

of whether such buying or selling constitutes the carrying on of a trade or business, and officers of corporations and members of partnerships who in their individual capacities buy and sell securities, are not dealers in securities within the meaning of this section. See §§ 1.263A-1 and 1.263A-3 for rules regarding the treatment of costs with respect to property acquired for resale.

[T.D. 6500, 25 FR 11725, Nov. 26, 1960, as amended by T.D. 8131, 52 FR 10084, Mar 30, 1987; T.D. 8482, 58 FR 42234, Aug. 9, 1993]

§ 1.471-6 Inventories of livestock raisers and other farmers.

(a) A farmer may make his return upon an inventory method instead of the cash receipts and disbursements method. It is optional with the taxpayer which of these methods of accounting is used but, having elected one method, the option so exercised will be binding upon the taxpayer for the year for which the option is exercised and for subsequent years unless another method is authorized by the Commissioner as provided in paragraph (e) of § 1.446-1.

(b) In any change of accounting method from the cash receipts and disbursements method to an inventory method, adjustments shall be made as provided in section 481 (relating to adjustments required by change in method of accounting) and the regulations thereunder.

(c) Because of the difficulty of ascertaining actual cost of livestock and other farm products, farmers who render their returns upon an inventory method may value their inventories according to the "farm-price method", and farmers raising livestock may value their inventories of animals according to either the "farm-price method" or the "unit-livestock-price method". In addition, these inventory methods may be used to account for the costs of property produced in a farming business that are required to be capitalized under section 263A regardless of whether the property being produced is otherwise treated as inventory by the taxpayer, and regardless of whether the taxpayer is otherwise using the cash or an accrual method of accounting. Thus, for example, the unit livestock method may be utilized by a

taxpayer in accounting under section 263A for the costs of raising animals that will be used for draft, breeding, or dairy purposes.

(d) The "farm-price method" provides for the valuation of inventories at market price less direct cost of disposition. If this method of valuation is used, it generally must be applied to all property produced by the taxpayer in the trade or business of farming, except as to livestock accounted for, at the taxpayer's election, under the unit livestock method of accounting. However, see § 1.263A-4(c)(3) for an exception to this rule. If the use of the "farm-price method" of valuing inventories for any taxable year involves a change in method of valuing inventories from that employed in prior years, permission for such change shall first be secured from the Commissioner as provided in paragraph (e) of § 1.446-1.

(e) The "unit-livestock-price method" provides for the valuation of the different classes of animals in the inventory at a standard unit price for each animal within a class. A livestock raiser electing this method of valuing his animals must adopt a reasonable classification of the animals in his inventory with respect to the age and kind included so that the unit prices assigned to the several classes will reasonably account for the normal costs incurred in producing the animals within such classes. Thus, if a cattle raiser determines that it costs approximately \$15 to produce a calf, and \$7.50 each year to raise the calf to maturity, his classifications and unit prices would be as follows: Calves, \$15; yearlings, \$22.50; 2-year olds, \$30; mature animals, \$37.50. The classification selected by the livestock raiser, and the unit prices assigned to the several classes, are subject to approval by the district director upon examination of the taxpayer's return.

(f) A taxpayer who elects to use the "unit-livestock-price method" must apply it to all livestock raised, whether for sale or for draft, breeding, or dairy purposes. Except as otherwise provided in this paragraph, once established, the unit prices and classifications selected by the taxpayer must be consistently applied in all subsequent taxable years.

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For taxable years beginning after August 22, 1997, a taxpayer using the unit livestock method must, however, annually reevaluate the unit livestock prices and must adjust the prices upward to reflect increases in the costs of raising livestock. The consent of the Commissioner is not required to make such upward adjustments. No other changes in the classification of animals or unit prices shall be made without the consent of the Commissioner. See § 1.263A-4 for rules regarding the computation of costs for purposes of the unit-livestock-price-method.

(g) A livestock raiser who uses the “unit-livestock-price method” must include in his inventory at cost any livestock purchased, except that animals purchased for draft, breeding, or dairy purposes can, at the election of the livestock raiser, be included in inventory or be treated as capital assets subject to depreciation after maturity. If the animals purchased are not mature at the time of purchase, the cost should be increased at the end of each taxable year in accordance with the established unit prices, except that no increase is to be made in the taxable year of purchase if the animal is acquired during the last six months of that year. If the records maintained permit identification of a purchased animal, the cost of such animal will be eliminated from the closing inventory in the event of its sale or loss. Otherwise, the first-in, first-out method of valuing inventories must be applied.

(h) If a taxpayer using the “farm-price method” desires to adopt the “unit-livestock-price method” in valuing his inventories of livestock, permission for the change shall first be secured from the Commissioner as provided in paragraph (e) of § 1.446-1. However, a taxpayer who has filed returns on the basis of inventories at cost, or cost or market whichever is lower, may adopt the “unit-livestock-price method” for valuing his inventories of livestock without formal application for permission, but the classifications and unit prices selected are subject to approval by the district director upon examination of the taxpayer’s return. A livestock raiser who has adopted a constant unit-price method of valuing livestock inventories and filed returns

on that basis will be considered as having elected the “unit-livestock-price method”.

(i) If returns have been made in which the taxable income has been computed upon incomplete inventories, the abnormality should be corrected by submitting with the return for the current taxable year a statement for the preceding taxable year. In this statement such adjustments shall be made as are necessary to bring the closing inventory for the preceding taxable year into agreement with the opening complete inventory for the current taxable year. If necessary clearly to reflect income, similar adjustments may be made as at the beginning of the preceding year or years, and the tax, if any be due, shall be assessed and paid at the rate of tax in effect for such year or years.

[T.D. 6500, 25 FR 11726, Nov. 26, 1960, as amended by T.D. 8131, 52 FR 10084, Mar. 30, 1987; T.D. 8729, 62 FR 44551, Aug. 22, 1997; T.D. 8897, 65 FR 50650, Aug. 21, 2000]

§ 1.471-7 Inventories of miners and manufacturers.

A taxpayer engaged in mining or manufacturing who by a single process or uniform series of processes derives a product of two or more kinds, sizes, or grades, the unit cost of which is substantially alike, and who in conformity to a recognized trade practice allocates an amount of cost to each kind, size, or grade of product, which in the aggregate will absorb the total cost of production, may, with the consent of the Commissioner, use such allocated cost as a basis for pricing inventories, provided such allocation bears a reasonable relation to the respective selling values of the different kinds, sizes, or grades of product. See section 472 as to last-in, first-out inventories.

[T.D. 6500, 25 FR 11726, Nov. 26, 1960]

§ 1.471-8 Inventories of retail merchants.

(a) Retail merchants who employ what is known as the “retail method” of pricing inventories may make their returns upon that method, provided that the use of such method is designated upon the return, that accurate accounts are kept, and that such method is consistently adhered to unless a