

Part III

Administrative, Procedural and Miscellaneous

26 CFR 601.204: Changes in accounting periods and in methods of accounting.

(Also Part I, §§ 442, 706, 898, 1502; 1.442-1, 1.706-1T, 1.1502-76.)

Rev. Proc. 2000-11

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SECTION 1. PURPOSE

This revenue procedure provides procedures by which certain corporations may obtain automatic approval to change their annual accounting periods under § 442 of the Internal Revenue Code. This revenue procedure modifies, amplifies, and supersedes Rev. Proc. 92-13, 1992-1 C.B. 665. A corporation complying with all the applicable provisions of this revenue procedure has obtained the consent of the Commissioner of the Internal Revenue Service to change its annual accounting period under § 442 and the Income Tax Regulations thereunder.

SECTION 2. BACKGROUND

.01 Section 1.442-1(a)(1) of the Income Tax Regulations provides that if a taxpayer wishes to change its annual accounting period (as defined in § 441(c)) and adopt a new taxable year (as defined in § 441(b)), it must obtain prior approval from the Commissioner.

.02 Section 1.442-1(b)(1) provides that in order to secure prior approval of a change of a taxpayer's annual accounting period, the taxpayer must file an application on Form 1128, Application to Adopt, Change, or Retain a Tax Year, with the Commissioner on or before the 15th day of the second calendar month following the close of the short taxable year required to effect the change. Section 1.442-1(b)(1) also provides that approval will not be granted unless the taxpayer and the Commissioner agree to the terms, conditions, and adjustments under which the change will be effected.

.03 Section 1.442-1(c) provides a special rule whereby certain corporations may change their annual accounting periods without the prior approval of the Commissioner. Rev. Proc. 92-13 also provided procedures whereby certain corporations that did not satisfy the conditions of § 1.442-1(c) could obtain expeditious approval of a change of their annual accounting period.

.04 Section 1.443-1(b)(1)(i) provides that if a return is made for a short period resulting from a change of an annual accounting period, the taxable income for the short period must be placed on an annual basis by multiplying the income by 12 and dividing the result by the number of months in the short period. Unless §§ 443(b)(2) and 1.443-1(b)(2) apply, the tax for the short period is the same part of the tax computed on an annual basis as the number of months in the short period is of 12 months.

.05 Sections 1.852-3(e) and 1.857-2(a)(4) provide that the taxable income of a regulated investment company (RIC) and a real estate investment trust (REIT) are computed without regard to § 443(b). Thus, taxable income for a period of less than 12 months is not placed on an annual basis even though such short taxable year results from a change of annual accounting period.

SECTION 3. SIGNIFICANT CHANGES

Significant changes to Rev. Proc. 92-13 made by this revenue procedure include:

.01 Section 4.01(2) provides that this revenue procedure applies to a corporation that wants to change from a 52-53-week taxable year to a taxable year that ends with reference to the same month, and vice versa;

.02 Section 4.01(3) adds a provision whereby a controlled foreign corporation (CFC) may revoke its one-month deferral election under § 898(c)(1)(B) and automatically change its taxable year to the majority United States shareholder year (as defined in § 898(c)(1)(C));

.03 Section 4.02(1) provides certain exceptions to the 6-year waiting period between automatic period changes, such as for changes to or from a 52-53-week taxable year referencing the same month;

.04 Section 4.02(2) adds three exceptions to the scope restrictions applicable to an automatic period change for a corporation that is a member of a partnership or a beneficiary of a trust or estate;

.05 Section 4.02(3) adds two exceptions to the scope restrictions applicable to an automatic period change for a corporation that is a shareholder of a foreign sales corporation (FSC) or an interest charge domestic international sales corporation (IC-DISC);

.06 Section 4.02(6) eliminates the prohibition of an automatic period change for a corporation making an S corporation election effective for the taxable year immediately following a change in

accounting period, provided the corporation is changing to a permitted S corporation taxable year;

.07 Section 4.02(14) modifies the scope restriction for a cooperative association with a loss in the short period required to effect the change to allow an otherwise automatic change if the patrons of the cooperative association remain substantially the same before and after the accounting period change; and

.08 Section 5.06 deletes the requirement that a net operating loss (NOL) in the short period required to effect the change must be deducted ratably over 6 years. Further, section 5.06 increases (from \$10,000 to \$50,000) the exception to the general rule proscribing a carryback of a short period NOL.

SECTION 4. SCOPE

.01 *Applicability.* (1) *In general.* This revenue procedure applies to a corporation requesting consent to change its annual accounting period. The common parent of a consolidated group may change the group's annual accounting period under this revenue procedure if every member of the consolidated group meets all the requirements and complies with all the conditions of this revenue procedure.

(2) *52-53-week year.* Notwithstanding section 4.02 of this revenue procedure, this revenue procedure applies to a

corporation (including a member of a consolidated group) that wants to change from a 52-53-week taxable year to a taxable year that ends with reference to the same month, and vice versa.

(3) *Section 898 election.* Notwithstanding section 4.02 of this revenue procedure, this revenue procedure applies to a CFC (as defined in § 957) that wants to revoke its one-month deferral election under § 898(c)(1)(B) and change its taxable year to the majority U.S. shareholder year (as defined in § 898(c)(1)(C)).

.02 *Inapplicability.* This revenue procedure does not apply to a corporation that:

(1) has changed its annual accounting period at any time within the 6 calendar years ending with the calendar year that includes the beginning of the short period required to effect the change. For this purpose, the following changes will not be considered a change in annual accounting period:

(a) a change in accounting period by a subsidiary to its common parent's taxable year in order to comply with the common taxable year requirement of § 1.1502-76(a)(1). See § 1.442-1(d);

(b) any prior change in accounting period by a majority-owned, newly acquired subsidiary that wants to change to the taxable year of its domestic or foreign parent with which it

does not file consolidated tax returns in order to file consolidated financial statements, provided the change is made within 12 months of the acquisition. For purposes of this subsection, "majority-owned" means ownership that satisfies the test of § 1504(a)(2), substituting "more than 50 percent" for "at least 80 percent;"

(c) a change from a 52-53-week taxable year to a taxable year that ends with reference to the same month, and vice versa;

(2) is a member of a partnership or a beneficiary of a trust or an estate (collectively referred to as "pass-through entities") as of the end of the short period. However, an interest in a pass-through entity will be disregarded for this purpose if any of the following conditions are met:

(a) the partnership in which the corporation is a majority interest partner (*i.e.*, a partner having an interest in the partnership's profits and capital of more than 50 percent) would be required to change its taxable year pursuant to § 706(b) to the new taxable year of the corporation. See section 5.08 of this revenue procedure for a special term and condition related to this exception;

(b) the new taxable year of the corporation would result in no change in or less deferral (as described in § 1.706-1T(a)(2)) from the pass-through entity than the present taxable year of the corporation. If the pass-through entity is a partnership, the corporation should compare the existing deferral period (between the partnership's and the corporation's current taxable years) with the new deferral period (between the taxable year of the partnership that would be required under § 706 and the corporation's new taxable year). See section 4.04 of this revenue procedure for an example of this rule; or

(c) for pass-through entities not qualifying for the exceptions in either section 4.02(a) or 4.02(b) of this revenue procedure, the pass-through entity in which the corporation has an interest has been in existence for at least 3 taxable years and the interest is de minimis. For this purpose, an interest in a pass-through entity is de minimis only if:

(i) for each of the prior 3 taxable years of the corporation, the amount of income (including ordinary income or loss, capital gains or losses, rents, royalties, interest, or dividends) from such pass-through entity is less than or equal to (A) 5 percent of the corporation's gross receipts (or, in the case of a member of a consolidated group, the consolidated

group's gross receipts) for those taxable years, and (B) \$500,000; and

(ii) the amount of income from all such pass-through entities in the aggregate is less than or equal to the amounts described in (A) and (B) above. See section 4.04 of this revenue procedure for an example of this rule;

(3) is a shareholder of a FSC or IC-DISC, as of the end of the short period. However, an interest in a FSC or IC-DISC is disregarded if either of the following conditions is met:

(a) the FSC or IC-DISC in which the corporation is the principal shareholder (*i.e.*, the shareholder with the highest percentage of voting power as defined in § 441(h)) would be required to change its taxable year pursuant to §§ 1.921-1T(b)(4) and (b)(6) to the new taxable year of the corporation. See section 5.08 of this revenue procedure for a special term and condition related to this exception; or

(b) the new taxable year of the corporation would result in no change in or less deferral of income (as determined under the principles of § 1.706-1T(a)(2)) from the FSC or IC-DISC than the present taxable year of the corporation;

(4) is a FSC or an IC-DISC. See § 1.921-1T(b)(4) for rules regarding automatic changes of the annual accounting period

of a FSC or IC-DISC to the taxable year of its principal shareholder;

(5) is an S corporation (as defined in § 1361). See Rev. Proc. 87-32 for procedures to follow for certain automatic changes in the annual accounting period of an S corporation;

(6) attempts to make an S corporation election for the taxable year immediately following the short period, unless the change is to a permitted S corporation year. For this purpose, a "permitted S corporation year" includes a calendar year, a taxable year permitted under § 444, or an ownership taxable year or natural business year (as defined in Rev. Proc. 87-32, 1987-2 C.B. 396);

(7) is a personal service corporation (as defined in § 441(i)). See Rev. Proc. 87-32 for procedures to follow for certain automatic changes in the annual accounting period of a personal service corporation;

(8) is a CFC (as defined in § 957) or a foreign personal holding company (FPHC) (as defined in § 552);

(9) is a shareholder of a CFC or FPHC. However, an interest in a CFC or FPHC is disregarded if the shareholder is the majority U.S. shareholder (*i.e.*, the shareholder that meets the ownership requirement of § 898(b)(2)(A)) and the CFC or FPHC

would be required to change its taxable year to the new taxable year of the shareholder. See section 5.08 of this revenue procedure for a special term and condition related to this exception;

(10) is a tax-exempt organization, other than an organization exempt from federal income tax under § 521, 526, 527, or 528. See Rev. Proc. 85-58, 1985-2 C.B. 740, for procedures to follow in changing an annual accounting period for a tax-exempt organization not meeting the scope of this revenue procedure;

(11) is a direct or indirect shareholder of a passive foreign investment company (PFIC) that is a qualified electing fund (within the meaning of § 1295) with respect to the shareholder;

(12) is a PFIC that U.S. persons (who own directly or indirectly, in the aggregate, 10 percent or more of the company) elected under § 1295 to treat as a qualified electing fund;

(13) is a corporation which has in effect an election under § 936; or

(14) is a cooperative association (within the meaning of § 1381(a)) with a loss in the short period required to effect the change of annual accounting period, unless all the patrons of the

cooperative association are substantially the same in the year before the change of annual accounting period, in the short period required to effect the change, and in the year following the change. For purposes of this subsection, "substantially the same" means that ownership of more than 90 percent of the cooperative association's stock is owned by the same members.

.03 *Nonautomatic changes.* Corporations that are unable to use the automatic provisions of this revenue procedure must secure prior approval from the Commissioner for a change in an accounting period pursuant to § 442 and the regulations thereunder.

.04 *Examples.*

(1) *Example 1.* (i) Corporations V, W, X, Y, and Z hold equal 20 percent interests in the capital and profits of partnership ABC. V and W are calendar year taxpayers. X and Y have a taxable year ending June 30, and Z has a taxable year ending September 30. ABC does not have a business purpose for a particular taxable year, and thus, pursuant to § 1.706-1T, ABC is required to use a taxable year ending June 30 because that taxable year results in the least aggregate deferral of income to its partners. Z currently has a 3-month deferral period (the number of months from the end of ABC's taxable year to the end of

Z's taxable year). Z wants to change its taxable year to a calendar year.

(ii) If Z changes its taxable year to a calendar year, ABC would be required to change its taxable year under § 706 to its majority interest taxable year, which is the calendar year. As a result of Z's new taxable year and ABC's new taxable year, Z's deferral period would be eliminated. Because Z's new taxable year would reduce Z's deferral, Z may disregard its interest in ABC under section 4.02(2)(b) of this revenue procedure.

(2) *Example 2.* (i) Corporation X, a calendar year taxpayer, wants to change its tax year to a year ending June 30. X has interests in five partnerships, ABC, DEF, GHI, JKL, and MNO. All of the partnerships have been in existence for over three taxable years. X's interests in each of ABC and DEF is greater than 50 percent. X's interest in GHI, JKL, and MNO is 15 percent, 10 percent, and 5 percent, respectively. GHI uses the majority interest taxable year ending May 31 and JKL and MNO each use their respective majority interest taxable year ending December 31. X's distributive share of income/(loss) from JKL for the prior three taxable years is \$300,000, \$(100,000), and \$200,000, respectively, and from MNO is \$300,000, \$200,000, and

\$100,000, respectively. X's gross receipts for each of those same taxable years was \$15,000,000.

(ii) X's interests in its pass-through entities will be disregarded only if each pass-through entity satisfies one of the exceptions enumerated under section 4.02(2) of this revenue procedure. In the instant case, X's interests in ABC and DEF each meet the exception in section 4.02(2)(a) because X is the majority interest partner in each partnership. X's interest in GHI meets the exception in section 4.02(2)(b) because X's new taxable year would result in less deferral than its old taxable year (the deferral between May 31 and June 30 of 1 month as compared to the deferral between May 31 and December 31 of 7 months). Because X is not the majority interest partner in JKL and MNO and because its new taxable year would not result in less deferral from these partnerships, X's interests in JKL and MNO may be disregarded only if they satisfy the de minimis exception in section 4.02(2)(c). Although the income from JKL and MNO for each of the prior three taxable years is less than 5 percent of X's gross receipts and \$500,000, the income for year 1 from JKL and MNO, in the aggregate (\$300,000 and \$300,000), exceeds the \$500,000 amount specified in section 4.02(2)(c)(ii). Consequently, JKL and MNO fail to satisfy the de minimis

exception in section 4.02(2)(c). Because X's interests in all of its pass-through entities will not be disregarded, X is not within the scope of this revenue procedure.

SECTION 5. TERMS AND CONDITIONS OF CHANGE

.01 *In general.* A change in annual accounting period filed under this revenue procedure must be made pursuant to the terms and conditions provided in this revenue procedure.

.02 *Short period.* The short period required to effect the change of annual accounting period must begin with the day following the close of the old taxable year and end with the day preceding the first day of the new taxable year.

.03 *Short period tax return.* The corporation or consolidated group must file a federal income tax return for the short period by the due date of that return, including extensions pursuant to § 1.443-1(a). The corporation's taxable income (or the consolidated group's consolidated taxable income) for the short period must be annualized, except in the case of a RIC or a REIT, and the tax must be computed in accordance with the provisions of §§ 443(b) and 1.443-1(b). However, for changes to or from a 52-53-week taxable year, see special rules in § 1.441-2T(c)(5).

.04 *Subsequent year tax returns.* Returns for subsequent taxable years must be made on the basis of a full 12 months (or

on a 52-53-week basis) ending on the last day of the new taxable year, unless the corporation or consolidated group secures the approval of the Commissioner to change its new taxable year.

.05 *Book conformity.* The books of the corporation or consolidated group must be closed as of the last day of the new taxable year. The corporation or consolidated group must compute its income and keep its books and records (including financial statements and reports to creditors) on the basis of the new taxable year.

.06 *Net operating losses.* If the corporation (or consolidated group) has a NOL (or consolidated NOL) in the short period required to effect the change, the NOL may not be carried back but must be carried over in accordance with the provisions of § 172 beginning with the first taxable year after the short period. However, the short period NOL (or consolidated NOL) is carried back or carried over in accordance with § 172 if it is either: (a) \$50,000 or less, or (b) results from a short period of 9 months or longer and is less than the NOL (or the consolidated NOL) for a full 12-month period beginning with the first day of the short period.

.07 *General business credits.* If there is an unused general business credit or any other unused credit for the short period,

the corporation or consolidated group must carry that unused credit forward. An unused credit from the short period may not be carried back.

.08 *Concurrent change for related entities.* If a corporation's interest in a pass-through entity, FSC, IC-DISC, CFC, or FPFC is disregarded pursuant to sections 4.02(2)(a), 4.02(3)(a), or 4.02(8) of this revenue procedure because the entity is required to change its taxable year to the corporation's new taxable year, the entity must change its taxable year concurrently with the corporation's change in taxable year, notwithstanding the testing date provisions in §§ 706(b)(4)(A)(ii) and 898(c)(1)(C)(ii).

SECTION 6. MANNER OF EFFECTING THE CHANGE

.01 *Consent.* Approval is hereby granted to any corporation or consolidated group within the scope of this revenue procedure to change its annual accounting period, provided the corporation or consolidated group complies with all the applicable provisions of this revenue procedure. Approval is granted beginning with the short period required to effect the change. A corporation or consolidated group granted approval under this revenue procedure to change its annual accounting period is deemed to have

established a business purpose for the change to the satisfaction of the Secretary.

.02 *Filing requirements.* (1) *Where to file.* Any corporation (including the common parent of a consolidated group) that decides to change its annual accounting period pursuant to the provisions of this revenue procedure must complete and file a current Form 1128 with the Director, Internal Revenue Service Center, Attention: ENTITY CONTROL, where the corporation or consolidated group files its federal income tax return. No copies of Form 1128 are required to be sent to the National Office.

(2) *When to file.* A Form 1128 filed pursuant to this revenue procedure will be considered timely filed for purposes of § 1.442-1(b)(1) only if it is filed on or before the time (including extensions) for filing the return for the short period required to effect such change.

(3) *Label.* In order to assist in the processing of the change in annual accounting period, reference to this revenue procedure must be made a part of the Form 1128 by either typing or legibly printing the following statement at the top of page 1 of the Form 1128: "FILED UNDER REV. PROC. 2000-11." For a CFC that is revoking a § 898(c)(1)(B) election under section 4.01(3)

of this revenue procedure, the label at the top of page 1 of the Form 1128 should read "REVOCATION OF § 898(c)(1)(B) ELECTION FILED UNDER REV. PROC. 2000-11."

(4) *Signature requirements.* The Form 1128 must be signed on behalf of the corporation requesting the change of annual accounting period by an individual with authority to bind the corporation in such matters. If the corporation is a member of a consolidated group, the Form 1128 must be signed by a duly authorized officer of the common parent. If an agent is authorized to represent the corporation or consolidated group before the Service, to receive the original or a copy of correspondence concerning the application, or to perform any other act(s) regarding the application on behalf of the corporation or consolidated group, a power of attorney reflecting such authorization(s) should be attached to the application. A corporation or consolidated group's representative without a power of attorney to represent the corporation or consolidated group will not be given any information about the application.

(5) *No user fee.* A user fee is not required for an application filed under this revenue procedure and, except as provided in section 7.01 of this revenue procedure, the receipt

of an application filed under this revenue procedure may not be acknowledged.

(6) *Consolidated application.* A common parent may file a single application to change the annual accounting period of its consolidated group. The common parent corporation must clearly indicate that the Form 1128 is filed on behalf of the common parent and all its subsidiaries, and the common parent must answer all relevant questions on the Form 1128 for each member of the consolidated group.

SECTION 7. REVIEW OF APPLICATION

.01 *Service Center review.* A Service Center may deny a change of annual accounting period under this revenue procedure only if: (a) the Form 1128 is not filed timely, or (b) the corporation or consolidated group fails to meet the scope or terms and conditions of this revenue procedure. If the change is denied, the Service Center will return the Form 1128 with an explanation for the denial.

.02 *Review of examining officials.* The appropriate examining official may ascertain if the change in annual accounting period was made in compliance with all the applicable provisions of this revenue procedure. Corporations or consolidated groups changing their annual accounting period pursuant to this revenue procedure

without complying with or satisfying all the terms and conditions of this revenue procedure ordinarily will be deemed to have initiated the change in annual accounting period without the consent of the Commissioner.

SECTION 8. EFFECTIVE DATE AND TRANSITION RULE

.01 *Effective date.* This revenue procedure generally is effective for all changes in annual accounting periods for which the short period ends on or after January 18, 2000. However, if the time period set forth in section 6.02(2) of this revenue procedure for filing a Form 1128 with respect to a short period has not yet expired, a corporation or consolidated group meeting the scope of this revenue procedure may elect early application of the procedure by providing the notification set forth in section 6.02(3) on the top of page 1 of Form 1128 and by satisfying the other procedural requirements of section 6.

.02 *Transition rule.* If a corporation or consolidated group within the scope of this revenue procedure filed an application with the National Office to make a change in annual accounting period and the application is pending with the National Office on January 18, 2000, the corporation or consolidated group may make the change under this revenue procedure. However, the National Office will process the application in accordance with the

authority under which it was filed, unless prior to the later of March 3, 2000, or the issuance of the letter ruling granting or denying consent to the change, the corporation or consolidated group notifies the National Office that it wants to make the change under this revenue procedure. If the corporation or consolidated group timely notifies the National Office that it wants to make the change under this revenue procedure, the National Office will require the corporation or consolidated group to make appropriate modifications to the application to comply with the applicable provisions of this revenue procedure. In addition, any user fee that was submitted with the application will be refunded to the corporation or consolidated group.

SECTION 9. EFFECT ON OTHER DOCUMENTS

Rev. Proc. 92-13, Rev. Proc. 92-13A, 1992-1 C.B. 668, and Rev. Proc. 94-12, 1994-1 C.B. 565, are modified, amplified, and superseded.

DRAFTING INFORMATION

The principal authors of this revenue procedure are Roy A. Hirschhorn and Martin Scully, Jr. of the Office of Assistant Chief Counsel (Income Tax and Accounting). For further information regarding this revenue procedure, contact Roy A. Hirschhorn or Martin Scully, Jr. on (202) 622-4960 (not a toll-free call).

