaster, and

“(B) the taxpayer establishes that, under his practice, income from such crops could have been reported for his last taxable year beginning in 1977, or

“(2)(A) the taxpayer receives in his first taxable year beginning in 1978 deficiency (or ‘target price’) payments under the Agricultural Act of 1949, as amended, for any 1977 crop, and

“(B) the fifth month of such crop’s marketing year ends before December 1, 1977,

then the taxpayer may elect to include such proceeds in income for his last taxable year beginning in 1977.

“(b) MAKING AND EFFECT OF ELECTION.—An election under this section for any taxable year shall be made at such time and in such manner as the Secretary of the Treasury may by regulations prescribe and shall apply with respect to all proceeds described in subsection (a) which were received by the taxpayer.”

[§ 452. Repealed. June 15, 1955, ch. 143, §1(a), 69 Stat. 134]

Section, act Aug. 16, 1954, ch. 736, 68A Stat. 152, related to prepaid income.

Statutory Notes and Related Subsidiaries

EFFECTIVE DATE OF REPEAL

Repeal effective with respect to taxable years beginning after Dec. 31, 1953, and ending after Aug. 16, 1954, see section 3 of act June 15, 1955, set out as an Effective

Date of 1955 Amendment note under section 381 of this title.

SAVINGS PROVISION

For provisions concerning increase in tax in any taxable year ending on or before June 15, 1955 by reason of enactment of act June 15, 1955, see section 4 of act June 15, 1955, set out as a note under section 381 of this title.

§ 453. Installment method

(a) General rule

Except as otherwise provided in this section, income from an installment sale shall be taken into account for purposes of this title under the installment method.

(b) Installment sale defined

For purposes of this section—

(1) In general

The term “installment sale” means a disposition of property where at least 1 payment is to be received after the close of the taxable year in which the disposition occurs.

(2) Exceptions

The term “installment sale” does not include—

(A) Dealer dispositions

Any dealer disposition (as defined in subsection (l)).

(B) Inventories of personal property

A disposition of personal property of a kind which is required to be included in the inventory of the taxpayer if on hand at the close of the taxable year.

(c) Installment method defined

For purposes of this section, the term “installment method” means a method under which the income recognized for any taxable year from a disposition is that proportion of the payments received in that year which the gross profit (realized or to be realized when payment is completed) bears to the total contract price.

(d) Election out

(1) In general

Subsection (a) shall not apply to any disposition if the taxpayer elects to have subsection (a) not apply to such disposition.

(2) Time and manner for making election

Except as otherwise provided by regulations, an election under paragraph (1) with respect to a disposition may be made only on or before the due date prescribed by law (including extensions) for filing the taxpayer’s return of the tax imposed by this chapter for the taxable year in which the disposition occurs. Such an election shall be made in the manner prescribed by regulations.

(3) Election revocable only with consent

An election under paragraph (1) with respect to any disposition may be revoked only with the consent of the Secretary.

(e) Second dispositions by related persons

(1) In general

If—

(A) any person disposes of property to a related person (hereinafter in this subsection referred to as the “first disposition”), and