The arguments in that case in favor of treating prepaid insurance as an ordinary and necessary business expense are persuasive. **** Advance rentals, payments of bonuses for acquisition and cancellation of leases, and commissions for negotiating leases are all matters which the taxpayer amortizes over the life of the lease. Whether we consider these payments to be the cost of the exhaustible asset, as in the case of advance rentals, or the cost of acquiring the asset, as in the case of bonuses, the payments are prorated primarily because the life of the asset extends beyond the taxable year. To permit the taxpayer to take a full deduction in the year of payment would distort his income. Prepaid insurance presents the same problem and should be solved in the same way. Prepaid insurance for a period of three years may be easily allocated. 

The line to be drawn between capital expenditures and ordinary and necessary business expenses is not always an easy one, but we are satisfied that in treating prepaid insurance as a capital expense we are obtaining some degree of consistency in these matters. We are, therefore, of the opinion that Welch v. DeBlois, supra, is incorrect and should be overruled. ****

What is amazing is that the government argued for deduction on payment!

Anyway, this is settled law since 1942.

Notice the pro rata – straight line – amortization.

Is this economically best?

Actually, it favors the taxpayer. Compare this to the 467(f) method of amortizing pre-paid rent, which would effectively result in an upward sloping curve, rather than a straight line.