

What are the alternative tax years available to a corporation? What factors should be considered in electing the tax year?

Tax years are established when the business is formed. The corporation can adopt either the calendar or fiscal year. Their annual accounting period has to be the same. The election is made by filing the first tax return for the tax year chosen. The fiscal year is a 12-month period ending on the last day of any month other than December (as that would be the same as a calendar year). The calendar year is from January 1 to December 31 (as the name implies).

The first tax return for the tax year chosen will likely be a partial-year. This is called a short-period tax return, and is filed for the onset or last year of the corporation's life when the beginning or end involves a less than 12-month period for the tax year (p. 3-2).

S corporations use a calendar year and the consolidated return that includes subsidiaries must use the same year. The subsidiaries might use different tax years, but they must be adjusted when the consolidated workpaper is prepared to match the tax year of the parent company. Personal service corporations (PSC) also use a calendar year. PSCs are defined as corporations whose employees-owners own more than 10% of stock on any day of the year and the principle activity is providing personal services. The PSC can adopt a fiscal year if it establishes a business purpose. For example, a ski resort would have a natural business year that ends early in the spring.

If a company wants to change the accounting period, they must have approval from the IRS and file a Form 1128 on or before the 15<sup>th</sup> day of the second calendar month following the close of the short period (p. 3-4).

## Response 2

Tax year changes will be granted if there is a substantial business purpose (p. 3-4). Examples of where prior approval is not needed include cases where the corporation

- has had no changes to accounting periods within the 48 months
- files a short-period tax return and annualizes the income for computing tax for the short period
- is not an S corporation, PSC, tax-exempt organization or a specialized corporation
- does not have an interest in a pass-through entity as of the end of the short period