


¶ G-6014.1 Prohibition of installment reporting for most accrual-method taxpayers.

 **RIA observation:** The prohibition, by the Tax Relief Extension Act of '99 (footnotes 22.5 and 22.6), of installment method reporting for most accrual-method taxpayers has met with widespread dissatisfaction, with particularly acute concern as to the prohibition's adverse impact on the sales of small businesses. In addition to pursuing other planning alternatives, taxpayers might consider temporarily delaying business sales or other affected transactions while monitoring, with their tax advisors, the progress of Congressional proposals to repeal or scale back the prohibition.

With the exceptions discussed below, the installment method doesn't apply to income from an installment sale if that income would, without regard to the installment sales rules, be reported under an accrual method of accounting. 22


22 Code Sec. 453(a)(2).

Congress believed that the installment method is inconsistent with the use of the accrual method of accounting and shouldn't be allowed in situations where the disposition of property would otherwise be reported using the accrual method. Congress was concerned that the continued use of the installment method in those situations would allow a deferral of gain that is inconsistent with the accrual method requirement that income be reported in the period it is earned, rather than the period it is received. 22.1

22.1 S Rept No. 106-201 (PL 106-170), p. 38.

The prohibition on the use of the installment method by accrual-method taxpayers doesn't apply to (1) dispositions of property used or produced in the trade or business of farming (discussed at ¶ G-6603) or (2) dispositions, discussed at ¶ G-6604, of residential timeshares or residential lots (if the lots aren't to be improved by the taxpayer or a related person), if the taxpayer elects to pay to IRS interest on the deferred taxes attributable to the deferred gain. 22.2

22.2 Code Sec. 453(a)(2).

 **RIA caution:** However, some *other* restriction on the availability of the installment method may apply. For example, assume that X, who uses the accrual method of accounting, buys in Year 1 a tractor that is used in X's farming business and is thus eligible for depreciation. Further assume that in Year 4 X sells the tractor, agreeing to receive some payments for the tractor after that year.

(a) Use of installment method.

(1) In general.

Except as otherwise provided in this section, income from an installment sale shall be taken into account for purposes of this title under the installment method.

(2) Accrual method taxpayer.

The installment method shall not apply to income from an installment sale if such income would be reported under an accrual method of accounting without regard to this section. The preceding sentence shall not apply to a disposition described in subparagraph (A) or (B) of subsection (l)(2) .

(b) Installment sale defined.

For purposes of this section—

(1) In general.

The term 'installment sale' means a disposition of property where at least 1 payment is to be received after the close of the taxable year in which the disposition occurs.