

Section 471.—General Rule for Inventories

26 CFR 1.471-6: Inventories of livestock raisers and other farmers.

T.D. 9019

DEPARTMENT OF THE TREASURY Internal Revenue Service 26 CFR Part 1

Unit Livestock Price Method

AGENCY: Internal Revenue Service (IRS), Treasury.

ACTION: Final regulations.

SUMMARY: This document contains final regulations relating to the use of the unit-livestock-price method of accounting. The regulations affect livestock raisers and other farmers that elect to use the unit-livestock-price method. These regulations provide rules relating to the annual reevaluation of unit prices and the depreciation of livestock raised for draft, breeding, or dairy purposes.

EFFECTIVE DATE: These regulations are effective October 28, 2002.

FOR FURTHER INFORMATION CONTACT: A. Katharine Jacob Kiss at (202) 622-4930 (not a toll-free number).

SUPPLEMENTARY INFORMATION:

Background

This document contains amendments to the Income Tax Regulations (26 CFR Part 1) under section 471 of the Internal Revenue Code (Code). A notice of proposed rulemaking (REG-125626-01, 2002-9 I.R.B. 604) was published in the **Federal Register** (67 FR 5074) on February 4, 2002. No public hearing was requested or held. One comment responding to the notice of proposed rulemaking was received. The proposed regulations are adopted by this Treasury decision.

Explanation of Provisions

The unit-livestock-price method provides for the valuation of different classes of animals in inventory at a standard unit

price for each animal within a class. A taxpayer using the unit-livestock-price method must annually reevaluate its unit prices and must adjust the prices upward to reflect increases in the costs of raising livestock. The regulations allow taxpayers to both increase and decrease unit prices without obtaining the consent of the Commissioner. The regulations also clarify that a livestock raiser that uses the unit-livestock-price method may elect to remove from inventory after maturity an animal raised for draft, breeding, or dairy purposes and treat the inventoriable cost of such animal as an asset subject to depreciation.

In the notice of proposed rulemaking, the IRS and Treasury Department requested comments on whether safe harbor unit prices should be made available to taxpayers using the unit-livestock-price method and, if so, what index should be used. The sole commentator requested that safe harbor unit prices should be made available, and suggested using the price index developed by a local state extension service for the safe harbor unit prices. Due to the lack of widespread interest in developing and using safe harbor unit prices, the final regulations do not adopt that suggestion.

Effective Date

These regulations are applicable to taxable years ending after October 28, 2002.

Special Analyses

It has been determined that this Treasury decision is not a significant regulatory action as defined in Executive Order 12866. Therefore, a regulatory assessment is not required. It has also been determined that section 553(b) of the Administrative Procedure Act (5 U.S.C. chapter 5) does not apply to these regulations and, because these regulations do not impose on small entities a collection of information requirement, the Regulatory Flexibility Act (5 U.S.C. chapter 6) does not apply. Therefore, a Regulatory Flexibility Analysis is not required. Pursuant to section 7805(f) of the Code, the proposed regulations preceding these regulations were submitted to the Chief Counsel for Advocacy of the Small Business Administration for comment on its impact on small business.

Drafting Information

The principal author of these regulations is A. Katharine Jacob Kiss, Office of

Associate Chief Counsel (Income Tax and Accounting). However, other personnel from the IRS and Treasury Department participated in their development.

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Adoption of Amendments to the Regulations

Accordingly, 26 CFR part 1 is amended as follows:

PART 1—INCOME TAXES

Paragraph 1. The authority citation for part 1 is amended by adding an entry in numerical order to read in part as follows:

Authority: 26 U.S.C. 7805 * * *

Section 1.471-6 also issued under 26 U.S.C. 471. * * *

Par. 2. Section 1.471-6 is amended as follows:

1. In paragraph (c), the last sentence is removed.

2. Paragraph (f) is revised.

3. In paragraph (g), the first sentence is amended by removing the language “capital assets” and adding in its place “property used in a trade or business.”

The revisions read as follows:

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

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(f) A taxpayer that 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. The inventoriable costs of animals raised for draft, breeding, or dairy purposes can, at the election of the livestock raiser, be included in inventory or treated as property used in a trade or business subject to depreciation after maturity. See § 1.263A-4 for rules regarding the computation of inventoriable costs for purposes of the unit-livestock-price method. Once established, the methods of accounting used by the taxpayer to determine unit prices and to classify animals must be consistently applied in all subsequent taxable years. A taxpayer that uses the unit-livestock-price method must annually reevaluate its unit prices and adjust the prices either upward to reflect increases, or downward to reflect decreases, in the costs of raising livestock. The consent of the Commissioner is not required to make such upward or downward adjust-

ments. No other changes in the classification of animals or unit prices may be made without the consent of the Commissioner. See § 1.446-1(e) for procedures for obtaining the consent of the Commissioner. The provisions of this paragraph (f) apply to taxable years ending after October 28, 2002.

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Robert E. Wenzel,
*Deputy Commissioner of
Internal Revenue.*

Approved October 2, 2002.

Pamela F. Olson,
Assistant Secretary of the Treasury.

(Filed by the Office of the Federal Register on October 25, 2002, 8:45 a.m., and published in the issue of the Federal Register for October 28, 2002, 67 F.R. 65697)