

Checkpoint Contents

Federal Library

Federal Source Materials

Code, Regulations, Committee Reports & Tax Treaties

Final, Temporary, Proposed Regulations & Preambles

Final, Temporary & Proposed Regulations

Regs. §§ 1.51-1 thru 1.61-22

Reg §1.61-3 Gross income derived from business.

Federal Regulations

Reg § 1.61-3. Gross income derived from business.



Effective: May 10, 1992. In general, the final regulations apply to liabilities that would, under the

law in effect before the enactment of section 461(h)section 461(h), be allowable as a deduction or otherwise incurred after July 18, 1984. In the case of certain liabilities that require payment to another person in order for economic performance to occur, the regulations apply to liabilities that would, but for the enactment of section 461(h)section 461(h) , be allowable as a deduction or otherwise incurred for taxable years beginning after December 31, 1991. In the case of the economic performance requirement for certain employee benefit provisions, the final regulations provide that economic performance generally is satisfied to the extent that any amount is otherwise deductible under the provisions and, effective April 10, 1992, the final regulations remove temporary regulations concerning employee benefits.

(a) In general. In a manufacturing, merchandising, or mining business, "gross income" means the total sales, less the cost of goods sold, plus any income from investments and from incidental or outside operations or sources. Gross income is determined without subtraction of depletion allowances based on a percentage of income to the extent that it exceeds cost depletion which may be required to be included in the amount of inventoriable costs as provided in §1.471-11 and without subtraction of selling expenses, losses or other items not ordinarily used in computing costs of goods sold or amounts which are of a type for which a deduction would be disallowed under section 162(c), (f), or (g) in the case of a business expense. The cost of goods sold should be determined in accordance with the method of accounting consistently used by the taxpayer. Thus, for example, an amount cannot be taken into account in the computation of cost of goods sold any earlier than the taxable year in which economic performance occurs with respect to the amount (see §1.446-1(c)(1)(ii)).

(b) State contracts. The profit from a contract with a State or political subdivision thereof must be included in gross income. If warrants are issued by a city, town, or other political subdivision of a State, and are accepted by the contractor in payment for public work done, the fair market value of such

warrants should be returned as income. If, upon conversion of the warrants into cash, the contractor does not receive and cannot recover the full value of the warrants so returned, he may deduct any loss sustained from his gross income for the year in which the warrants are so converted. If, however, he realizes more than the value of the warrants so returned, he must include the excess in his gross income for the year in which realized.

T.D. 6272, 11/25/57 , amend T.D. 7207, 10/3/72 , T.D. 7285, 9/14/73 , T.D. 8408, 4/9/92 .