

sales of magazines, paperbacks, or records using an accrual method of accounting. In order to use the special method of accounting under section 458, a taxpayer must make an election in the manner prescribed in this section. The election does not require the prior consent of the Internal Revenue Service. The election 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) *Separate election for each trade or business.* An election is made with respect to each trade or business of a taxpayer in connection with which qualified sales (as defined in section 458(b)(5)) of a category of merchandise were made. Magazines, paperbacks, and records are each treated as a separate category of merchandise. If qualified sales of two or more categories of merchandise are made in connection with the same trade or business, then solely for purposes of section 458, each category is treated as a separate trade or business. For example, if a taxpayer makes qualified sales of both magazines and paperbacks in the same trade or business, then solely for purposes of section 458, the qualified sales relating to magazines are considered one trade or business and the qualified sales relating to paperbacks are considered a separate trade or business. Thus, if the taxpayer wishes to account under section 458 for the qualified sales of both magazines and paperbacks, such taxpayer must make a separate election for each category.

(c) *Manner of, and time for, making election.* An election is made under section 458 and this section by filing a statement of election containing the information described in paragraph (d) of this section with the taxpayer's income tax return for first taxable year for which the election is made. The election must be made no later than the time prescribed by law (including extensions) for filing the income tax return for the first taxable year for which the election is made. Thus, the election may not be filed with an amended income tax return after the prescribed date (including extensions)

for filing the original return for such year.

(d) *Required information.* The statement of election required by paragraph (c) of this section must indicate that an election is being made under section 458(c) and must set forth the following information:

(1) The taxpayer's name, address, and identification number;

(2) A description of each trade or business for which an election is made;

(3) The first taxable year for which an election is made for each trade or business;

(4) The merchandise return period (as defined in section 458(b)(7)) for each trade or business for which an election is made;

(5) With respect to an election that applies to magazines, the amount of the adjustment computed under section 481(a) resulting from the change to the method of accounting described in section 458; and

(6) With respect to an election that applies to paperbacks or records, the initial opening balance (computed in accordance with section 458(e)) in the suspense account for each trade or business for which an election is made. The statement of election should be made on a Form 3115 which need contain no information other than that required by this paragraph.

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§ 1.460-0 Outline of regulations under section 460.

This section lists the paragraphs contained in § 1.460-1 through § 1.460-6.

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- (7) Contract commencement date.
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§ 1.460-2 Long-term manufacturing contracts.

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- (2) Election to use regular completion factors.
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§ 1.460-5 Cost allocation rules.

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 - (ii) Components and subassemblies.
 - (iii) Simplified production methods.
 - (iv) Costs identified under cost-plus long-term contracts and federal long-term contracts.
 - (v) Interest.
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 - (vi) Research and experimental expenses.
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 - (A) Simplified service cost method.
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 - (d) Cost allocation rules for exempt construction contracts reported using CCM.
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 - (2) Indirect costs.
 - (i) Indirect costs allocable to exempt construction contracts.
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 - (3) Large homebuilders.
 - (e) Cost allocation rules for contracts subject to the PCCM.
 - (f) Special rules applicable to costs allocated under this section.
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§ 1.460-6 Look-back method.

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- (2) Overview.
 - (b) Scope of look-back method.
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 - (2) Exceptions from section 460.
 - (3) De minimis exception.
 - (4) Alternative minimum tax.
 - (5) Effective date.
 - (c) Operation of the look-back method.
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 - (ii) Post-completion revenue and expenses.
 - (A) In general.
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 - (C) Discounting of contract price and contract cost adjustments subsequent to completion; election not to discount.
 - (1) General rule.
 - (2) Election not to discount.
 - (3) Year-end discounting convention.
 - (D) Revenue acceleration rule.
 - (2) Look-back Step One.
 - (i) Hypothetical reallocation of income among prior tax years.
 - (ii) Treatment of estimated future costs in year of completion.
 - (iii) Interim reestimates not considered.
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 - (v) Costs incurred prior to contract execution; 10-percent method.
 - (A) General rule.
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 - (vi) Amount treated as contract price.
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 - (ii) Redetermination of tax liability.
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 - (v) Years affected by look-back only.
 - (vi) Definition of tax liability.
 - (4) Look-back Step Three: Calculation of interest on underpayment or overpayment.
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 - (A) General rule.
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- (C) Examples.
- (D) Domestic contracts.
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 - (f) Look-back reporting.
 - (1) Procedure.
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 - (9) Period for interest.
 - (j) [Reserved]
 - (j) Election not to apply look-back method in de minimis cases.

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§ 1.460-1 Long-term contracts.

(a) *Overview*—(1) *In general*. This section provides rules for determining whether a contract for the manufacture, building, installation, or construction of property is a long-term contract under section 460 and what activities must be accounted for as a single long-term contract. Specific rules for long-term manufacturing and construction contracts are provided in §§ 1.460-2 and 1.460-3, respectively. A taxpayer generally must determine the income from a long-term contract using the percentage-of-completion method described in § 1.460-4(b) (PCM) and the cost allocation rules described in § 1.460-5(b) or (c). In addition, after a contract subject to the PCM is completed, a taxpayer generally must apply the look-back method described

in § 1.460-6 to determine the amount of interest owed on any hypothetical underpayment of tax, or earned on any hypothetical overpayment of tax, attributable to accounting for the long-term contract under the PCM.

(2) *Exceptions to required use of PCM*—

(i) *Exempt construction contract*. The requirement to use the PCM does not apply to any exempt construction contract described in § 1.460-3(b). Thus, a taxpayer may determine the income from an exempt construction contract using any accounting method permitted by § 1.460-4(c) and, for contracts accounted for using the completed-contract method (CCM), any cost allocation method permitted by § 1.460-5(d). Exempt construction contracts that are not subject to the PCM or CCM are not subject to the cost allocation rules of § 1.460-5 except for the production-period interest rules of § 1.460-5(b)(2)(v). Exempt construction contractors that are large homebuilders described in § 1.460-5(d)(3) must capitalize costs under section 263A. All other exempt construction contractors must account for the cost of construction using the appropriate rules contained in other sections of the Internal Revenue Code or regulations.

(ii) *Qualified ship or residential construction contract*. The requirement to use the PCM applies only to a portion of a *qualified ship contract* described in § 1.460-2(d) or *residential construction contract* described in § 1.460-3(c). A taxpayer generally may determine the income from a qualified ship contract or residential construction contract using the percentage-of-completion/capitalized-cost method (PCCM) described in § 1.460-4(e), but must use a cost allocation method described in § 1.460-5(b) for the entire contract.

(b) *Terms*—(1) *Long-term contract*. A *long-term contract* generally is any contract for the manufacture, building, installation, or construction of property if the contract is not completed within the contracting year, as defined in paragraph (b)(5) of this section. However, a contract for the manufacture of property is a long-term contract only if it also satisfies either the unique item or 12-month requirements described in