



TaxNewsFlash

Cooperatives

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Rev. Proc. 2020-13: Guidance for farmers on uniform capitalization rules

The IRS today released an advance version of Rev. Proc. 2020-13 as guidance for farmers who have elected out of certain capitalization rules and who want to apply the small business taxpayer exemption in the same tax year.

Read [Rev. Proc. 2020-13](#) [PDF 62 KB]

Background

As explained in a related IRS release—[IR-2020-38](#)—the 2017 tax law (Pub. L. No. 115-97, the law that is often referred to as the “Tax Cuts and Jobs Act” (TCJA)) added a provision exempting small business taxpayers from the capitalization rules under section 263A. A taxpayer, other than a tax shelter, qualifies as a small business taxpayer by satisfying the gross receipts test for the tax year. To satisfy the gross receipts test, a farming business must have gross receipts of \$25 million or less for tax years beginning in 2018, and \$26 million or less for tax years beginning in 2019.

Rev. Proc. 2020-13

Today’s revenue procedure addresses how farmers can revoke their election under section 263A(d)(3) and apply the small business taxpayer exemption under section 263A(i) in the same tax year. It also provides procedures for eligible farmers that want to make an election under section 263A(d)(3) in the same tax year that they no longer qualify as small business taxpayers.

Accordingly, Rev. Proc. 2020-13 provides the exclusive procedures for a taxpayer that elected under section 263A(d)(3) to have section 263A not apply to certain plants produced by the taxpayer in a farming business if the taxpayer:

- Wants to revoke its election under section 263A(d)(3)
- Qualifies as a small business taxpayer within the meaning of section 263A(i), and

- Wants to apply the exemption from section 263A that is provided in section 263A(i) beginning with that revocation tax year

Rev. Proc. 2020-13 also provides the exclusive procedures for a taxpayer in a farming business that uses the exemption from the application of section 263A (as provided under section 263A(i)) if the taxpayer:

- No longer qualifies as a small business taxpayer eligible to use the exemption under section 263A(i); and
- Wants to make an election under section 263A(d)(3) and the accompanying regulations for certain plants produced by the taxpayer in a farming business for the first tax year in which the taxpayer is ineligible to use the exemption in section 263A(i)

Unlike the section 263A(d)(3) election, the small business taxpayer exemption does not require the special rules for the use of the Alternative Depreciation System (ADS) or characterization of certain property as section 1245 property.

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