

Internal Revenue Service, Treasury

§ 1.182-6

farming is the gross income of the taxpayer derived from the production of crops, fruits, or other agricultural products, including fish, or from livestock (including livestock held for draft, breeding or dairy purposes). It does not include gains from sales of assets such as farm machinery or gains from the disposition of land. The deductions attributable to the business of farming are all the deductions allowed by Chapter 1 of the Code (other than the deduction allowed by section 182) for expenditures or charges (including depreciation and amortization) paid or incurred in connection with the production or raising of crops, fruits, or other agricultural products, including fish, or livestock. However, the deduction under section 1202 (relating to the capital gains deduction) attributable to gain on the sale or other disposition of assets (other than draft, breeding, or dairy stock), and the net operating loss deduction (computed under section 172) shall not be taken into account in computing "taxable income derived from farming." Similarly, deductible losses on the sale, disposition, destruction, condemnation, or abandonment of assets (other than draft, breeding, or dairy stock) shall not be considered as deductions attributable to the business of farming. A taxpayer shall compute his gross income from farming in accordance with his accounting method used in determining gross income. (See the regulations under section 61 relating to accounting methods used by farmers in determining gross income.)

(b) *Examples.* The provisions of paragraph (a) of this section may be illustrated by the following examples:

Example 1. For the taxable year 1963, A, who uses the cash receipts and disbursements method of accounting, incurs expenditures to which section 182 applies in the amount of \$2,000 and makes the election under section 182. A has the following items of income and deductions (without regard to section 182 expenditures).

Income:	
Proceeds from sale of his 1963 yield of corn	\$10,000
Proceeds from sales of milk	8,000
Gain from disposition of old breeding cows	500
Gain from sale of tractor	100
Gain from sale of farmland	5,000
Interest on loan to brother	100
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	23,700
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Deductions:	
Cost of labor	4,000
Cost of feed	3,000
Depreciation on farm equipment and buildings	2,500
Cost of maintenance, fuel, etc	2,000
Interest paid, mortgage on farm buildings	1,000
Interest paid, personal loan	500
Loss on destruction of barn	2,000
Loss on sale of truck	300
Section 1202 deduction—gain on sale of cows (500× 1/2)	250
Section 1202 deduction—net gain on disposition of section 1231 property, other than cows [\$2,800 (\$5,100 - \$2,300) × 1/2]	1,400
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	\$16,950
Net income before section 182 deduction	6,750

For purposes of computing taxable income derived from farming under section 182, the following items of income and deductions are not taken into account:

Income:	
Gain from the sale of tractor	\$100
Gain from the sale of farmland	5,000
Interest on loan to brother	100
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	\$5,200
Deductions:	
Interest paid, personal loan	\$500
Loss on destruction of barn	2,000
Loss on sale of truck	300
Section 1202 deduction—Net gain from disposition of 1231 assets other than cows	1,400
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	\$4,200

A's "taxable income derived from farming" for purposes of section 182 is \$5,750; income of \$18,500 (\$23,700 - \$5,200), less deductions of \$12,750 (\$16,950 - \$4,200). A may deduct \$1,437.50 (25% of \$5,750) under section 182. The excess expenditures in the amount of \$562.50 are to be charged to capital account and serve to increase the taxpayer's basis of the land.

Example 2. Assume the same facts as in *Example 1* and in addition, assume that A is allowed a deduction for a net operating loss carryback from the taxable year 1966 in the amount of \$3,000. The net operating loss deduction will not be taken into account in computing A's "taxable income derived from farming" for 1963. Accordingly, A will not be required to recompute such taxable income for purposes of applying the limitation on the deduction provided in section 182 and the deduction of \$1,437.50 will not be reduced.

[T.D. 6794, 30 FR 791, Jan. 26, 1965]

§ 1.182-6 Election to deduct land clearing expenditures.

(a) *Manner of making election.* The election to deduct expenditures for land clearing provided by section 182(a) shall be made by means of a statement

attached to the taxpayer's income tax return for the taxable year for which such election is to apply. The statement shall include the name and address of the taxpayer, shall be signed by the taxpayer (or his duly authorized representative), and shall be filed not later than the time prescribed by law for filing the income tax return (including extensions thereof) for the taxable year for which the election is to apply. The statement shall also set forth the amount and description of the expenditures for land clearing claimed as a deduction under section 182, and shall include a computation of "taxable income derived from farming", if the amount of such income is not the same as the net income from farming shown on Schedule F of Form 1040, increased by the amount of the deduction claimed under section 182.

(b) *Scope of election.* An election under section 182(a) shall apply only to the taxable year for which made. However, once made, an election applies to all expenditures described in § 1.182-3 paid or incurred during the taxable year, and is binding for such taxable year unless the district director consents to a revocation of such election. Requests for consent to revoke an election under section 182 shall be made by means of a letter to the district director for the district in which the taxpayer is required to file his return, setting forth the taxpayer's name, address and identification number, the year for which it is desired to revoke the election, and the reasons therefor. However, consent will not be granted where the only reason therefor is a change in tax consequences.

[T.D. 6794, 30 FR 791, Jan. 26, 1965]

§ 1.183-1 Activities not engaged in for profit.

(a) *In general.* Section 183 provides rules relating to the allowance of deductions in the case of activities (whether active or passive in character) not engaged in for profit by individuals and electing small business corporations, creates a presumption that an activity is engaged in for profit if certain requirements are met, and permits the taxpayer to elect to postpone determination of whether such presumption applies until he has en-

gaged in the activity for at least 5 taxable years, or, in certain cases, 7 taxable years. Whether an activity is engaged in for profit is determined under section 162 and section 212 (1) and (2) except insofar as section 183(d) creates a presumption that the activity is engaged in for profit. If deductions are not allowable under sections 162 and 212 (1) and (2), the deduction allowance rules of section 183(b) and this section apply. Pursuant to section 641(b), the taxable income of an estate or trust is computed in the same manner as in the case of an individual, with certain exceptions not here relevant. Accordingly, where an estate or trust engages in an activity or activities which are not for profit, the rules of section 183 and this section apply in computing the allowable deductions of such trust or estate. No inference is to be drawn from the provisions of section 183 and the regulations thereunder that any activity of a corporation (other than an electing small business corporation) is or is not a business or engaged in for profit. For rules relating to the deductions that may be taken into account by taxable membership organizations which are operated primarily to furnish services, facilities, or goods to members, see section 277 and the regulations thereunder. For the definition of an activity not engaged in for profit, see § 1.183-2. For rules relating to the election contained in section 183(e), see § 1.183-3.

(b) *Deductions allowable—(1) Manner and extent.* If an activity is not engaged in for profit, deductions are allowable under section 183(b) in the following order and only to the following extent:

(i) Amounts allowable as deductions during the taxable year under Chapter 1 of the Code without regard to whether the activity giving rise to such amounts was engaged in for profit are allowable to the full extent allowed by the relevant sections of the Code, determined after taking into account any limitations or exceptions with respect to the allowability of such amounts. For example, the allowability-of-interest expenses incurred with respect to activities not engaged in for profit is limited by the rules contained in section 163(d).