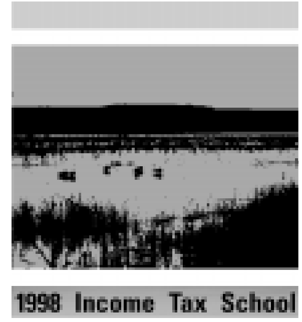

TAX ELECTIONS

I. INDIVIDUALS

A. INCOME

Children's unearned income. Parents can elect to report their children's unearned income on the parents' return. See **Form 8814.**

Commodity Credit Corporation Loans. A taxpayer can elect to report Commodity Credit Corporation (CCC) loans as income in the year they are received. See **I.R.C. §77.**

Cost-sharing payments. A taxpayer can elect to **not** have the **exclusion** of cost-sharing payments apply. See **I.R.C. §126(c).**

Crop insurance or disaster payments. A taxpayer can elect to report crop insurance proceeds and disaster payments received for crop losses in the year **after** the payment is received. See **I.R.C. §451(d).**

Discharged debt. A taxpayer who has discharge of qualified real property indebtedness income can elect to exclude the income up to certain limits. See **I.R.C. §108(c)(3)(C)** and **Form 982.** A taxpayer can also elect to reduce the basis of depreciable property before reducing other tax attributes. See **I.R.C. §108(b)(5)** and **Form 982.** A taxpayer can also elect to treat real property that is inventory as depreciable property for purposes of the basis reduction rules. See **I.R.C. §1017(b)(3)(E).**

Installment method. A taxpayer can elect out of the installment method of reporting income. See **I.R.C. §453(b).**

Involuntary conversion. A taxpayer can elect to postpone the recognition of gain from property that is taken by theft, seizure, requisition, or condemnation if the money received by the taxpayer for the involuntary conversion is used to buy replacement property. This provision also applies to livestock lost because of disease or sold on account of drought, floods, or other weather-related conditions or because of environmental contamination. See **I.R.C. §1033.**

Itemized deductions. A taxpayer can elect to itemize deductions rather than claim the standard deduction. See **I.R.C. §63(e).**

Livestock sold because of weather conditions. A taxpayer can elect to report gain from livestock sold on account of drought, flood, or other weather-related conditions in the year after the sale. See **I.R.C. §451(e).** See also **Involuntary conversion** in this list.

Lump-sum pension distribution. A plan participant who was born before 1936 can treat part of the taxable portion of a lump-sum distribution as a capital gain taxable at a 20% rate. Taxpayers may qualify to use the 5- or 10-year tax option to figure the tax. See **I.R.C. §402(d)** and **Form 4972.**

Principal residence. A taxpayer can elect **not** to apply the exclusion of gain from sale of principal residence. See **I.R.C. §121(f).**

Timber. A taxpayer can elect to treat gain on cutting of timber as capital gain to the extent of increase in value of the timber as of the beginning of the year the timber is cut. See **I.R.C. §631(a).**

United States Savings Bonds. A taxpayer who owns a United States Savings Bond can elect to have the interest taxed each year as it accrues rather than in the year the bond is redeemed. See **I.R.C. §454.**

B. DEDUCTIONS AND CREDITS

Carrying charges. A taxpayer can elect to capitalize certain costs of carrying real property such as mortgage interest and property taxes. See **I.R.C. §266.**

Charitable contributions deduction. A taxpayer may choose the 50% limit for gifts of capital gain property to 50% limit organizations instead of the 30% limit that would otherwise apply. If the taxpayer makes this choice, he or she must reduce the fair market value of the property contributed by the appreciation in value that would have been long–term capital gain if the property had been sold. See **I.R.C. §170(b)(1)(C)(iii).**

Depreciation. Beginning in 1999 taxpayers can elect to use 150% declining balance depreciation over the MACRS for regular tax purposes. This will match regular tax depreciation with AMT depreciation so that there is no AMT adjustment. See **I.R.C. §168(b)(2)(C).** Alternatively, taxpayers can elect to depreciate property under the alternative depreciation system, which uses the straight-line method and (for most assets) a longer life. See **I.R.C. §168(g).** Another alternative is for taxpayers to elect to not have I.R.C. §168 apply and instead use a method such as the unit-of-production method or the standard mileage deduction. See **I.R.C. §168(f)(1).**

Disaster losses. Taxpayers can elect to deduct losses occurring in a declared disaster area in the year preceding the loss. See **I.R.C. §165(i).**

Earned Income Credit. A taxpayer who is eligible for the earned income credit can file an earned income eligibility certificate with his or her employer to receive an advance earned income payment. See **I.R.C. 3507.**

Expense deduction. Taxpayers can elect to deduct up to $18,500 (in 1998) of certain capital expenditures. See **I.R.C. §179.**

Fertilizer expenses. A taxpayer engaged in the business of farming may elect to deduct the cost of fertilizer rather than capitalize the loss. See **I.R.C. §180.**

Foreign tax credit. An eligible taxpayer can elect to claim a credit for certain taxes paid to foreign governments. See **I.R.C. §901.**

Hobby losses. A taxpayer can elect to postpone the determination as to whether the 3-out-of-5-year presumption (4 out of 6 years for horses) applies. See **I.R.C. §183(e)** and **Form 5213.**

Interest on qualified residence. A taxpayer may elect to treat any debt that is secured by a qualified residence as not secured by a qualified residence. See **Treas. Reg. §1.163-10T(o)(5).**

Net operating loss. A taxpayer can elect to forgo the two-year carryback of a net operating loss. See **I.R.C. §172(b)(3).**

Passive activity losses. One or more trade or business activities or rental activities may be treated as a single activity if the activities constitute an appropriate economic unit for the measurement of gain or loss for purposes of I.R.C. §469. See **Treas. Reg. §1.469-4(c).**

Pollution control facilities. A taxpayer can elect to amortize the cost of qualified pollution control facilities over 60 months. See **I.R.C. §169.**

Pre-production expenses. A taxpayer can elect to have the rules that require pre-productive expenses to be capitalized **not** apply to plants produced in a farming business. See **I.R.C. §263A.**

Removal of barriers. Taxpayers can elect to claim a credit or a deduction for the cost of removing architectural or transportational barriers for disabled persons. See **I.R.C. §§44 and 190.**

Soil and water conservation expenses. A taxpayer engaged in the business of farming can elect to deduct soil and water conservation expenses rather than capitalize them. See **I.R.C. §175.**

Start-up expenses. A taxpayer can elect to amortize certain costs of starting a business over 60 months rather than capitalize those expenses. See **I.R.C. §195.**

C. MISCELLANEOUS

Bankruptcy. A taxpayer who is in a Chapter 7 or Chapter 11 bankruptcy can elect to end a short tax year the day before the bankruptcy was filed. See **I.R.C. §1398(d)(2).**

Optional self-employment tax method. A taxpayer can elect an optional method of paying self-employment taxes if his or her farm or other business income is below a certain amount. See **I.R.C. §1402(a)** and **Schedule SE (Form 1040).**

Religious exemption. A church can elect to be exempt from employer medicare and social security taxes for religious reasons. See **Form 8274.**

Voluntary withholding. A taxpayer may elect to have more than the required taxes withheld from wages or other payments. See **I.R.C. §3402(p)** and **Form W-4.**

II. PARTNERSHIPS AND LLCs

Basis adjustment. A partnership can elect to adjust its basis in assets when property is distributed or a partnership interest is transferred. See **I.R.C. §754.**

Entity classification election. An entity can elect to be taxed as a partnership or a corporation. See **Treas. Reg. §301.7701-3(c)** and **Form 8832.**

Organizational fees. A partnership may elect to amortize organizational expenses over 60 months rather than capitalize those expenses. See **I.R.C. §709.**

Taxable year. A partnership may elect to have a taxable year other than the required year. See **I.R.C. §444** and **Form 8716.**

This chapter will be expanded next year. There are nearly 400 different tax elections in the **Code.**