

(Rev. November 2018)  
Department of the Treasury  
Internal Revenue Service▶ **Attach to Form 1120, 1120-C, 1120-F, 1120S, or 1065.**  
▶ **Go to [www.irs.gov/Form1125A](http://www.irs.gov/Form1125A) for the latest information.**

Name		Employer identification number	
<b>1</b>	Inventory at beginning of year . . . . .	<b>1</b>	
<b>2</b>	Purchases . . . . .	<b>2</b>	
<b>3</b>	Cost of labor . . . . .	<b>3</b>	
<b>4</b>	Additional section 263A costs (attach schedule) . . . . .	<b>4</b>	
<b>5</b>	Other costs (attach schedule) . . . . .	<b>5</b>	
<b>6</b>	<b>Total.</b> Add lines 1 through 5 . . . . .	<b>6</b>	
<b>7</b>	Inventory at end of year . . . . .	<b>7</b>	
<b>8</b>	<b>Cost of goods sold.</b> Subtract line 7 from line 6. Enter here and on Form 1120, page 1, line 2 or the appropriate line of your tax return. See instructions . . . . .	<b>8</b>	

**9a** Check all methods used for valuing closing inventory:

(i) ☐ Cost

(ii) ☐ Lower of cost or market

(iii) ☐ Other (Specify method used and attach explanation.) ▶ \_\_\_\_\_

**b** Check if there was a writedown of subnormal goods . . . . . ▶ ☐

**c** Check if the LIFO inventory method was adopted this tax year for any goods (if checked, attach Form 970) . . . . . ▶ ☐

**d** If the LIFO inventory method was used for this tax year, enter amount of closing inventory computed under LIFO . . . . . **9d** \_\_\_\_\_

**e** If property is produced or acquired for resale, do the rules of section 263A apply to the entity? See instructions . . . ☐ Yes ☐ No

**f** Was there any change in determining quantities, cost, or valuations between opening and closing inventory? If "Yes," attach explanation . . . . . ☐ Yes ☐ No

Section references are to the Internal Revenue Code unless otherwise noted.

## What's New

**Small business taxpayers.** For tax years beginning after December 31, 2017, the following apply.

- A small business taxpayer (defined below), may use a method of accounting for inventories that either: (1) treats inventories as nonincidental materials and supplies, or (2) conforms to the taxpayer's financial accounting treatment of inventories.
- A small business taxpayer is not required to capitalize costs under section 263A.

## General Instructions

### Purpose of Form

Use Form 1125-A to calculate and deduct cost of goods sold for certain entities.

### Who Must File

Filers of Form 1120, 1120-C, 1120-F, 1120S, or 1065, must complete and attach Form 1125-A if the applicable entity reports a deduction for cost of goods sold.

### Inventories

Generally, inventories are required at the beginning and end of each tax year if the production, purchase, or sale of

merchandise is an income-producing factor. See Regulations section 1.471-1. If inventories are required, you generally must use an accrual method of accounting for sales and purchases of inventory items.

**Exception for certain taxpayers.** A small business taxpayer (defined below), can adopt or change its accounting method to account for inventories in the same manner as material and supplies that are non-incidental, or conform to its treatment of inventories in an applicable financial statement (as defined in section 451(b)(3)), or if it does not have an applicable financial statement, the method of accounting used in its books and records prepared in accordance with its accounting procedures. See section 471(c)(3).

A small business taxpayer claiming exemption from the requirement to keep inventories is changing its method of accounting for purposes of section 481. For additional guidance on this method of accounting, see Pub. 538, Accounting Periods and Methods. For guidance on changing to this method of accounting, see Form 3115 and the Instructions for Form 3115.

**Small business taxpayer.** A small business taxpayer is a taxpayer that (a) has average annual gross receipts of \$25 million or less (indexed for inflation) for the 3 prior tax years, and (b) is not a tax shelter (as defined in section 448(d)(3)). See Pub. 538.

**Uniform capitalization rules.** The uniform capitalization rules of section 263A generally require you to capitalize, or include in inventory, certain costs incurred in connection with the following.

- The production of real property and tangible personal property held in inventory or held for sale in the ordinary course of business.
- Real property or personal property (tangible and intangible) acquired for resale.
- The production of real property and tangible personal property for use in its trade or business or in an activity engaged in for profit.

A small business taxpayer (defined above) is not required to capitalize costs under section 263A. See section 263A(i).

See the discussion on section 263A uniform capitalization rules in the instructions for your tax return before completing Form 1125-A. Also see Regulations sections 1.263A-1 through 1.263A-3. See Regulations section 1.263A-4 for rules for property produced in a farming business.