

short period in which there is a substantial amount of income to offset an expiring net operating loss, capital loss, or credit. See, for example, Rev. Proc. 2002-39, 2002-22 I.R.B., procedures for obtaining the Commissioner's prior approval of an adoption, change, or retention in annual accounting period through application to the national office; Rev. Proc. 2002-37, 2002-22 I.R.B., automatic approval procedures for certain corporations; Rev. Proc. 2002-38, 2002-22 I.R.B., automatic approval procedures for partnerships, S corporations, electing S corporations, and PSCs; and Rev. Proc. 66-50, 1966-2 C.B. 1260, automatic approval procedures for individuals. For availability of Revenue Procedures and Notices, see § 601.601(d)(2) of this chapter.

(4) *Taxpayers to whom section 441(g) applies.* If section 441(g) and § 1.441-1(b)(1)(iv) apply to a taxpayer, the adoption of a fiscal year is treated as a change in the taxpayer's annual accounting period under section 442. Therefore, that fiscal year can become the taxpayer's taxable year only with the approval of the Commissioner. In addition to any other terms and conditions that may apply to such a change, the taxpayer must establish and maintain books that adequately and clearly reflect income for the short period involved in the change and for the fiscal year proposed.

(c) *Special rule for change of annual accounting period by subsidiary corporation.* A subsidiary corporation that is required to change its annual accounting period under § 1.1502-76, relating to the taxable year of members of an affiliated group that file a consolidated return, does not need to obtain the approval of the Commissioner or file an application on Form 1128 with respect to that change.

(d) *Special rule for newly married couples.* (1) A newly married husband or wife may obtain automatic approval under this paragraph (d) to change his or her annual accounting period in order to use the annual accounting period of the other spouse so that a joint return may be filed for the first or second taxable year of that spouse ending after the date of marriage. Such automatic approval will be granted only if the newly married husband or wife

adopting the annual accounting period of the other spouse files a Federal income tax return for the short period required by that change on or before the 15th day of the 4th month following the close of the short period. See section 443 and the regulations thereunder. If the due date for any such short-period return occurs before the date of marriage, the first taxable year of the other spouse ending after the date of marriage cannot be adopted under this paragraph (d). The short-period return must contain a statement at the top of page one of the return that it is filed under the authority of this paragraph (d). The newly married husband or wife need not file Form 1128 with respect to a change described in this paragraph (d). For a change of annual accounting period by a husband or wife that does not qualify under this paragraph (d), see paragraph (b) of this section.

(2) The provisions of this paragraph (d) may be illustrated by the following example:

Example. H & W marry on September 25, 2001. H is on a fiscal year ending June 30, and W is on a calendar year. H wishes to change to a calendar year in order to file joint returns with W. W's first taxable year after marriage ends on December 31, 2001. H may not change to a calendar year for 2001 since, under this paragraph (d), he would have had to file a return for the short period from July 1 to December 31, 2000, by April 16, 2001. Since the date of marriage occurred subsequent to this due date, the return could not be filed under this paragraph (d). Therefore, H cannot change to a calendar year for 2001. However, H may change to a calendar year for 2002 by filing a return under this paragraph (d) by April 15, 2002, for the short period from July 1 to December 31, 2001. If H files such a return, H and W may file a joint return for calendar year 2002 (which is W's second taxable year ending after the date of marriage).

(e) *Effective date.* The rules of this section are applicable for taxable years ending on or after May 17, 2002.

[T.D. 8996, 67 FR 35019, May 17, 2002]

§ 1.443-1 Returns for periods of less than 12 months.

(a) *Returns for short period.* A return for a short period, that is, for a taxable year consisting of a period of less than 12 months, shall be made under any of the following circumstances:

(1) *Change of annual accounting period.* In the case of a change in the annual accounting period of a taxpayer, a separate return must be filed for the short period of less than 12 months beginning with the day following the close of the old taxable year and ending with the day preceding the first day of the new taxable year. However, such a return is not required for a short period of six days or less, or 359 days or more, resulting from a change from or to a 52-53-week taxable year. See section 441(f) and § 1.441-2. The computation of the tax for a short period required to effect a change of annual accounting period is described in paragraph (b) of this section. In general, a return for a short period resulting from a change of annual accounting period shall be filed and the tax paid within the time prescribed for filing a return for a taxday of the short period. For rules applicable to a subsidiary corporation which becomes a member of an affiliated group which files a consolidated return, see § 1.1502-76.

(2) *Taxpayer not in existence for entire taxable year.* If a taxpayer is not in existence for the entire taxable year, a return is required for the short period during which the taxpayer was in existence. For example, a corporation organized on August 1 and adopting the calendar year as its annual accounting period is required to file a return for the short period from August 1 to December 31, and returns for each calendar year thereafter. Similarly, a dissolving corporation which files its returns for the calendar year is required to file a return for the short period from January 1 to the date it goes out of existence. Income for the short period is not required to be annualized if the taxpayer is not in existence for the entire taxable year, and, in the case of a taxpayer other than a corporation, the deduction under section 151 for personal exemptions (or deductions in lieu thereof) need not be reduced under section 443(c). In general, the requirements with respect to the filing of returns and the payment of tax for a short period where the taxpayer has not been in existence for the entire taxable year are the same as for the filing of a return and the payment of tax for a taxable year of 12 months ending

on the last day of the short period. Although the return of a decedent is a return for the short period beginning with the first day of his last taxable year and ending with the date of his death, the filing of a return and the payment of tax for a decedent may be made as though the decedent had lived throughout his last taxable year.

(b) *Computation of tax for short period on change of annual accounting period—*

(1) *General rule.* (i) If a return is made for a short period resulting from a change of annual accounting period, the taxable income for the short period shall be placed on an annual basis by multiplying such income by 12 and dividing the result by the number of months in the short period. Unless section 443(b)(2) and subparagraph (2) of this paragraph apply, the tax for the short period shall be the same part of the tax computed on the annual basis as the number of months in the short period is of 12 months.

(ii) If a return is made for a short period of more than 6 days, but less than 359 days, resulting from a change from or to a 52-53-week taxable year, the taxable income for the short period shall be annualized and the tax computed on a daily basis, as provided in section 441(f)(2)(B)(iii) and § 1.441-2(b)(2)(ii).

(iii) For method of computation of income for a short period in the case of a subsidiary corporation required to change its annual accounting period to conform to that of its parent, see § 1.1502-76(b).

(iv) An individual taxpayer making a return for a short period resulting from a change of annual accounting period is not allowed to take the standard deduction provided in section 141 in computing his taxable income for the short period. See section 142(b)(3).

(v) In computing the taxable income of a taxpayer other than a corporation for a short period (which income is to be annualized in order to determine the tax under section 443(b)(1)) the personal exemptions allowed individuals under section 151 (and any deductions allowed other taxpayers in lieu thereof, such as the deduction under section 642(b)) shall be reduced to an amount which bears the same ratio to the full amount of the exemptions as the number of

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months in the short period bears to 12. In the case of the taxable income for a short period resulting from a change from or to a 52-53-week taxable year to which section 441(f)(2)(B)(iii) applies, the computation required by the preceding sentence shall be made on a daily basis, that is, the deduction for personal exemptions (or any deduction in lieu thereof) shall be reduced to an amount which bears the same ratio to the full deduction as the number of days in the short period bears to 365.

(vi) If the amount of a credit against the tax (for example, the credits allowable under section 34 (for dividends received on or before December 31, 1964), and 35 (for partially tax-exempt interest)) is dependent upon the amount of any item of income or deduction, such credit shall be computed upon the amount of the item annualized separately in accordance with the foregoing rules. The credit so computed shall be treated as a credit against the tax computed on the basis of the annualized taxable income. In any case in which a limitation on the amount of a credit is based upon taxable income, taxable income shall mean the taxable income computed on the annualized basis.

(vii) The provisions of this subparagraph may be illustrated by the following examples:

Example (1). A taxpayer with one dependent who has been granted permission under section 442 to change his annual accounting period files a return for the short period of 10 months ending October 31, 1956. He has income and deductions as follows:

<i>Income</i>	
Interest income	\$10,000.00
Partially tax-exempt interest with respect to which a credit is allowable under section 35	500.00
Dividends to which sections 34 and 116 are applicable	750.00
	11,250.00
<i>Deductions</i>	
Real estate taxes	200.00
2 personal exemptions at \$600 on an annual basis	1,200.00
The tax for the 10-month period is computed as follows:	
Total income as above ..	11,250.00
Less:	
Exclusion for dividends received	\$50.00
2 personal exemptions (\$1,200×1 ⁰ / ₁₂)	1,000.00

Real estate taxes	200.00	
		1,250.00
Taxable income for 10-month period before annualizing		10,000.00
Taxable income annualized (10,000×1 ² / ₁₀)		12,000.00
Tax on \$12,000 before credits		3,400.00
Deduct credits:		
Dividends received for 10-month period	\$750.00	
Less: Excluded portion	50.00	
	700.00	
Dividend income annualized (\$700×1 ² / ₁₀)	840.00	
Credit (4 percent of \$840)	33.60	
Partially tax-exempt interest included in gross income for 10-month period	500.00	
Partially tax-exempt interest (annualized) (\$500×1 ² / ₁₀)	600.00	
Credit (3 percent of \$600)	18.00	
	51.60	
Tax on \$12,000 (after credits)		3,348.40
Tax for 10-month period (\$3,348.40×1 ⁰ / ₁₂)		2,790.33

Example (2). The X Corporation makes a return for the one-month period ending September 30, 1956, because of a change in annual accounting period permitted under section 442. Income and expenses for the short period are as follows:

Gross operating income	\$126,000
Business expenses	130,000
	(4,000)
Net loss from operations	(4,000)
Dividends received from taxable domestic corporations	30,000
	26,000
Gross income for short period before annualizing	26,000
Dividends received deduction (85 percent of \$30,000, but not in excess of 85 percent of \$26,000)	22,100
	3,900
Taxable income for short period before annualizing	3,900
Taxable income annualized (\$8,900×12)	46,800
	\$24,336
Tax on annual basis:	
\$46,800 at 52 percent	\$24,336
Less surtax exemption	5,500
	\$18,836
Tax for 1-month period (\$18,836×1 ¹ / ₁₂)	1,570

Example (3). The Y Corporation makes a return for the six-month period ending June 30, 1957, because of a change in annual accounting period permitted under section 442. Income for the short period is as follows:

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Taxable income exclusive of net long-term capital gain	\$40,000	
Net long-term capital gain	10,000	
		50,000
Taxable income for short period before annualizing	50,000	
Taxable income annualized (\$50,000×1 ² / ₆)		100,000
<i>Regular tax computation</i>		
Taxable income annualized		100,000
Tax on annual basis:		
\$100,000 at 52 percent	\$52,000	
Less surtax exemption	5,500	
		46,500
Tax for 6-month period (\$46,500×6/12)		23,250
<i>Alternative tax computation</i>		
Taxable income annualized		100,000
Less annualized capital gain (\$10,000×1 ² / ₆)		20,000
Annualized taxable income subject to partial tax		80,000
<i>Partial tax on annual basis</i>		
\$60,000 at 52 percent	\$41,600	
Less surtax exemption	5,500	
		36,100
25 percent of annualized capital gain (\$20,000) ...		5,000
Alternative tax on annual basis		41,100
Alternative tax for 6-month period (\$41,100×6/12)		20,550

Since the alternative tax of \$20,550 is less than the tax computed in the regular manner (\$23,250), the corporation's tax for the 6-month short period is \$20,550.

(2) *Exception: computation based on 12-month period.* (i) A taxpayer whose tax would otherwise be computed under section 443(b)(1) (or section 441(f)(2)(B)(iii) in the case of certain changes from or to a 52-53-week taxable year) for the short period resulting from a change of annual accounting period may apply to the district director to have his tax computed under the provisions of section 443(b)(2) and this subparagraph. If such application is made, as provided in subdivision (v) of this subparagraph, and if the taxpayer establishes the amount of his taxable income for the 12-month period described in subdivision (ii) of this subparagraph, then the tax for the short period shall be the greater of the following—

(a) An amount which bears the same ratio to the tax computed on the taxable income which the taxpayer has established for the 12-month period as the taxable income computed on the basis of the short period bears to the taxable income for such 12-month period; or

(b) The tax computed on the taxable income for the short period without placing the taxable income on an annual basis.

However, if the tax computed under section 443(b)(2) and this subparagraph is not less than the tax for the short period computed under section 443(b)(1) (or section 441(f)(2)(B)(iii) in the case of certain changes from or to a 52-53-week taxable year), then section 443(b)(2) and this subparagraph do not apply.

(ii) The term "12-month period" referred to in subdivision (i) of this subparagraph means the 12-month period beginning on the first day of the short period. However, if the taxpayer is not in existence at the end of such 12-month period, or if the taxpayer is a corporation which has disposed of substantially all of its assets before the end of such 12-month period, the term "12-month period" means the 12-month period ending at the close of the last day of the short period. For the purposes of the preceding sentence, a corporation which has ceased business and distributed so much of the assets used in its business that it cannot resume its customary operations with the remaining assets, will be considered to have disposed of substantially all of its assets. In the case of a change from a 52-53-week taxable year, the term "12-month period" means the period of 52 or 53 weeks (depending on the taxpayer's 52-53-week taxable year) beginning on the first day of the short period.

(iii) (a) The taxable income for the 12-month period is computed under the same provisions of law as are applicable to the short period and is computed as if the 12-month period were an actual annual accounting period of the taxpayer. All items which fall in such 12-month period must be included even if they are extraordinary in amount or of an unusual nature. If the taxpayer is a member of a partnership, his taxable income for the 12-month period shall include his distributive share of partnership income for any taxable year of the partnership ending within or with such 12-month period, but no amount shall be included with respect to a taxable year of the partnership ending before or after such 12-month period. If any other item partially applicable to

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such 12-month period can be determined only at the end of a taxable year which includes only part of the 12-month period, the taxpayer, subject to review by the Commissioner, shall apportion such item to the 12-month period in such manner as will most clearly reflect income for the 12-month period.

(b) In the case of a taxpayer permitted or required to use inventories, the cost of goods sold during a part of the 12-month period included in a taxable year shall be considered, unless a more exact determination is available, as such part of the cost of goods sold during the entire taxable year as the gross receipts from sales for such part of the 12-month period is of the gross receipts from sales for the entire taxable year. For example, the 12-month period of a corporation engaged in the sale of merchandise, which has a short period from January 1, 1956, to September 30, 1956, is the calendar year 1956. The three-month period, October 1, 1956, to December 31, 1956, is part of the taxpayer's taxable year ending September 30, 1957. The cost of goods sold during the three-month period, October 1, 1956, to December 31, 1956, is such part of the cost of goods sold during the entire fiscal year ending September 30, 1957, as the gross receipts from sales for such three-month period are of the gross receipts from sales for the entire fiscal year.

(c) The Commissioner may, in granting permission to a taxpayer to change his annual accounting period, require, as a condition to permitting the change, that the taxpayer must take a closing inventory upon the last day of the 12-month period if he wishes to obtain the benefits of section 443(b)(2). Such closing inventory will be used only for the purposes of section 443(b)(2), and the taxpayer will not be required to use such inventory in computing the taxable income for the taxable year in which such inventory is taken.

(iv) The provisions of this subparagraph may be illustrated by the following examples:

Example (1). The taxpayer in example (1) under paragraph (b)(1)(vii) of this section establishes his taxable income for the 12-month period from January 1, 1956, to De-

ember 31, 1956. The taxpayer has a short period of 10 months, from January 1, 1956, to October 31, 1956. The taxpayer files an application in accordance with subdivision (v) of this subparagraph to compute his tax under section 443(b)(2). The taxpayer's income and deductions for the 12-month period, as so established, follow:

<i>Income</i>	
Interest income	\$11,000
Partially tax-exempt interest with respect to which a credit is allowable under section 35	600
Dividends to which sections 34 and 116 are applicable	850
	12,450
<i>Deductions</i>	
Real estate taxes	200
2 personal exemptions at \$600	1,200
<i>Tax computation for short period under section 443(b)(2)(A)(i)</i>	
Total income as above	\$12,450
Less:	
Exclusion for dividends received	\$50
Personal exemptions	1,200
Deduction for taxes	200
	1,450
Taxable income for 12-month period	11,000
Tax before credits	3,020
Credit for partially tax-exempt interest (3 percent of \$600)	18
Credit for dividends received (4 percent of (\$850 - 50))	32
	50
Tax under section 443(b)(2)(A)(i) for 12-month period	2,970
Taxable income for 10-month short period from example (1) of paragraph (b)(1)(vii) of this section before annualizing	10,000
Tax for short period under section 443(b)(2)(A)(i) (\$2,970 × \$10,000 (taxable income for short period) / \$11,000 (taxable income for 12-month period))	2,700
<i>Tax computation for short period under section 443(b)(2)(A)(ii)</i>	
Total income for 10-month short period	11,250
Less:	
Exclusion for dividends received	50
2 personal exemptions	1,200
Real estate taxes	200
	1,450
Taxable income for short period without annualizing and without proration of personal exemptions	9,800
Tax before credits	2,572
Less credits:	
Partially tax-exempt interest (3 percent of \$500)	15
Dividends received (4 percent of (\$750 - 50))	28
	43
Tax for short period under section 443(b)(2)(A)(ii)	2,529

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The tax of \$2,700 computed under section 443(b)(2)(A)(i) is greater than the tax of \$2,529, computed under section 443(b)(2)(A)(ii), and is, therefore, the tax under section 443(b)(2). Since the tax of \$2,700 (computed under section 443(b)(2)) is less than the tax of \$2,790.33 (computed under section 443(b)(1)) on the annualized income of the short period (see example (1) of paragraph (b)(1)(vii) of this section), the taxpayer's tax for the 10-month short period is \$2,700.

Example (2). Assume the same facts as in example (1) of this subdivision, except that, during the month of November 1956, the taxpayer suffered a casualty loss of \$5,000. The tax computation for the short period under section 443(b)(2) would be as follows:

<i>Tax computation for short period under section 443(b)(2)(A)(i)</i>	
Taxable income for 12-month period from example (1)	\$11,000
Less: Casualty loss	5,000
	6,000
Taxable income for 12-month period	6,000
Tax before credits	\$1,360
Credits from example (1)	50
	1,310
Tax under section 443(b)(2)(A)(i) for 12-month period	1,310
Tax for short period (\$1,310 × \$10,000/\$6,000) under section 443(b)(2)(A)(i)	2,183
<i>Tax computation for short period under section 443(b)(2)(A)(ii)</i>	
Total income for the short period	11,250
Less:	
Exclusion for dividends received	50
2 personal exemptions	1,200
Real estate taxes	200
	1,450
Taxable income for short period without annualizing and without proration of personal exemptions	9,800
Tax before credits	2,572
Less credits:	
Partially tax-exempt interest (3 percent of \$500)	15
Dividends received (4 percent of \$750 - 50)	28
	43
Tax for short period under section 443(b)(2)(A)(ii)	2,529

The tax of \$2,529, computed under section 443(b)(2)(A)(ii) is greater than the tax of \$2,183 computed under section 443(b)(2)-(A)(i) and is, therefore, the tax under section 443(b)(2). Since this tax is less than the tax of \$2,790.33, computed under section 443(b)(1) (see example (1) of paragraph (b)(1)(vii) of this section), the taxpayer's tax for the 10-month short period is \$2,529.

(v) (a) A taxpayer who wishes to compute his tax for a short period resulting from a change of annual accounting pe-

riod under section 443(b)(2) must make an application therefor. Except as provided in (b) of this subdivision, the taxpayer shall first file his return for the short period and compute his tax under section 443(b)(1). The application for the benefits of section 443(b)(2) shall subsequently be made in the form of a claim for credit or refund. The claim shall set forth the computation of the taxable income and the tax thereon for the 12-month period and must be filed not later than the time (including extensions) prescribed for filing the return for the taxpayer's first taxable year which ends on or after the day which is 12 months after the beginning of the short period. For example, assume that a taxpayer changes his annual accounting period from the calendar year to a fiscal year ending September 30, and files a return for the short period from January 1, 1956, to September 30, 1956. His application for the benefits of section 443(b)(2) must be filed not later than the time prescribed for filing his return for his first taxable year which ends on or after the last day of December 1956, the twelfth month after the beginning of the short period. Thus, the taxpayer must file his application not later than the time prescribed for filing the return for his fiscal year ending September 30, 1957. If he obtains an extension of time for filing the return for such fiscal year, he may file his application during the period of such extension. If the district director determines that the taxpayer has established the amount of his taxable income for the 12-month period, any excess of the tax paid for the short period over the tax computed under section 443(b)(2) will be credited or refunded to the taxpayer in the same manner as in the case of an overpayment.

(b) If at the time the return for the short period is filed, the taxpayer is able to determine that the 12-month period ending with the close of the short period (see section 443(b)(2)-(B)(ii) and subparagraph (2)(ii) of this paragraph) will be used in the computations under section 443(b)(2), then the tax on the return for the short period may be determined under the provisions of section 443(b)(2). In such case, a return covering the 12-month

period shall be attached to the return for the short period as a part thereof, and the return and attachment will then be considered as an application for the benefits of section 443(b)(2).

(c) *Adjustment in deduction for personal exemption.* For adjustment in the deduction for personal exemptions in computing the tax for a short period resulting from a change of annual accounting period under section 443(b)(1) (or under section 441(f)(2)(B)(iii) in the case of certain changes from or to a 52-53-week taxable year), see paragraph (b)(1)(v) of this section.

(d) *Adjustments in exclusion of computing minimum tax for tax preferences.*

(1) If a return is made for a short period on account of any of the reasons specified in subsection (a) of section 443, the \$30,000 amount specified in section 56 (relating to minimum tax for tax preferences), modified as provided by section 58 and the regulations thereunder, shall be reduced to the amount which bears the same ratio to such specified amount as the number of days in the short period bears to 365.

(2) *Example.* The provisions of this paragraph may be illustrated by the following example:

Example. A taxpayer who is an unmarried individual has been granted permission under section 442 to change his annual accounting period files a return for the short period of 4 months ending April 30, 1970. The \$30,000 amount specified in section 56 is reduced as follows:

$$(120/365) \times \$30,000 = \$9,835.89.$$

(e) *Cross references.* For inapplicability of section 443(b) and paragraph (b) of this section in computing—

(1) Accumulated earnings tax, see section 536 and the regulations thereunder;

(2) Personal holding company tax, see section 546 and the regulations thereunder;

(3) Undistributed foreign personal holding company income, see section 557 and the regulations thereunder;

(4) The taxable income of a regulated investment company, see section 852(b)(2)(E) and the regulations thereunder; and

(5) The taxable income of a real estate investment trust, see section

857(b)(2)(C) and the regulations thereunder.

[T.D. 6500, 25 F.R. 11705, Nov. 26, 1960, as amended by T.D. 6598, 27 FR 4093, Apr. 28, 1962; T.D. 6777, 29 FR 17808, Dec. 16, 1964; T.D. 7244, 37 FR 28897, Dec. 30, 1972, T.D. 7564, 43 FR 40494, Sept. 12, 1978; T.D. 7575, 43 FR 58816, Dec. 18, 1978; T.D. 7767, 465 FR 11265, Feb. 6, 1981; T.D. 8996, 67 FR 35012, May 17, 2002]

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This section lists the captions that appear in the temporary regulations under section 444.

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 - (A) In general.
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