

otherwise complies with the requirements of this section.

Example 10. Safe harbor 3: Modified Black Motor method. (i) J uses the modified Black Motor method described in paragraph (e)(4) of this section. J's total accounts receivable and bad debt experience for the current taxable year (2002) and the five preceding taxable years are as follows:

Taxable year	Accounts receivable at end of taxable year	Bad debts (adjusted for recoveries)
1997	\$130,000	\$9,100
1998	140,000	7,000
1999	140,000	14,000
2000	160,000	14,400
2001	170,000	20,400
2002	180,000	10,800
Total	\$920,000	\$75,700

(ii) Thus, J's Black Motor moving average percentage is 8.228% (\$75,700/\$920,000). Assume that the credit charges (accounts receivable) generated and written off during the current taxable year were \$3,600. J's modified Black Motor amount is \$11,210, computed by multiplying J's accounts receivable at December 31, 2002 (\$180,000) by the Black Motor moving average percentage of .08228 and reducing the resulting amount by \$3,600 (J's credit charges (accounts receivable) generated and written

off during the 2002 taxable year). Thus, J may exclude \$11,210 from gross income for 2002.

Example 11. Safe harbor 4: Modified six-year moving average method. (i) The facts are the same as *Example 10*, except that J uses the modified six-year moving average method described in paragraph (e)(5) of this section. Assume further that the credit charges (accounts receivable) that were written off in the same taxable year they were generated, adjusted for recoveries of bad debts during such period are as follows:

Taxable Year	Credit charges written off in same taxable year as generated (adjusted for recoveries)
1997	\$3,033
1998	2,333
1999	4,667
2000	4,800
2001	6,800
2002	3,600
Total	\$25,233

(ii) Thus, J's modified six-year moving average percentage is 5.486% ((\$75,700—\$25,233)/\$920,000). J's modified six-year moving average amount is \$9,875, computed by multiplying J's accounts receivable at

December 31, 2002 (\$180,000) by the modified six-year moving average percentage of .05486. Thus, J may exclude \$9,875 from gross income for 2002.

Example 12. Selection of a safe harbor method. (i) Beginning in 2002, K is eligible to use a nonaccrual-experience method and wishes to adopt an alternative nonaccrual-experience method similar to the method described in *Black Motor Co. v. Comm'r*, 41 B.T.A. 300 (1940), aff'd, 125 F.2d 977 (6th Cir. 1942). Pursuant to paragraph (e)(6)(ii) of this section, K must self-test its alternative nonaccrual-experience method for the first taxable year it is used (2002), and every three taxable years thereafter for which K uses its alternative nonaccrual-experience method. Pursuant to paragraph (e)(6)(iii) of this section, K selects safe harbor 2 (actual experience method) for purposes of conducting its first year self-test. Thus, beginning in 2002, K must begin tracking its beginning-of-year accounts receivable and computing its actual nonaccrual-experience as provided in paragraph (e)(3) of this section. However, because K lacks the data to use Option A (three-year moving average) under paragraph (e)(3)(i) of this section, K selects Option B (up to three-year moving average) under paragraph (e)(3)(ii) of this section. K's actual nonaccrual-experience amount and alternative nonaccrual-experience amount for 2002 are set forth below:

Taxable year	Total A/R balance at beginning of year	Beginning A/R amount charged off by determination date (adjusted for recoveries)	Alternative nonaccrual-experience amount
2002	\$350,000	\$14,000	\$20,700

(ii) K's ending A/R Balance on 12/31/2002 is \$500,000. K's actual nonaccrual-experience percentage is 4%, determined by dividing the amount of K's receivables in its account on January 1, 2002, that were charged off as uncollectible (adjusted for recoveries) on or before the determination date, by the balance of K's accounts receivable account on January 1, 2002 (*i.e.*, \$14,000/\$350,000 or 4%). Thus, K's actual nonaccrual-experience amount for 2002 is determined by multiplying this percentage by the balance of K's accounts receivable account on December 31, 2002

(*i.e.*, \$500,000 × 4% = \$20,000). Because K's alternative nonaccrual-experience amount for 2002 (\$20,700) is not greater than 105% of its actual nonaccrual-experience amount for 2002 (*i.e.*, \$20,000 × 1.05 = \$21,000), pursuant to paragraph (e)(6)(iv) of this section, K's alternative nonaccrual-experience method will be treated as clearly reflecting its nonaccrual-experience for the test period 2002. Pursuant to paragraph (e)(6)(iv)(B) of this section, K may continue to use its alternative nonaccrual-experience method. Additionally, pursuant to paragraph

(e)(6)(iv)(B) of this section, K is required to self-test its alternative nonaccrual-experience method again in 2006, for taxable years 2003 through 2005 and, pursuant to paragraph (e)(6)(iii)(B) of this section, K must self-test its alternative nonaccrual-experience method against the actual experience method when conducting its three year self-test in 2006.

Example 13. (i) The facts are the same as *Example 12*. K's alternative nonaccrual-experience amounts for taxable years 2003–2005 are as follows:

Taxable Year	Total A/R balance at beginning of year	Beginning A/R amount charged off by determination date (adjusted for recoveries)	Actual nonaccrual-experience amount	Alternative nonaccrual-experience amount
2003	\$440,000	\$30,000	\$42,329	\$43,050
2004	760,000	65,000	138,183	140,200
2005	1,965,000	65,000	101,106	110,550
Total	\$3,165,000	\$160,000	\$281,618	\$293,800