

1987 gross income .....	\$700a
Less, 1987 costs .....	(\$400a)
1987 net contract income .....	\$300a
Other 1987 net income .....	(\$2,450a)
Taxable income (NOL) .....	(\$2,150a)
Tax .....	\$10a

C carries back the net operating loss to 1986, and files an amended return for 1986, showing taxable income of \$250, and receives a refund of \$989 (46%×\$2,150). Interest on this refund begins to run only as of the due date of C's 1987 return. See section 6611(f).

In 1988, when the contract is completed, C determines the following amounts:

1988 contract costs .....	\$800a
Total contract costs .....	\$1,600a
Total contract price .....	\$2,000a

If C had used actual contract price and contract costs in determining gross income for 1986, it would have reported gross income from the contract of \$500 rather than \$800, taxable income of \$2,100 rather than \$2,400, and tax liability of \$966 rather than \$1,104.

If C had used actual contract price and contract costs in determining gross income for 1987, it would have reported gross income from the contract of \$500 rather than \$700, and would have reported a net operating loss of \$2,350, rather than \$2,150, which would have been carried back to 1986.

Under the look-back method, C receives interest with respect to a total 1986 hypothetical overpayment of \$138 (\$1,104 minus \$966). C is credited with interest on \$23 of this amount only from the due date of C's 1986 return until the due date of C's 1987 tax return, because this portion of C's total hypothetical overpayment for 1986 was refunded to C with interest computed from the due date of C's 1987 return and, therefore, was no longer held by the government. However, because the remainder of the total hypothetical overpayment of \$115 was not refunded to C, C is credited with interest on this amount from the due date of C's 1986 return until the due date of C's 1988 tax return.

Under the look-back method, C receives no interest with respect to 1987, because C had no tax liability for 1987 using either estimated or actual contract price and costs.

(i) [Reserved]

(j) *Election not to apply look-back method in de minimis cases.* Section 460(b)(6) provides taxpayers with an election not to apply the look-back method to long-term contracts in de minimis cases, effective for contracts completed in taxable years ending after August 5, 1997. To make an election, a taxpayer must attach a statement to its timely filed original federal income tax return (including extensions) for the taxable year the election

is to become effective or to an amended return for that year, provided the amended return is filed on or before March 31, 1998. This statement must have the legend "NOTIFICATION OF ELECTION UNDER SECTION 460(b)(6)"; provide the taxpayer's name and identifying number and the effective date of the election; and identify the trades or businesses that involve long-term contracts. An election applies to all long-term contracts completed during and after the taxable year for which the election is effective. An election may not be revoked without the Commissioner's consent. For taxpayers who elected to use the delayed reapplication method under paragraph (e) of this section, an election under this paragraph (j) automatically revokes the election to use the delayed reapplication method for contracts subject to section 460(b)(6). A consolidated group of corporations, as defined in § 1.1502-1(h), is subject to consistency rules analogous to those in paragraph (e)(2) of this section and in paragraph (d)(4)(ii)(C) of this section (concerning election to use simplified marginal impact method).

[T.D. 8315, 55 FR 41670, Oct. 15, 1990, as amended by T.D. 8775, 63 FR 36181, July 2, 1998; T.D. 8929, 66 FR 2240, Jan. 11, 2001; T.D. 8995, 67 FR 34609, May 15, 2002]

#### TAXABLE YEAR FOR WHICH DEDUCTIONS TAKEN

#### § 1.461-0 Table of contents.

This section lists the captions that appear in the regulations under section 461 of the Internal Revenue Code.

##### *§ 1.461-1 General rule for taxable year of deduction.*

- (a) General rule.
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  - (2) Taxpayer using an accrual method.
  - (3) Effect in current taxable year of improperly accounting for a liability in a prior taxable year.
  - (4) Deductions attributable to certain foreign income.
    - (b) Special rule in case of death.
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- (5) Apportionment of taxes on real property between seller and purchaser.
- (6) Examples.
- (d) Limitation on acceleration of accrual of taxes.
- (e) Dividends or interest paid by certain savings institutions on certain deposits or withdrawable accounts.
  - (1) Deduction not allowable.
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*§ 1.461-2 Contested liabilities.*

- (a) General rule.
  - (1) Taxable year of deduction.
  - (2) Exception.
  - (3) Refunds includible in gross income.
  - (4) Examples.
  - (5) Liabilities described in paragraph (g) of § 1.461-4. [Reserved]
- (b) Contest of asserted liability.
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- (c) Transfer to provide for the satisfaction of an asserted liability.
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  - (f) Treatment of money or property transferred to an escrowee, trustee, or court and treatment of any income attributable thereto. [Reserved]
  - (g) Effective dates.

*§ 1.461-3 Prepaid interest.* [Reserved]

*§ 1.461-4 Economic performance.*

- (a) Introduction.
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  - (2) Overview.
- (b) Exceptions to the economic performance requirement.
- (c) Definitions.
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- (g) Certain liabilities for which payment is economic performance.
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  - (h) Liabilities arising under the Nuclear Waste Policy Act of 1982.
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        - (1) [Reserved]
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*§ 1.461-5 Recurring item exception.*

- (a) In general.
- (b) Requirements for use of the exception.
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  - (2) Amended returns.
  - (3) Liabilities that are recurring in nature.
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  - (3) Retroactive change to the recurring item exception method.
- (e) Examples.

*§ 1.461-6 Economic performance when certain liabilities are assigned or are extinguished by the establishment of a fund.*

- (a) Qualified assignments of certain personal injury liabilities under section 130.
- (b) Section 468B.
- (c) Payments to other funds or persons that constitute economic performance. [Reserved]
- (d) Effective dates.

[T.D. 8408, 57 FR 12420, Apr. 10, 1992, as amended by T.D. 8593, 60 FR 18743, Apr. 13, 1995]