

§ 475. Mark to market accounting method for dealers in securities

(a) General rule

Notwithstanding any other provision of this subpart, the following rules shall apply to securities held by a dealer in securities:

- (1) Any security which is inventory in the hands of the dealer shall be included in inventory at its fair market value.
- (2) In the case of any security which is not inventory in the hands of the dealer and which is held at the close of any taxable year—
 - (A) the dealer shall recognize gain or loss as if such security were sold for its fair market value on the last business day of such taxable year, and
 - (B) any gain or loss shall be taken into account for such taxable year.

Proper adjustment shall be made in the amount of any gain or loss subsequently realized for gain or loss taken into account under the preceding sentence. The Secretary may provide by regulations for the application of this paragraph at times other than the times provided in this paragraph.

(b) Exceptions

(1) In general

Subsection (a) shall not apply to—

- (A) any security held for investment,
- (B)(i) any security described in subsection (c)(2)(C) which is acquired (including originated) by the taxpayer in the ordinary course of a trade or business of the taxpayer and which is not held for sale, and (ii) any obligation to acquire a security described in clause (i) if such obligation is entered into in the ordinary course of such trade or business and is not held for sale, and
- (C) any security which is a hedge with respect to—

- (i) a security to which subsection (a) does not apply, or
- (ii) a position, right to income, or a liability which is not a security in the hands of the taxpayer.

To the extent provided in regulations, subparagraph (C) shall not apply to any security held by a person in its capacity as a dealer in securities.

(2) Identification required

A security shall not be treated as described in subparagraph (A), (B), or (C) of paragraph (1), as the case may be, unless such security is clearly identified in the dealer's records as being described in such subparagraph before the close of the day on which it was acquired, originated, or entered into (or such other time as the Secretary may by regulations prescribe).

(3) Securities subsequently not exempt

If a security ceases to be described in paragraph (1) at any time after it was identified as such under paragraph (2), subsection (a) shall apply to any changes in value of the security occurring after the cessation.

(4) Special rule for property held for investment

To the extent provided in regulations, subparagraph (A) of paragraph (1) shall not apply to any security described in subparagraph (D) or (E) of subsection (c)(2) which is held by a dealer in such securities.

(c) Definitions

For purposes of this section—

(1) Dealer in securities defined

The term “dealer in securities” means a taxpayer who—

- (A) regularly purchases securities from or sells securities to customers in the ordinary course of a trade or business; or
- (B) regularly offers to enter into, assume, offset, assign or otherwise terminate positions in securities with customers in the ordinary course of a trade or business.

(2) Security defined

The term “security” means any—

- (A) share of stock in a corporation;
- (B) partnership or beneficial ownership interest in a widely held or publicly traded partnership or trust;
- (C) note, bond, debenture, or other evidence of indebtedness;

(D) interest rate, currency, or equity notional principal contract;

(E) evidence of an interest in, or a derivative financial instrument in, any security described in subparagraph (A), (B), (C), or (D), or any currency, including any option, forward contract, short position, and any similar financial instrument in such a security or currency; and

(F) position which—

(i) is not a security described in subparagraph (A), (B), (C), (D), or (E),

(ii) is a hedge with respect to such a security, and

(iii) is clearly identified in the dealer's records as being described in this subparagraph before the close of the day on which it was acquired or entered into (or such other time as the Secretary may by regulations prescribe).

Subparagraph (E) shall not include any contract to which section 1256(a) applies.

(3) Hedge

The term “hedge” means any position which manages the dealer's risk of interest rate or price changes or currency fluctuations, including any position which is reasonably expected to become a hedge within 60 days after the acquisition of the position.

(4) Special rules for certain receivables

(A) In general

Paragraph (2)(C) shall not include any nonfinancial customer paper.

(B) Nonfinancial customer paper

For purposes of subparagraph (A), the term “nonfinancial customer paper” means any receivable which—

(i) is a note, bond, debenture, or other evidence of indebtedness;

(ii) arises out of the sale of nonfinancial goods or services by a person the principal activity of which is the selling or providing of nonfinancial goods or services; and

(iii) is held by such person (or a person who bears a relationship to such person described in section 267(b) or 707(b)) at all times since issue.

(d) Special rules

For purposes of this section—

(1) Coordination with certain rules

The rules of sections 263(g), 263A, and 1256(a) shall not apply to securities to which subsection (a) applies, and section 1091 shall not apply (and section 1092 shall apply) to any loss recognized under subsection (a).

(2) Improper identification

If a taxpayer—

(A) identifies any security under subsection (b)(2) as being described in subsection (b)(1) and such security is not so described, or

(B) fails under subsection (c)(2)(F)(iii) to identify any position which is described in subsection (c)(2)(F) (without regard to clause (iii) thereof) at the time such identification is required,

the provisions of subsection (a) shall apply to such security or position, except that any loss under this section prior to the disposition of the security or position shall be recognized only to the extent of gain previously recognized under this section (and not previously taken into account under this paragraph) with respect to such security or position.

(3) Character of gain or loss

(A) In general

Except as provided in subparagraph (B) or section 1236(b)—

(i) In general

Any gain or loss with respect to a security under subsection (a)(2) shall be treated as ordinary income or loss.

(ii) Special rule for dispositions

If—

(I) gain or loss is recognized with respect to a security before the close of the taxable year, and

(II) subsection (a)(2) would have applied if the security were held as of the close of the taxable year,

such gain or loss shall be treated as ordinary income or loss.

(B) Exception

Subparagraph (A) shall not apply to any gain or loss which is allocable to a period during which—

(i) the security is described in subsection (b)(1)(C) (without regard to subsection (b)(2)),

(ii) the security is held by a person other than in connection with its activities as a dealer in securities, or

(iii) the security is improperly identified (within the meaning of subparagraph (A) or (B) of paragraph (2)).

(e) Election of mark to market for dealers in commodities

(1) In general

In the case of a dealer in commodities who elects the application of this subsection, this section shall apply to commodities held by such dealer in the same manner as this section applies to securities held by a dealer in securities.

(2) Commodity

For purposes of this subsection and subsection (f), the term “commodity” means—

(A) any commodity which is actively traded (within the meaning of section 1092(d)(1));

(B) any notional principal contract with respect to any commodity described in subparagraph (A);

(C) any evidence of an interest in, or a derivative instrument in, any commodity described in subparagraph (A) or (B), including any option, forward contract, futures contract, short position, and any similar instrument in such a commodity; and

(D) any position which—

(i) is not a commodity described in subparagraph (A), (B), or (C),

(ii) is a hedge with respect to such a commodity, and

(iii) is clearly identified in the taxpayer's records as being described in this subparagraph before the close of the day on which it was acquired or entered into (or such other time as the Secretary may by regulations prescribe).

(3) Election

An election under this subsection may be made without the consent of the Secretary. Such an election, once made, shall apply to the taxable year for which made and all subsequent taxable years unless revoked with the consent of the Secretary.

(f) Election of mark to market for traders in securities or commodities

(1) Traders in securities

(A) In general

In the case of a person who is engaged in a trade or business as a trader in securities and who elects to have this paragraph apply to such trade or business—

(i) such person shall recognize gain or loss on any security held in connection with such trade or business at the close of any taxable year as if such security were sold for its fair market value on the last business day of such taxable year, and

(ii) any gain or loss shall be taken into account for such taxable year.

Proper adjustment shall be made in the amount of any gain or loss subsequently realized for gain or loss taken into account under the preceding sentence. The Secretary may provide by regulations for the application of this subparagraph at times other than the times provided in this subparagraph.

(B) Exception

Subparagraph (A) shall not apply to any security—

(i) which is established to the satisfaction of the Secretary as having no connection to the activities of such person as a trader, and

(ii) which is clearly identified in such person's records as being described in clause (i) before the close of the day on which it was acquired, originated, or entered into (or such other time as the Secretary may by regulations prescribe).

If a security ceases to be described in clause (i) at any time after it was identified as such under clause (ii), subparagraph (A) shall apply to any changes in value of the security occurring after the cessation.

(C) Coordination with section 1259

Any security to which subparagraph (A) applies and which was acquired in the normal course of the taxpayer's activities as a trader in securities shall not be taken into account in applying section 1259 to any position to which subparagraph (A) does not apply.

(D) Other rules to apply

Rules similar to the rules of subsections (b)(4) and (d) shall apply to securities held

by a person in any trade or business with respect to which an election under this paragraph is in effect. Subsection (d)(3) shall not apply under the preceding sentence for purposes of applying sections 1402 and 7704.

(2) Traders in commodities

In the case of a person who is engaged in a trade or business as a trader in commodities and who elects to have this paragraph apply to such trade or business, paragraph (1) shall apply to commodities held by such trader in connection with such trade or business in the same manner as paragraph (1) applies to securities held by a trader in securities.

(3) Election

The elections under paragraphs (1) and (2) may be made separately for each trade or business and without the consent of the Secretary. Such an election, once made, shall apply to the taxable year for which made and all subsequent taxable years unless revoked with the consent of the Secretary.

(g) Regulatory authority

The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out the purposes of this section, including rules—

(1) to prevent the use of year-end transfers, related parties, or other arrangements to avoid the provisions of this section,

(2) to provide for the application of this section to any security which is a hedge which cannot be identified with a specific security, position, right to income, or liability, and

(3) to prevent the use by taxpayers of subsection (c)(4) to avoid the application of this section to a receivable that is inventory in the hands of the taxpayer (or a person who bears a relationship to the taxpayer described in section 267(b) or 707(b)).

(Added Pub. L. 103-66, title XIII, §13223(a), Aug. 10, 1993, 107 Stat. 481; amended Pub. L. 105-34, title X, §1001(b), Aug. 5, 1997, 111 Stat. 906; Pub. L. 105-206, title VI, §6010(a)(3), title VII, §7003(a), (b), July 22, 1998, 112 Stat. 813, 832; Pub. L. 106-170, title V, §532(b)(1), Dec. 17, 1999, 113 Stat. 1930; Pub. L. 106-554, §1(a)(7) [title III, §319(4)], Dec. 21, 2000, 114 Stat. 2763, 2763A-646; Pub. L. 107-147, title IV, §417(10), Mar. 9, 2002, 116 Stat. 56.)

AMENDMENTS

2002—Subsec. (g)(3). Pub. L. 107-147 substituted “described in section” for “described in sections”.

2000—Subsec. (g)(3). Pub. L. 106-554 substituted “267(b) or” for “267(b) of”.

1999—Subsec. (c)(3). Pub. L. 106-170 substituted “manages” for “reduces”.

1998—Subsec. (c)(4). Pub. L. 105-206, §7003(a), added par. (4).

Subsec. (f)(1)(D). Pub. L. 105-206, §6010(a)(3), inserted at end “Subsection (d)(3) shall not apply under the preceding sentence for purposes of applying sections 1402 and 7704.”

Subsec. (g)(3). Pub. L. 105-206, §7003(b), added par. (3).

1997—Subsecs. (e) to (g). Pub. L. 105-34 added subsecs. (e) and (f) and redesignated former subsec. (e) as (g).

EFFECTIVE DATE OF 1999 AMENDMENT

Amendment by Pub. L. 106-170 applicable to any instrument held, acquired, or entered into, any trans-

action entered into, and supplies held or acquired on or after Dec. 17, 1999, see section 532(d) of Pub. L. 106-170, set out as a note under section 170 of this title.

EFFECTIVE DATE OF 1998 AMENDMENT

Amendment by section 6010(a)(3) of Pub. L. 105-206 effective, except as otherwise provided, as if included in the provisions of the Taxpayer Relief Act of 1997, Pub. L. 105-34, to which such amendment relates, see section 6024 of Pub. L. 105-206, set out as a note under section 1 of this title.

Pub. L. 105-206, title VII, §7003(c), July 22, 1998, 112 Stat. 833, provided that:

“(1) IN GENERAL.—The amendments made by this section [amending this section] shall apply to taxable years ending after the date of the enactment of this Act [July 22, 1998].

“(2) CHANGE IN METHOD OF ACCOUNTING.—In the case of any taxpayer required by the amendments made by this section to change its method of accounting for its first taxable year ending after the date of the enactment of this Act—

“(A) such change shall be treated as initiated by the taxpayer;

“(B) such change shall be treated as made with the consent of the Secretary of the Treasury; and

“(C) the net amount of the adjustments required to be taken into account by the taxpayer under section 481 of the Internal Revenue Code of 1986 shall be taken into account ratably over the 4-taxable-year period beginning with such first taxable year.”

EFFECTIVE DATE OF 1997 AMENDMENT

Pub. L. 105-34, title X, §1001(d), Aug. 5, 1997, 111 Stat. 907, as amended by Pub. L. 105-206, title VI, §6010(a)(4), July 22, 1998, 112 Stat. 813, provided that:

“(1) IN GENERAL.—Except as otherwise provided in this subsection, the amendments made by this section [enacting section 1259 of this title and amending this section] shall apply to any constructive sale after June 8, 1997.

“(2) EXCEPTION FOR SALES OF POSITIONS, ETC. HELD BEFORE JUNE 9, 1997.—If—

“(A) before June 9, 1997, the taxpayer entered into any transaction which is a constructive sale of any appreciated financial position, and

“(B) before the close of the 30-day period beginning on the date of the enactment of this Act [Aug. 5, 1997] or before such later date as may be specified by the Secretary of the Treasury, such transaction and position are clearly identified in the taxpayer's records as offsetting,

such transaction and position shall not be taken into account in determining whether any other constructive sale after June 8, 1997, has occurred. The preceding sentence shall cease to apply as of the date such transaction is closed or the taxpayer ceases to hold such position.

“(3) SPECIAL RULE.—In the case of a decedent dying after June 8, 1997, if—

“(A) there was a constructive sale on or before such date of any appreciated financial position,

“(B) the transaction resulting in such constructive sale of such position remains open (with respect to the decedent or any related person)—

“(i) for not less than 2 years after the date of such transaction (whether such period is before or after June 8, 1997), and

“(ii) at any time during the 3-year period ending on the date of the decedent's death, and

“(C) such transaction is not closed before the close of the 30th day after the date of the enactment of this Act,

then, for purposes of such Code [probably means the Internal Revenue Code of 1986], such position (and the transaction resulting in such constructive sale) shall be treated as property constituting rights to receive an item of income in respect of a decedent under section 691 of such Code. Section 1014(c) of such Code shall not

apply to so much of such position's or property's value (as included in the decedent's estate for purposes of chapter 11 of such Code) as exceeds its fair market value as of the date such transaction is closed.

“(4) ELECTION OF MARK TO MARKET BY SECURITIES TRADERS AND DEALERS IN COMMODITIES.—

“(A) IN GENERAL.—The amendments made by subsection (b) [amending this section] shall apply to taxable years ending after the date of the enactment of this Act.

“(B) 4-YEAR SPREAD OF ADJUSTMENTS.—In the case of a taxpayer who elects under subsection (e) or (f) of section 475 of the Internal Revenue Code of 1986 (as added by this section) to change its method of accounting for the taxable year which includes the date of the enactment of this Act—

“(i) any identification required under such subsection with respect to securities and commodities held on the date of the enactment of this Act shall be treated as timely made if made on or before the 30th day after such date of enactment, and

“(ii) the net amount of the adjustments required to be taken into account by the taxpayer under section 481 of such Code shall be taken into account ratably over the 4-taxable year period beginning with such first taxable year.”

EFFECTIVE DATE

Pub. L. 103-66, title XIII, §13223(c), Aug. 10, 1993, 107 Stat. 484, provided that:

“(1) IN GENERAL.—The amendments made by this section [enacting this section and amending section 988 of this title] shall apply to all taxable years ending on or after December 31, 1993.

“(2) CHANGE IN METHOD OF ACCOUNTING.—In the case of any taxpayer required by this section to change its method of accounting for any taxable year—

“(A) such change shall be treated as initiated by the taxpayer,

“(B) such change shall be treated as made with the consent of the Secretary, and

“(C) except as provided in paragraph (3), the net amount of the adjustments required to be taken into account by the taxpayer under section 481 of the Internal Revenue Code of 1986 shall be taken into account ratably over the 5-taxable year period beginning with the first taxable year ending on or after December 31, 1993.

“(3) SPECIAL RULE FOR FLOOR SPECIALISTS AND MARKET MAKERS.—

“(A) IN GENERAL.—If—

“(i) a taxpayer (or any predecessor) used the last-in first-out (LIFO) method of accounting with respect to any qualified securities for the 5-taxable year period ending with its last taxable year ending before December 31, 1993, and

“(ii) any portion of the net amount described in paragraph (2)(C) is attributable to the use of such method of accounting,

then paragraph (2)(C) shall be applied by taking such portion into account ratably over the 15-taxable year period beginning with the first taxable year ending on or after December 31, 1993.

“(B) QUALIFIED SECURITY.—For purposes of this paragraph, the term ‘qualified security’ means any security acquired—

“(i) by a floor specialist (as defined in section 1236(d)(2) of the Internal Revenue Code of 1986) in connection with the specialist's duties as a specialist on an exchange, but only if the security is one in which the specialist is registered with the exchange, or

“(ii) by a taxpayer who is a market maker in connection with the taxpayer's duties as a market maker, but only if—

“(I) the security is included on the National Association of Security Dealers Automated Quotation System,

“(II) the taxpayer is registered as a market maker in such security with the National Association of Security Dealers, and

“(III) as of the last day of the taxable year preceding the taxpayer’s first taxable year ending on or after December 31, 1993, the taxpayer (or any predecessor) has been actively and regularly engaged as a market maker in such security for the 2-year period ending on such date (or, if shorter, the period beginning 61 days after the security was listed in such quotation system and ending on such date).”

PART III—ADJUSTMENTS

- Sec.
481. Adjustments required by changes in method of accounting.
482. Allocation of income and deductions among taxpayers.
483. Interest on certain deferred payments.

AMENDMENTS

1964—Pub. L. 88-272, title II, §224(b), Feb. 26, 1964, 78 Stat. 79, added item 483.