

**§ 1.9001-4**

**26 CFR Ch. I (4-1-08 Edition)**

regularly used, for additions, retirements, and other dispositions of property. For an illustration of adjustments required in accordance with the method of accounting regularly used, see the example in paragraph (d) of this section.

(3) The adjustments required by subsection (e) of the Act shall be made in lieu of the adjustments for depreciation otherwise required by section 1016(a) (2) and (3) of the Code and by the corresponding provisions of prior revenue laws.

(4) Although this section, and subsection (e) of the Act, shall apply in determining the excess-profits tax, they shall not apply in determining adjusted basis for the purpose of computing equity capital for any day under section 437(c) (relating to the Excess Profits Tax Act of 1950) (64 Stat. 1137) of the Internal Revenue Code of 1939. For the adjustments to be made in computing equity capital under such section, see paragraph (c) of § 1.9001-4.

(b) *Adjustment for terms-letter reserve.* Pursuant to subsection (e)(1) of the Act, the basis of any retirement-straight line property shall be adjusted, as of any specific applicable date occurring on or after the changeover date and before the 1956 adjustment date, for the amount of the terms-letter reserve applicable to such property.

(c) *Adjustment for depreciation allowable under the terms-letter.* Pursuant to subsection (e)(2) of the Act, the basis of any retirement-straight line property shall be adjusted, as of any specific applicable date occurring on or after the changeover date and before the 1956 adjustment date, for depreciation applicable to such property and allowable under the terms-letter.

(d) *Illustration of basis adjustments required for taxable years beginning on or after the changeover date and before the 1956 adjustment date.* The application of this section may be illustrated by the following example, which is based upon the assumption that multiple asset accounts are used:

*Example.* (1) The facts are assumed to be the same as those in the example under paragraph (e) of § 1.9001-2, except that the adjusted basis of retirement-straight line property is determined as of January 1, 1955, and

the depreciation allowable under the terms-letter from the changeover date to December 31, 1954, is \$2,100.

(2) The adjusted basis on January 1, 1955, of the retirement-straight line property held by the taxpayer on that date is \$4,195, determined as follows and in accordance with this section:

(i) Asset account:	
Unadjusted cost on January 1, 1943 .....	\$10,000
Less:	
Adjustment for abnormal retirement .....	\$1,500
Adjustment for normal retirement .....	1,000
	2,500
Balance as of January 1, 1955 ....	7,500
(ii) Credits to reserve for depreciation:	
Entire terms-letter reserve as of January 1, 1943 .....	3,000
Depreciation allowable under terms-letter from January 1, 1943, to December 31, 1954 .....	2,100
Total credits .....	5,100
(iii) Charges to reserve for depreciation:	
Part of terms-letter reserve applicable to property abnormally retired on December 31, 1954 .....	450
Depreciation applicable to property abnormally retired and allowable from January 1, 1943, to December 31, 1954 .....	345
Adjustment for normal retirement .....	1,000
Total charges .....	1,795
(iv) Balance in reserve for depreciation:	
Total credits .....	5,100
Total charges .....	1,795
Balance as of January 1, 1955 ....	3,305
(v) Adjusted basis of property:	
Balance in asset account .....	7,500
Balance in reserve for depreciation ....	3,305
Adjusted basis as of January 1, 1955 .....	4,195

**§ 1.9001-4 Adjustments required in computing excess-profits credit.**

(a) *In general.* Subsection (f) of the Act provides adjustments required to be made in computing the excess-profits credit for any taxable year under the Excess Profits Tax Act of 1940 (54 Stat. 975) or under the Excess Profits Tax Act of 1950 (64 Stat. 1137). These adjustments are set forth in paragraphs (b) and (c) of this section, and they shall apply notwithstanding the terms-letter.

(b) *Equity invested capital.* (1) Pursuant to subsection (f)(1) of the Act, in determining equity invested capital for

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any day of any taxable year under section 458 (relating to the Excess Profits Tax Act of 1950) or section 718 (relating to the Excess Profits Tax Act of 1940) of the Internal Revenue Code of 1939, the accumulated earnings and profits as of the changeover date, and as of the beginning of each taxable year thereafter, shall be reduced by the depreciation sustained before March 1, 1913, on all retirement-straight line property held on March 1, 1913, by the taxpayer or a predecessor for which cost was or is claimed as basis and which was held on the changeover date by the taxpayer or a predecessor.

(2) For the computation of accumulated earnings and profits in determining equity invested capital, see 26 CFR (1941 Supp.) 30.718-2, as amended by Treasury Decision 5299, approved October 1, 1943, 8 FR 13451, C.B. 1943, 747 (Regulations 109); 26 CFR (1943 Cum. Supp.) 35.718-2 (Regulations 112); and 26 CFR (1939) 41.458-4 (Regulations 130).

(c) *Equity capital.* (1) Pursuant to subsection (f)(2) of the Act, in determining the adjusted basis of assets for the purpose of computing equity capital for any day under section 437(c) (relating to the Excess Profits Tax Act of 1950) of the Internal Revenue Code of 1939, the basis of the assets which enter into the computation shall also be reduced by:

(i) Depreciation sustained before March 1, 1913, on all retirement-straight line property held on March 1, 1913, by the taxpayer or a predecessor for which cost was or is claimed as basis and which was:

(a) Retired before the changeover date by the taxpayer or a predecessor, or

(b) Held on the changeover date by the taxpayer or a predecessor and also held as of the beginning of the day for which the equity capital is being determined; and

(ii) All depreciation applicable to the assets which enter into the computation and allowable under the terms-letter for all periods on and after the changeover date and before the taxable year for which the excess-profits credit is being computed.

(2) The adjustment required to be made by subparagraph (1)(i)(a) of this paragraph as of the beginning of the

day for which the equity capital is being determined shall be made in accordance with the conditions and limitation described in paragraph (b)(2) of § 1.9001-2.

(3) For the determination of equity capital under section 437(c) of the Internal Revenue Code of 1939, see 26 CFR (1939) 40.437-5 (Regulations 130).

### DEALER RESERVE INCOME ADJUSTMENT ACT OF 1960

#### § 1.9002 Statutory provisions; Dealer Reserve Income Adjustment Act of 1960 (74 Stat. 124).

SECTION 1. *Short title.* This Act may be cited as the "Dealer Reserve Income Adjustment Act of 1960".

SEC. 2. *Persons to whom this Act applies.* This Act shall apply to any person who, for his most recent taxable year ending on or before June 22, 1959:

(1) Computed, or was required to compute, taxable income under an accrual method of accounting.

(2) Treated any dealer reserve income, which should have been taken into account (under the accrual method of accounting) for such taxable year, as accruable for a subsequent taxable year, and

(3) Before September 1, 1960, makes an election under section 3(a) or 4(a) of this Act.

SEC. 3. *Election to have section 481 apply—(a) General rule.* If:

(1) For the year of the change (determined under subsection (b)), the treatment of dealer reserve income by any person to whom this Act applies is changed to a method proper under the accrual method of accounting (whether or not such person initiated the change),

(2) Such person makes an election under this subsection, and

(3) Such person does not make the election provided by section 4(a),

then, for purposes of section 481 of the Internal Revenue Code of 1954, the change described in paragraph (1) shall be treated as a change in method of accounting not initiated by the taxpayer.

(b) *Year of change, etc.* In applying section 481 of the Internal Revenue Code of 1954 for purposes of this section, the "year of the change" in the case of any person is:

(1) Except as provided in paragraph (2), the first taxable year ending after June 22, 1959, or

(2) The earliest taxable year (whether the Internal Revenue Code of 1954 or the Internal Revenue Code of 1939 applies to such year) for which:

(A) On or before June 22, 1959: