current period, such portion being based upon the percentage of completion, as determined by an engineer's or an architect's estimate or such other records as will most clearly reflect the income realized to date. By this method the difference between the sales thus determined and the total cost applicable to the sales is treated as taxable income.

(2) The profit on jobs taken on a cost plus basis and uncompleted at the close of a taxable year should be computed in accordance with the terms of the contract and reported at that time, and cannot be deferred until the year in which the contract is completed.

(3) The income derived from construction contracts performed in Wisconsin is taxable. Records must be kept which will permit of a proper distribution of the tax paid on such income between taxation districts. Data must be submitted with the tax return indicating the basis for the distribution of the tax between taxation districts.

Tax 2.22 Accounting for dealers in securities. (Section 71.11 (8), Wis. Stats.) The income of dealers in securities can be properly reflected for income tax purposes only by use of the accrual method of accounting. As securities constitute the stock in trade, the inventories thereof must be taken consistently on a uniform basis conforming to that used in the trade or business.

Tax 2.23 Accounting for farmers and dairymen. (Section 71.11 (8), Wis. Stats.) Any method of accounting that properly reflects the taxable income may be used by farmers and dairymen, but the method selected must be consistently followed.

Commonly, one of two methods of determining net income is used:

1. Cash receipts in excess of deductible cash disbursements for the year.
2. Increase in year-end inventory of stock and produce added to net revenues for the year.

Tax 2.24 Accounting for retail merchants. (Section 71.11 (8), Wis. Stats.) The "retail method" of treating inventories properly reflects the taxable income and will be acceptable when it is consistently followed and adequate records are kept. The difference between the inventory taken on the old basis and the inventory taken on the basis of the "retail method" will constitute taxable income or deductible expense for the year in which the change is made. Retail merchants should report all other items of income and expense upon the ordinary accrual method.

Tax 2.25 Accounting generally. (Sections 71.11 (8) and 71.11 (9), Wis. Stats.) (1) In a business requiring the use of inventories, the income therefrom generally can be properly reflected by use of the accrual method of accounting, and inventories taken in accordance with the best accounting practice in the trade or business and used by the taxpayer to show his financial position can be accepted.

(a) Except as other methods of inventorying are recognized in these rules, the two most commonly used bases in valuing inventories are (1) cost and (2) cost or market, whichever is lower.

(b) Whether the cost or the lower of cost or market basis of valuing inventories is used, the basis adopted must be applied with reasonable consistency to the entire inventory, and no change from one basis to the other will be permitted without written permission from the tax commissioner or assessor of incomes.

(2) Inventories and inventory records must be preserved as a part of the accounting records of the taxpayer and available for examination and verification.

Tax 2.26 "Last in, first out" method of inventorying. (Section 71.11 (9), Wis. Stats.) Any person permitted or required to take inventories pursuant to the provisions of section 71.11 (9), Wis. Stats., may elect with respect to those goods specified in his application and properly subject to inventory to compute his inventory in accordance with the method provided by section 472 of the United States internal revenue code, provided that:

(1) The first inventory which may be computed on said basis is the closing inventory for the taxable year 1940.

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(2) The same basis of inventorying is used in reporting income for taxation to the United States bureau of internal revenue, and that the inventories used in reporting income to the United States bureau of internal revenue and to the Wisconsin department of taxation agree both as to computation and amounts,

(3) Except as herein otherwise provided, the change to and the use of such method of inventorying shall be subject to and conditioned upon all of the regulations promulgated with respect thereto by the United States bureau of internal revenue.

(4) An application to use such method must be filed with the Wisconsin department of taxation in substantially the same form as required by the bureau of internal revenue, and the same shall be filed with the return for the taxable year in which the change is to be made effective. The opening inventory for the period in which the election to change is exercised shall be taken on the basis previously accepted and approved.

(5) There shall be applicable for Wisconsin income tax purposes, in addition to those regulations of the United States bureau of internal revenue made generally applicable by section (3) hereof, that regulation, authorized by section 1321 of the internal revenue code, concerning involuntary liquidation and replacement of inventories, except, however, that income adjustments for the difference between the replacement cost and the original inventory cost of the base stock inventory liquidated shall be made to the net income of the year in which the replacement is made instead of to the net income for the year of liquidation. ((5) effective June 5, 1946).

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(6) Any person who has been computing his inventory for Wisconsin income tax purposes in accordance with Section 472 of the United States internal revenue code and who has been authorized or directed by the United States commissioner of internal revenue to change his method of inventory valuation for federal income tax purposes shall also change his method of inventory valuation for Wisconsin income tax purposes. To correlate his Wisconsin basis with the federal basis, the opening inventory for the income year in which the change is made shall be reported on the basis previously accepted and approved whereas the closing inventory shall be on the new method of valuation. No adjustment is to be made to the closing inventory of the preceding taxable year. Notice of the change in method shall be filed with the return on which it is effective and shall be supported by a copy of the authorization or order to change inventory method for federal income tax purposes.