PART XII: CATTLE

7835. What is a cattle feeding program? What is the tax effect of such programs?

Cattle feeding programs involve the purchase of immature cattle that are usually raised and fed under a contract with a feedlot that furnishes the feed and maintenance. The cattle are sold to a packing house when they reach the desired weight. Feeding programs typically last from four to nine months before the animals are marketable. The tax treatment of these programs, which are generally considered high-risk investments, was changed considerably by TRA '86, reducing their popularity to a great extent.

Generally, limited partnerships and S corporations act as flow-through entities, and partners and shareholders report their share of the entity's income, deductions, and credits on their own tax returns (See Q 7703). (Electing large partnerships have somewhat different flow-through rules than regular partnerships (See Q 7704)). However, if a publicly traded partnership is taxed as a corporation, the income, deductions, and credits are reported by the partnership and do not flow through to the partners. Electing 1987 partnerships are subject to both an entity level tax and the flow-through rules. In general, investment in a publicly traded partnership taxed as a corporation will be taxed as an investment in a corporation. See Q 7699 for the treatment of publicly traded partnerships.

7836. In the context of a cattle feeding program, when must expenses incurred in connection with the cattle program be added to inventory or capitalized?

In the case of most "tax shelters," certain corporations engaged in farming, and partnerships with such corporations as a partner, those expenses incurred in connection with producing cattle or attributable to cattle acquired for resale must be capitalized or added to the cost of inventory.[1] Generally, including such costs in inventory or capitalizing these costs prevents a current expense deduction and has the effect of reducing income or gain from the sale of the property. An exception applies to costs associated with inventory, so that costs may be expensed if the taxpayer's average annual gross receipts for the preceding three taxable years do not exceed $10,000,000 (as determined under certain aggregation rules).[2]

A "tax shelter" is (1) any enterprise, other than a C corporation, if at any time interests in the enterprise have been offered for sale in an offering required to be registered with any federal or state securities agency, (2) any farming enterprise other than a C corporation that allocates more than 35 percent of its losses during any period to investors who do not actively take part in the management of the operation, or (3) any enterprise a significant purpose of which is tax avoidance.[3]

1. IRC Sec. 263A(a).
2. IRC Sec. 263A(b)(2).
3. IRC Secs. 461(i)(3), 461(i)(4), 464(c), 6662(d)(2)(C)(ii).

The following types of corporations engaged in farming are exempted from the above capitalization rules (if not otherwise deemed to be "tax shelters"): (1) S corporations and (2) corporations meeting certain gross receipts tests. A corporation meets the gross receipts test if its annual gross receipts for each prior tax year do not exceed $1,000,000. A corporation controlled (as defined in the IRC) by one, two, or three families meets the gross receipts test if its annual gross receipts for each prior tax year do not exceed $25,000,000. For purposes of the gross receipts tests, all members of a controlled group of corporations are considered one corporation.[1]

So long as a partnership (provided it is not deemed to be a "tax shelter") does not have a non-exempt corporation as a partner, it will not be subject to the above capitalization rules.[2]

7837. How are expenses incurred in connection with a cattle program treated if they are not required to be capitalized?

Generally, corporations engaged in farming (other than those exempted from the capitalization rules, as described in Q 7836), partnerships with a corporation as a partner, and "tax shelters" are required to use the accrual method of accounting.[3] For tax years beginning after 2009, certain non-C corporation farmers who receive subsidies may be limited in the amount of losses they may take.[4]

The accrual method of accounting precludes current deductions for amounts not yet economically incurred (i.e., it eliminates the overstating of present expenses). Thus, in the case of farming entities required to use the accrual method, the formerly common practice of accelerating deductions into the program's first taxable year is eliminated. This is accomplished by requiring that deductions may not be taken until (1) all events have occurred that establish that the expense has been incurred, and (2) the amount of the liability can be established with reasonable accuracy. No amount is considered to be "incurred" until "economic performance" occurs. For example, if a limited partnership that is treated as a "tax shelter" is obligated to pay for services or property, economic performance takes place as the services or property are provided. Similarly, if the limited partnership is required to pay for use of property, economic performance occurs as the limited partnership uses the property.[5]

Generally, a deduction by accrual basis taxpayers is allowed for certain "recurring items" in the tax year prior to the occurrence of economic performance if the amount and existence of the obligation have been established in the prior year, and economic performance occurs within the shorter of a reasonable period or 8½ months after the close of the taxable year.[6] However, "tax shelters" generally may not use this exception to the economic performance rule.[7]

1. IRC Secs. 263A(d)(1), 447(c), 447(d), 447(h).
2. IRC Sec. 263A(d)(1)(A).
3. IRC Secs. 447(a), 448(a).
4. IRC Sec. 461(j), as added by HHHHA 2008.
5. IRC Sec. 461(h).
6. IRC Sec. 461(h)(3).
7. IRC Sec. 461(i)(1).

A special rule applies to the deduction of expenses for feed and similar supplies by "tax shelters," corporations, and partnerships required to use the accrual method. A deduction for the taxable year is limited to amounts of feed or supplies actually used or consumed during the taxable year (unless they are on hand at the end of the taxable year because of fire, storm, other casualty, or disease or drought).[1] In the case of cattle feeding programs, feed is a major item of expense.

In the case of taxpayers who are permitted to use the cash method, deductions for feed and supplies are also limited if the taxpayers are not primarily engaged in farming and they have unconsumed farm supplies at the end of the tax year in excess of 50 percent of the deductible farming expenses for that year (other than the unconsumed farm supplies). The amount of unconsumed expenses in excess of 50 percent of deductible farm expenses (other than the unconsumed farm supplies) may not be taken until the taxable year the feed or supplies are used or consumed.[2]

Investors who do not materially participate in the management of a cattle feeding program may also have the deductibility of expenses limited by the effect of the "passive loss" rules (See Q 7918).

7838. What is a cattle breeding program?

Cattle breeding is an intermediate to long-term investment (typically lasting at least five years) made with the primary objective of developing capital assets (e.g., increasing the herd size). Receiving capital gain treatment upon sale of the herd is a significant objective of cattle breeding programs.

Traditional breeding programs involve the purchase of a herd of breeding cattle (either beef or dairy cattle) that is managed by a firm specializing in breeding. Male offspring (steer calves) are generally sold for ordinary income each year, but female calves (heifers) are usually kept (unless they are unsuitable) in order to expand the herd.

Embryo transplant technology has resulted in a form of breeding program called a "Super Cow" program. These ventures involve the purchase of several prize breeding cows (each may cost in excess of $150,000) along with a herd of "recipient" cows that have inferior bloodlines. The donor (or "super") cows are artificially inseminated and the resulting embryos are transplanted into the recipient cows. Donor cows are superovulated so that they produce more eggs for fertilization than they would normally. A donor cow can thus produce multiple offspring in one year rather than the one that would be produced naturally. Recipient cows usually have little value aside from the embryo they carry. Some programs lease recipient cows from another party until the resulting calves are weaned. Embryo transplant operations are much more expensive to manage than the traditional form of breeding program.

Many programs will use technology without purchasing super cows by combining direct breeding with artificial insemination and the purchase of superior embryos, often leasing recipient cows in order to decrease capital expenditures and increase deductions.

1. IRC Sec. 464.
2. IRC Sec. 464(f).

Breeding operations are usually carried on by limited partnerships, but S corporations, joint ventures, and direct ownership are also used. Some super cow programs are formed as tenancies-in-common in which an individual investor owns an undivided fractional interest in one or several cows and the investor receives income or is allocated losses based on fractional interest. Generally, limited partnerships and S corporations act as flow-through entities, and partners and shareholders report their share of the entity's income, deductions, and credits on their own tax returns (See Q 7703). (Electing large partnerships have somewhat different flow-through rules than regular partnerships (See Q 7704)). However, if a publicly traded partnership is taxed as a corporation, the income, deductions, and credits are reported by the partnership and do not flow through to the partners. Electing 1987 partnerships are subject to both an entity level tax and the flow-through rules. In general, investment in a publicly traded partnership taxed as a corporation will be taxed as an investment in a corporation. See Q 7699 for the treatment of publicly traded partnerships.

7839. Are breeding cattle depreciable?

Yes. Amounts expended for the purchase of breeding cattle are capital expenditures for which depreciation deductions may be taken.[1] Because most investment entities involved in cattle breeding must capitalize the expenses of breeding and raising cattle (see Q 7840), the depreciation allowance is of significant importance. Accrual basis taxpayers may elect to inventory breeding cattle instead of capitalizing the purchase price and taking depreciation deductions[2] (See Q 7841).

Depreciation deductions cannot be taken for the period before property is first "placed in service," that is, placed in a condition or state of readiness for a specified function in a business or investment.[3] Thus, if the taxpayer acquires immature livestock not yet suitable for breeding, the cost cannot be depreciated until the livestock reach maturity.[4]

The method of determining the amount of allowable depreciation deduction depends on when the property is placed in service. Cattle placed in service after 1986 are depreciated under a modified form of the Accelerated Cost Recovery System (ACRS).

The post-1986 ACRS deduction is determined by depreciating cattle as follows: (1) over a five or seven year period using the 150 percent declining balance method, changing to the straight line method for the taxable year for which the change in methods yields a larger allowance; or (2) over a five or seven year period using the straight line method. The same method and period must be used for all cattle placed in service during the same year.[5] The initial basis of the property is the basis upon acquisition (usually the cost of the property, see Q 598), reduced by the amount, if any, elected for amortization or an IRC Section 179 deduction (See Q 620). Basis is reduced each year by the amount of depreciation allowable (whether or not the deduction is

1. Treas. Reg. §1.162-12(a).
2. Treas. Reg. §1.61-4(b).
3. Prop. Treas. Reg. §1.168-2(l)(2).
4. See Farmer's Tax Guide, IRS Pub. 225 (2013), p. 38.
5. IRC Secs. 168(b), 168(c), 168(g); Rev. Proc. 88-22, 1988-1 CB 785.

actually taken).[1] Alternatively, depreciation can be calculated by multiplying the unadjusted basis of the property by depreciation rates contained in Revenue Procedure 89-15.[2]

Depreciation is limited in the years when cattle are acquired or disposed of. Cattle are treated as placed in service or disposed of on the midpoint of the year of acquisition or disposition and depreciation may be taken for the half year. However, if more than 40 percent of the aggregate value of depreciable property (other than residential rental property and nonresidential real property) placed in service for the year is placed in service during the last three months of the year, cattle placed in service during *any* quarter of a year are treated as placed in service on the midpoint of that quarter. Property placed in service and disposed of in the same year is not taken into account under the 40 percent test and the mid-quarter convention.[3]

Recapture on Sale

On sale or disposition of cattle placed in service after 1980, amounts deducted for depreciation are recaptured as ordinary income, so that gain is ordinary income to the extent of depreciation taken.[4] Amounts expensed under the provisions of IRC Section 179 (discussed in Q 7840 and Q 620) and the adjustments to basis that resulted from claiming the investment tax credit (See Q 7824) are treated as depreciation deductions.[5] See Q 620 for a general explanation of depreciation.

7840. What costs of a breeding program must be capitalized? When may a deduction be taken for costs that are expensed?

Expenses Added to Inventory or Capitalized

In the case of most "tax shelters," certain corporations engaged in farming, and partnerships with a corporation as a partner, those expenses incurred in connection with producing cattle or attributable to cattle acquired for resale must be capitalized or added to the cost of inventory.[6] Generally, including these costs in inventory or capitalizing these costs prevents a current expense deduction and also has the effect of reducing income or gain from the sale of the property. Therefore, taxpayers affected by these rules would generally not be able to expense the costs of breeding or raising cattle.

Exceptions to certain of the uniform capitalization rules are available to the following entities that are engaged in farming: (1) a sole proprietorship; (2) a partnership that is not a "tax shelter" and that does not have a non-exempt corporation as a partner; (3) an S Corporation engaged in farming that is not deemed to be a "tax shelter"; and (4) any corporation engaged in farming that is not deemed to be a "tax shelter" and that meets certain gross receipts tests. A corporation meets the gross receipts test if its annual gross receipts for each prior tax year do not exceed $1,000,000. A corporation controlled (as defined in the IRC) by one, two, or three

1. IRC Secs. 1012, 1016(a).
2. 1989-1 CB 816.
3. IRC Sec. 168(d).
4. IRC Sec. 1245(a).
5. IRC Secs. 1245(a)(2)(c), 50(c)(4).
6. IRC Secs. 263A(a), 263A(d).

families meets the gross receipts test if its annual gross receipts for each prior tax year do not exceed $25,000,000. For purposes of the gross receipts tests, all members of a controlled group of corporations are considered one corporation.[1] The exceptions available to these taxpayers are as follows:

(a) Any animal produced by the taxpayer that had a preproductive life of two years or less where costs were incurred by the taxpayer *before 1989*.[2] While "preproductive life" is not defined in the IRC, as described here, it appears to mean the period before which the animal was reasonably expected to be sold or disposed of.[3]

(b) Any animal produced by the taxpayer without regard to the length of its preproductive life, where costs were incurred *after 1988*.[4]

A "tax shelter" is (1) any enterprise, other than a C corporation, if at any time interests in the enterprise have been offered for sale in an offering required to be registered with any federal or state securities agency, or (2) any farming enterprise other than a C corporation that allocates more than 35 percent of its losses during any period to investors who do not actively take part in the management of the operation, or (3) any enterprise a significant purpose of which is tax avoidance.[5]

For rules treating certain publicly traded partnerships as corporations, see Q 7699.

Other Expenses

Generally, corporations engaged in farming (other than those exempted from the capitalization rules, as described above), partnerships with a corporation as a partner, and "tax shelters" are required to use the accrual method of accounting.[6]

The accrual method of accounting precludes current deductions for amounts not yet economically incurred. Thus, in the case of farming entities required to use the accrual method, the practice of taking a deduction for expenses that are paid for but not yet needed is eliminated. This is accomplished by requiring that deductions may not be taken until (1) all events have occurred that establish that the expense has been incurred, and (2) the amount of the liability can be established with reasonable accuracy. No amount is considered to be "incurred" until "economic performance" occurs. For example, if a limited partnership that is treated as a "tax shelter" is obligated to pay for services or property, economic performance takes place as the services or property are provided. Similarly, if the limited partnership is required to pay for use of property, economic performance occurs as the limited partnership uses the property.[7]

1. IRC Secs. 447(c), 447(d), 447(h).
2. IRC Sec. 263A(d)(1), prior to amendment by TAMRA '88.
3. See IRC Sec. 447(b), prior to amendments by TRA '86 and TAMRA '88.
4. IRC Sec. 263A(d)(1).
5. IRC Secs. 461(i)(3), 461(i)(4).
6. IRC Secs. 447(a), 448(a).
7. IRC Sec. 461(h).

Generally, a deduction by accrual basis taxpayers is allowed for certain "recurring items" in the tax year prior to the occurrence of economic performance if the amount and existence of the obligation have been established in the prior year, and economic performance occurs within the shorter of a reasonable period or 8½ months after the close of the taxable year.[1] However, "tax shelters" generally may not use this exception to the economic performance rule.[2]

A special rule applies to the deduction of expenses for feed and similar supplies by "tax shelters," corporations, and partnerships required to use the accrual method. A deduction for the taxable year is limited to amounts of feed or supplies actually used or consumed during the taxable year (except for amounts on hand at the end of the year due to fire, storm, other casualty, or disease or drought).[3]

In the case of taxpayers who are permitted to use the cash method, deductions for feed and supplies are also limited if the taxpayers are not primarily engaged in farming and they have unconsumed farm supplies at the end of the tax year in excess of 50 percent of the deductible farming expenses for that year (other than the unconsumed farm supplies). The amount of unconsumed expenses in excess of 50 percent of deductible farm expenses (other than the unconsumed farm supplies) may not be taken until the taxable year the feed or supplies are used or consumed.[4]

Investors who do not materially participate in the management of a cattle breeding program may also have the deductibility of expenses limited by the effect of the "passive loss" rules (see Q 7918).

For rules treating certain publicly traded partnerships as corporations, see Q 7699.

Temporary Bonus Depreciation Rules

In TRUIRJCA 2010, Congress provided for 100 percent bonus depreciation (i.e., deducting the full cost) for qualified property placed in service after September 8, 2010, and before 2012.[5] (ARTA 2012 extended the placed-in-service date through 2013 for a subset of qualified property that will continue to be eligible for 100 percent bonus depreciation: certain property with a longer recovery period, transportation property, and certain aircraft.)[6] For other qualifying property placed in service after 2007 and before 2014 (unless Congress acts to retroactively extend 100 percent bonus depreciation beyond 2013), the bonus allowance is 50 percent (i.e., one half of the cost of the property can be deducted in the year the property is placed in service), and the rest of the cost is recovered using the otherwise applicable cost recovery method.[7] In the latter case, the actual deduction in the first year will thus exceed 50 percent of the property's cost: the allowance will include not only the bonus depreciation but also the appropriate percentage of the rest of the cost of the property.

1. IRC Sec. 461(h)(3).
2. IRC Sec. 461(i)(1).
3. IRC Sec. 464.
4. IRC Sec. 464(f).
5. See IRC Sec. 168(k)(5).
6. See IRC Sec. 168(k)(5), as amended by ATRA Sec. 331.
7. See IRC Sec. 168(k)(2), as amended by ATRA Sec. 331.

Election to Expense or Capitalize Certain Expenses

Bonus depreciation provisions have typically been enacted only during economically difficult times, and for short periods. In one form or another, however, IRC Section 179 has been around for a long time. Under that provision, a limited amount of the cost to acquire cattle (or other depreciable property) can be expensed in the year when the cattle (or other property) is first placed in service (even by the tax shelters, corporations, and partnerships required to capitalize other expenses).[1] In the case of partnerships and S corporations, the election to expense a portion of capital costs is made at the partnership or S corporation level.[2] The deduction can apply to several pieces of property used in the active conduct of the trade or business. The aggregate cost deductible under IRC Section 179 for taxable years beginning after 2007 and before 2010 could not exceed $250,000; for taxable years beginning in 2010 through 2013 the aggregate deductible cost could not exceed $500,000; and for a taxable year beginning after 2013 the aggregate deductible cost cannot exceed $25,000 (unless Congress acts to retroactively extend the $500,000 figure).[3] For those three periods the deductible amount must be reduced by one dollar for each dollar of such investment above $800,000; $2 million, and $200,000, respectively.[4]

The amount expensed is limited to the aggregate amount of taxable income derived from the active conduct of any trade or business of the taxpayer. An amount that is not deductible because it exceeds the aggregate income from any trade or business may be carried over and taken in a subsequent year. The amount carried over that may be taken in a subsequent year is the lesser of (1) the amounts disallowed because of the taxable income limitation in all prior taxable years (reduced by any carryover deductions in previous taxable years); or (2) the amount of unused expense allowance for the year. The amount of unused expense allowance is the excess of (1) the maximum cost of property that may be expensed taking into account the dollar and income limitations; over (2) the amount the taxpayer elects to expense.[5]

Married individuals filing separately are treated as one taxpayer for purposes of determining the amount that may be expensed and the total amount of investment in the property.[6] The dollar limit applies to partnerships and S corporations and to each partner and shareholder.[7] A partner or S corporation shareholder will reduce basis in the partnership or S corporation to reflect his or her share of the cost of property for which an election to expense has been made whether or not the amount is subject to limitation at either the entity or partner/shareholder level.[8] Also, the partnership or S corporation will reduce its basis by the amount of the deduction allocable to each partner or shareholder without regard to whether these individuals can use all of the deduction allocated to them.[9] Recapture provisions apply if the property ceases to be used primarily in a trade or business before the end of the property's recovery period.

1. IRC Sec. 179(a).
2. Treas. Reg. §1.179-1(h)(1).
3. IRC Sec. 179(b)(1), as amended by HIREA, TRUIRJCA 2010 and ATRA.
4. IRC Sec. 179(b)(2), as amended by HIREA, TRUIRJCA 2010 and ATRA.
5. IRC Sec. 179(b)(3); Treas. Reg. §1.179-3.
6. IRC Sec. 179(b)(4).
7. IRC Sec. 179(d)(8).
8. Rev. Rul. 89-7, 1989-1 CB 178.
9. Treas. Reg. §1.179-1(f)(2).

(For property placed in service before 1987, recapture is required only if the property was converted to nonbusiness use within two years after it was placed in service).[1] Also, amounts expensed under an election are treated as depreciation deductions for purpose of recapture on sale or disposition (see Q 7841).

7841. How is gain taxed when breeding cattle are sold?

Gain from a sale or disposition of cattle depreciated under the ACRS method is generally recaptured as ordinary income to the extent of all depreciation deductions previously allowed. Amounts expensed under the provisions of IRC Section 179 (discussed in Q 7840 and Q 620) and the adjustments to basis that resulted from claiming the investment tax credit (see Q 7824) are treated as depreciation deductions.[2] If there is a loss on sale of the property, no recapture is necessary.[3]

Gain (in excess of amounts recaptured as ordinary income) from sale or disposition of cattle held for breeding purposes (including cattle inventoried by certain accrual basis taxpayers), and which are held for 24 months or more from the date of acquisition, is "IRC Section 1231" gain, eligible for long-term capital gain treatment.[4] For this purpose, the holding period of an animal born into the herd begins at birth.[5] For a discussion of "IRC Section 1231" gain, see Q 7772. For the treatment of long-term capital gain, see Q 608.

Gain from the sale of cattle held for sale in the ordinary course of business is ordinary income. Uncertainty often arises as to the treatment of cattle periodically culled from the herd because of their unsuitability for breeding. (However, annual disposition of steer calves and of animals clearly unsuitable for breeding from birth results in ordinary income since these animals are destined for sale). Whether an animal is held for breeding is determined from all the facts and circumstances. Although the purpose for which an animal is held is ordinarily shown by its actual use, a breeding purpose may be present if an animal is disposed of within a reasonable time after its intended use is prevented or made undesirable by reason of accident, disease, drought, unfitness of the animal for breeding, or similar reasons. An animal is not deemed to be held for breeding merely because it is suitable or merely because it is held for sale to others as a breeding animal. Even if an animal has been bred, it may not be considered to be held for breeding if use of the animal for breeding is negligible or if the animal is bred in order to provide desirable characteristics.[6]

In order for a cash basis taxpayer to determine gain from the sale of cattle born into the herd, the gross sale price is reduced by any expenses of sale (such as sales commissions or freight or hauling from the farm to the commission company). Such animals have a zero basis if the costs of raising them were deducted while the animals were being raised. Gain or loss from the

1. IRC Sec. 179(d)(10); Treas. Reg. §1.179-1(e).
2. IRC Secs. 1245(a)(2)(c), 50(c)(4).
3. IRC Sec. 1245.
4. IRC Sec. 1231(b)(3); Treas. Reg. §1.1231-2(a).
5. *Greer v. U.S.*, 408 F.2d 631 (6th Cir. 1969).
6. Treas. Reg. §1.1231-2(b)(1).

sale of purchased livestock is determined by subtracting the adjusted basis and the sale expenses from the gross sale price.[1]

Accrual basis partnerships, S corporations, corporations, and individuals directly engaged in cattle breeding may either capitalize the cost of breeding cattle (and take deductions for depreciation) or value cattle according to an inventory method.[2] Gain from the sale of inventoried breeding cattle held for 24 months or more is eligible for capital gain treatment under IRC Section 1231.[3] Four inventory methods are available for livestock: the cost method, lower of cost or market method, unit-livestock-price method, or farm-price method.[4] (For more information about these methods of valuation, see IRS Publication 538 (Accounting Periods and Methods)). Gain is determined by subtracting the animal's last inventory value (used instead of basis) and sale expenses from the gross sale price.[5] The amount of gain received depends on the inventory method used, as a low valuation method will result in a higher amount of gain.

7842. What adjustments and tax preference items are generated by a cattle breeding program for purposes of the alternative minimum tax?

The investor may have the following adjustments to alternative minimum taxable income (AMTI) or tax preferences in connection with investment in a cattle breeding program that passes losses and deductions through to the investor:

(1) Losses from tax shelter farm activities (determined by taking into account the adjustments to AMTI and tax preferences) are not allowed in calculating AMTI, except to the extent the taxpayer is insolvent or upon disposition of the tax shelter farm activity.

"Tax shelter farm activities" are any farm activities involving any enterprise, other than a C corporation, if (1) the farm activity is a passive activity (see Q 7919); (2) at any time interests in the enterprise have been offered for sale in an offering required to be registered with any federal or state securities agency; or (3) the enterprise allocates more than 35 percent of its losses during any period to investors who do not actively take part in the management of the operation.[6]

(2) For cattle placed in service before 1999, more accelerated methods of depreciation were generally available for regular tax purposes than were available for alternative minimum tax purposes.

For a general discussion of the alternative minimum tax, see Q 653.

1. See Farmer's Tax Guide, IRS Pub. 225 (2013), p. 53.
2. Treas. Reg. §1.61-4(b).
3. *U.S. v. Catto*, 66-1 USTC ¶9376 (U.S. 1966).
4. See Farmer's Tax Guide, IRS Pub. 225 (2013), p. 7.
5. *Carter v. Comm.*, 257 F.2d 595 (5th Cir. 1958).
6. IRC Sec. 58.