

## Internal Revenue Service, Treasury

## § 1.475-0

taxpayer is currently using only a method of pooling authorized by this section, or a method of pooling which would be authorized by this section if additional items were included in the pool, and could change to the natural business unit method, except for the fact he has not inventoried all items entering into the inventory investment for such natural business unit on the LIFO method, he may change to the natural business unit method if he elects under the provisions of § 1.472-3 to extend the LIFO election to all items entering into the entire inventory investment for such natural business unit, provided the requirements of subparagraph (2) of this paragraph are met. The method of pooling adopted shall be used for the year of change and for all subsequent taxable years unless a change is required by the Commissioner in order to clearly reflect income, or unless permission to change is granted by the Commission as provided in paragraph (e) of § 1.446-1.

(2) *Requirements.* A statement shall be attached to the income tax return for the year of change referred to in subparagraph (1) of this paragraph setting forth, in summary form, the following information:

- (i) A description of the new pool or pools,
- (ii) The basis for selection of the new pool or pools,
- (iii) A schedule showing the computation of the LIFO value of the former pool or pools, and,
- (iv) A schedule showing the transition from the former pool or pools to the new pool or pools.

In addition, a copy of the statement shall be filed with the Commissioner of Internal Revenue, Attention: T:R, Washington, DC 20024. The taxpayer shall submit such other information with respect to the change in method of pooling as may be requested.

[T.D. 6539, 26 FR 518, Jan. 20, 1961, as amended by T.D. 7814, 47 FR 11272, Mar. 16, 1982]

### § 1.475-0 Table of contents.

This section lists the major captions in §§ 1.475(a)-3, 1.475(b)-1, 1.475(b)-2, 1.475(b)-4, 1.475(c)-1, 1.475(c)-2, 1.475(d)-1, and 1.475(e)-1.

### §§ 1.475(a)-1—1.475(a)-2 [Reserved]

### § 1.475(a)-3 Acquisition by a dealer of a security with a substituted basis.

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### § 1.475(b)-1 Scope of exemptions from mark-to-market requirement.

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### § 1.475(b)-2 Exemptions—identification requirements.

- (a) Identification of the basis for exemption.
- (b) Time for identifying a security with a substituted basis.
- (c) Integrated transactions under § 1.1275-6.
  - (1) Definitions.
  - (2) Synthetic debt held by a taxpayer as a result of legging in.
  - (3) Securities held after legging out.

### § 1.475(b)-3 [Reserved]

### § 1.475(b)-4 Exemptions—transitional issues.

- (a) Transitional identification.
  - (1) Certain securities previously identified under section 1236.
  - (2) Consistency requirement for other securities.

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(b) Corrections on or before January 31, 1994.

- (1) Purpose.
- (2) To conform to § 1.475(b)-1(a).
- (i) Added identifications.
- (ii) Limitations.
- (3) To conform to § 1.475(b)-1(c).
- (c) Effect of corrections.

### § 1.475(c)-1 Definitions—dealer in securities.

- (a) Dealer-customer relationship.
- (1) [Reserved].
- (2) Transactions described in section 475(c)(1)(B).
- (i) In general.
- (ii) Examples.
- (3) Related parties.
- (i) General rule.
- (ii) Special rule for members of a consolidated group.
- (iii) The intragroup-customer election.
- (A) Effect of election.
- (B) Making and revoking the election.
- (iv) Examples.
- (b) Sellers of nonfinancial goods and services.
- (1) Purchases and sales of customer paper.
- (2) Definition of customer paper.
- (3) Exceptions.
- (4) Election not to be governed by the exception for sellers of nonfinancial goods or services.
- (i) Method of making the election.
- (A) Taxable years ending after December 24, 1996.
- (B) Taxable years ending on or before December 24, 1996.
- (ii) Continued applicability of an election.
- (c) Taxpayers that purchase securities from customers but engage in no more than negligible sales of the securities.
- (1) Exemption from dealer status.
- (i) General rule.
- (ii) Election to be treated as a dealer.
- (2) Negligible sales.
- (3) Special rules for members of a consolidated group.
- (i) Intragroup-customer election in effect.
- (ii) Intragroup-customer election not in effect.
- (4) Special rules.
- (5) Example.
- (d) Issuance of life insurance products.

### § 1.475(c)-2 Definitions—security.

- (a) Items that are not securities.
- (b) Synthetic debt that § 1.1275-6(b) treats the taxpayer as holding.
- (c) Negative value REMIC residuals acquired before January 4, 1995.
- (1) Description.
- (2) Special rules applicable to negative value REMIC residuals acquired before January 4, 1995.

### § 1.475(d)-1 Character of gain or loss.

- (a) Securities never held in connection with the taxpayer's activities as a dealer in securities.
- (b) Ordinary treatment for notional principal contracts and derivatives held by dealers in notional principal contracts and derivatives.

### § 1.475(e)-1 Effective dates.

[T.D. 8700, 61 FR 67719, Dec. 24, 1996]

## § 1.475(a)-1—1.475(a)-2 [Reserved]

## § 1.475(a)-3 Acquisition by a dealer of a security with a substituted basis.

(a) *Scope.* This section applies if—

(1) A dealer in securities acquires a security that is subject to section 475(a) and the dealer's basis in the security is determined, in whole or in part, by reference to the basis of that security in the hands of the person from whom the security was acquired; or

(2) A dealer in securities acquires a security that is subject to section 475(a) and the dealer's basis in the security is determined, in whole or in part, by reference to other property held at any time by the dealer.

(b) *Rules.* If this section applies to a security—

(1) Section 475(a) applies only to changes in value of the security occurring after the acquisition; and

(2) Any built-in gain or loss with respect to the security (based on the difference between the fair market value of the security on the date the dealer acquired it and its basis to the dealer on that date) is taken into account at the time, and has the character, provided by the sections of the Internal Revenue Code that would apply to the built-in gain or loss if section 475(a) did not apply to the security.

[T.D. 8700, 61 FR 67720, Dec. 24, 1996]

## § 1.475(b)-1 Scope of exemptions from mark-to-market requirement.

(a) *Securities held for investment or not held for sale.* Except as otherwise provided by this section and subject to the identification requirements of section 475(b)(2), a security is held for investment (within the meaning of section 475(b)(1)(A)) or not held for sale (within the meaning of section 475(b)(1)(B)) if it