

	23,700	
Deductions:		
Cost of labor	4,000	
Cost of feed	3,000	
Depreciation on farm equipment and buildings	2,500	
Cost of maintenance, fuel, etc	2,000	
Interest paid, mortgage on farm buildings	1,000	
Interest paid, personal loan	500	
Loss on destruction of barn	2,000	
Loss on sale of truck	300	
Section 1202 deduction—gain on sale of cows (500× 1/2)	250	
Section 1202 deduction—net gain on disposition of section 1231 property, other than cows [\$2,800 (\$5,100 - \$2,300) × 1/2]	1,400	
		\$16,950
Net income before section 182 deduction		6,750

For purposes of computing taxable income derived from farming under section 182, the following items of income and deductions are not taken into account:

Income:		
Gain from the sale of tractor	\$100	
Gain from the sale of farmland	5,000	
Interest on loan to brother	100	
		\$5,200
Deductions:		
Interest paid, personal loan	\$500	
Loss on destruction of barn	2,000	
Loss on sale of truck	300	
Section 1202 deduction—Net gain from disposition of 1231 assets other than cows	1,400	
		\$4,200

A's "taxable income derived from farming" for purposes of section 182 is \$5,750; income of \$18,500 (\$23,700 - \$5,200), less deductions of \$12,750 (\$16,950 - \$4,200). A may deduct \$1,437.50 (25% of \$5,750) under section 182. The excess expenditures in the amount of \$562.50 are to be charged to capital account and serve to increase the taxpayer's basis of the land.

Example 2. Assume the same facts as in *Example 1* and in addition, assume that A is allowed a deduction for a net operating loss carryback from the taxable year 1966 in the amount of \$3,000. The net operating loss deduction will not be taken into account in computing A's "taxable income derived from farming" for 1963. Accordingly, A will not be required to recompute such taxable income for purposes of applying the limitation on the deduction provided in section 182 and the deduction of \$1,437.50 will not be reduced.

[T.D. 6794, 30 FR 791, Jan. 26, 1965]

§ 1.182-6 Election to deduct land clearing expenditures.

(a) *Manner of making election.* The election to deduct expenditures for land clearing provided by section 182(a) shall be made by means of a statement

attached to the taxpayer's income tax return for the taxable year for which such election is to apply. The statement shall include the name and address of the taxpayer, shall be signed by the taxpayer (or his duly authorized representative), and shall be filed not later than the time prescribed by law for filing the income tax return (including extensions thereof) for the taxable year for which the election is to apply. The statement shall also set forth the amount and description of the expenditures for land clearing claimed as a deduction under section 182, and shall include a computation of "taxable income derived from farming", if the amount of such income is not the same as the net income from farming shown on Schedule F of Form 1040, increased by the amount of the deduction claimed under section 182.

(b) *Scope of election.* An election under section 182(a) shall apply only to the taxable year for which made. However, once made, an election applies to all expenditures described in § 1.182-3 paid or incurred during the taxable year, and is binding for such taxable year unless the district director consents to a revocation of such election. Requests for consent to revoke an election under section 182 shall be made by means of a letter to the district director for the district in which the taxpayer is required to file his return, setting forth the taxpayer's name, address and identification number, the year for which it is desired to revoke the election, and the reasons therefor. However, consent will not be granted where the only reason therefor is a change in tax consequences.

[T.D. 6794, 30 FR 791, Jan. 26, 1965]

§ 1.183-1 Activities not engaged in for profit.

(a) *In general.* Section 183 provides rules relating to the allowance of deductions in the case of activities (whether active or passive in character) not engaged in for profit by individuals and electing small business corporations, creates a presumption that an activity is engaged in for profit if certain requirements are met, and permits the taxpayer to elect to postpone determination of whether such