

Instructions for Form 1128

(Rev. August 1984)

Application for Change in Accounting Period

(Section references are to the Internal Revenue Code, unless otherwise noted.)

General Instructions

You should normally receive a determination on your application within 60 days. If you do not hear from us within 60 days of submitting your completed Form 1128, you may inquire about the status of your application by writing to: Control Clerk, CC:C:C:1, Internal Revenue Service, Room 5040, 1111 Constitution Ave., N.W., Washington, D.C. 20224.

Paperwork Reduction Act Notice.—We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. Taxpayers are required to give us this information.

A. Purpose of Form.—File this form to request a change in annual accounting period. Partnerships can also use the form to adopt an accounting period.

If you need more information, see **Publication 538**, Accounting Periods and Methods.

B. Who Must File Form 1128.—Generally, individuals, partnerships, corporations (including S corporations, DISCs and foreign corporations), estates, trusts, and tax exempt organizations must file Form 1128 to change accounting periods.

If you are requesting a change to or from a 52-53 week tax year and also want to change the month your tax year ends, you must get advance approval. See Regulations section 1.441-2(c)(4) and 1.1502-76(a)(1).

Exceptions: Form 1128 is not required to be filed by:

- an employee plan or employee trust using **Form 5308**, Request for Change in Plan/Trust Year;
- a corporation that meets the terms of Regulations section 1.442-1(c) and files the required statement instead of Form 1128;
- a subsidiary corporation required to change its annual accounting period to file a consolidated return with its parent (see Regulations sections 1.442-1(d) and 1.1502-76(a));
- a corporation making an election to be treated as an S corporation filing **Form 2553**, Election by a Small Business Corporation, to adopt, retain or change its annual accounting period (see Temp. Regs. section 18.1378-1 and Rev. Proc. 83-25, 1983-1 C.B. 689);

- an existing partnership, if all the principal partners have the same tax year that the partnership is requesting or if they all change to that tax year at the same time (a principal partner is one who has a 5% or more interest in partnership profits or capital);
- a new partnership that is adopting a tax year other than the calendar year, if all the principal partners have the same tax year that the partnership is requesting or if they all change to that tax year at the same time;
- a new partnership that is adopting a calendar year, even if all its principal partners do not have the same tax year;
- a newly formed partnership with no principal partners may adopt a calendar year without securing the prior approval of the Commissioner if all its partners are on a calendar year or if all its partners who are not on a calendar year (see Rev. Proc. 83-76, 1983-2 C.B. 594) concurrently change to a calendar year; or
- newly married individuals wishing to adopt the accounting period of the other spouse in order to file a joint return must follow Regulations section 1.442-1(e).

Note: A new partnership not described in (f), (g) or (h) above must apply for advance approval of its tax year. The application may be made either on Form 1128 or by letter. An application by letter must state that the new partnership is adopting a tax year and must include the information requested in sections A and C and in the signature area of Form 1128.

C. Time and Place for Filing.—Generally, you must file Form 1128 by the 15th day of the second calendar month after the short period ends. For example, if you are requesting a change to the calendar year you must file Form 1128 by February 15 of the next year. For partnership adoptions, see Specific Instructions for Section C.

File Form 1128 in triplicate with the Commissioner of Internal Revenue, Washington, D.C. 20224; Attention CC:C:C:1.

Exceptions: If you are filing Form 1128 for reason (1), (2), (3) or (4) below, DO NOT file it with the Commissioner. Instead, file an original Form 1128 only with the Director of the Service Center where you file your return.

(1) If you are an individual changing from a fiscal year to a calendar year; receiving income from only wages, salaries, interest, dividends, capital gains, pensions, annuities, rents, or royalties; and meeting all the provisions of Rev. Proc. 66-50, 1966-2 C.B. 1260;

(2) If you are a trustee or co-trustee requesting a change for an inter vivos or testamentary trust and meeting all the provisions of Rev. Proc. 68-41, 1968-2 C.B. 943;

(3) If you are an exempt organization requesting a change under the simplified method of Rev. Proc. 76-9, 1976-1 C.B. 547 or Rev. Proc. 76-10, 1976-1 C.B. 548, see Specific Instructions, Section F for details; or

(4) Corporations requesting a change under Rev. Proc. 84-34, 1984-17 I.R.B. 24.

If you are filing under any of the above exceptions, you may assume that the change has been approved unless you receive a letter from the Director of the Internal Revenue Service Center denying approval because the Form 1128 is either not timely filed, or does not comply with the provisions of the revenue procedure.

D. Late Applications.—If you file after the 15th day of the second calendar month following the end of the short period (for partnership adoptions by the end of the month following the close of the tax year to be adopted) it is "LATE." The application will be considered for processing only upon a showing of "good cause" and if it can be shown to the satisfaction of the Commissioner that granting an extension will not jeopardize the Government's interests. For further information see Rev. Proc. 79-63, 1979-2 C.B. 578.

E. Premature Applications.—Generally, an application may not be approved if it is submitted more than 60 days prior to the close of the short year. For partnership adoptions, see Specific Instructions for Section C.

F. Restrictions.—IRS will generally approve Form 1128 if: (1) you establish a substantial business purpose; or (2) you and your spouse want to use the same tax year so you can file a joint return, and you and the Commissioner agree to the terms, conditions, and adjustments under which the change or adoption will be made. In determining whether you have established a substantial business purpose, IRS will consider all facts and circumstances relating to the change or adoption, including tax consequences. IRS will also consider the effect of the change on your annual business activity cycle. The agreement between you and the Commissioner may also provide terms, conditions, and adjustments necessary to prevent a substantial distortion of income. IRS will not approve Form 1128 if the effect would distort income reported. Examples of income distortion include:

- Deferring part of the income or shifting many of the deductions to another year in order to reduce the tax substantially.
- Deferring income or shifting deductions for any other person, such as a partner, a beneficiary, or an S corporation shareholder.

- Creating a short period with either:
 - (a) a large operating loss or;
 - (b) for an S corporation, substantial amounts treated as long-term capital gain.

G. Penalty.—A penalty will be imposed if you do not make estimated tax payments as required by either sections 6153 (for individuals) or 6154 (for corporations) while awaiting approval of Form 1128.

H. Foreign Sales Corporations.—A Foreign Sales Corporation (FSC) as defined in section 922 must complete sections A (including all questions relating to shareholders of a DISC) and G.

Specific Instructions

Individual taxpayers need only complete Section A and the signature area. All other filers should complete Section A, the signature area and all other parts that apply to them. On any attachments show the taxpayer's name, identifying number, and address. Also show the date and that the sheet is an attachment to Form 1128.

State whether the taxpayer desires a conference in the National Office if the IRS proposes to disapprove its request.

Name.—If the application concerns a husband and wife who file a joint return, enter your name and your spouse's name.

Identifying number

Individuals.—Individuals should enter their social security number in this block. If the application is made on behalf of a husband and wife who file their income tax return jointly, enter the social security numbers of both. However, if you or your spouse are engaged in a trade or business, enter the employer identification number instead of the social security numbers.

Others.—Applicants other than individuals should enter their employer identification numbers in this block.

Section A.—All Filers

Items 1(a) and 1(b).—If either ending date represents a 52-53 week accounting period, also show in item 1 whether you elected the period under section 441(f)(1)(A) or 441(f)(1)(B). For more details, see Regulations sections 1.441-2(a) and (b).

For a new partnership adopting a tax year, also write "ADOPTION" in item 1(a).

Item 2.—The short period return that is required must begin on the day following the close of the old tax year and end on the day before the first day of the new tax year. For taxpayers adopting a tax year, the short period return that is required must begin on the date business commenced operations or date of incorporation and end on the day before the first day of the new tax year.

Section C.—Partnerships

A partnership must get the Commissioner's advance approval to change or adopt an accounting period unless it meets any of the exceptions (e), (f), (g) or (h) under General Instruction B. Partners **MUST** also get advance approval to change their accounting periods.

A new partnership that is required to obtain the Commissioner's advance approval to adopt an accounting period (see Note under General Instruction B) has until the end of the month after the new period ends to file the application.

Example: *To adopt a fiscal year ending September 30, the partnership must file Form 1128 by the end of the next month, October 31. It might be to the partnership's advantage, however, to file as soon as possible after the partnership's business begins. IRS can process the application sooner, and partners might be saved the inconvenience of having to file amended individual returns if the application is disapproved.*

For an unincorporated organization that qualifies as an "investing partnership" or that explores mineral property under an "operating agreement," see section 761(a)(1), (2) or (3) and applicable regulations.

Item 1.—Enter the first date a business transaction results in a tax consequence such as receiving income or incurring an expense.

Section E.—S corporations

In general, an S corporation will not be granted permission to change to a tax year unless the tax year is a permitted year.

A "permitted year" is:

- (1) a year that ends on December 31, or
- (2) any other accounting period for which the corporation establishes a business purpose to the satisfaction of the Commissioner.

In order to facilitate changes, with a minimum of distortion, requests by S corporations to change an accounting period differing from that of its principal shareholders will generally be approved where the request for the change would result in a deferral of income of three months or less to any shareholder. Thus, for example, a calendar year S corporation will generally be granted permission to change to a fiscal year ending September 30, even though the shareholders are on a calendar year. (See Rev. Proc. 72-51, 1972-2 C.B. 832.)

An S corporation requesting a change in its tax year to conform to its natural business year must attach a statement setting forth gross receipts from sales or services and approximate monthly inventory costs (where applicable) for each month in the requested short period and for each month of the three immediately preceding tax years. (See Rev. Proc. 74-33, 1974-2 C.B. 489.)

Section F.—Tax Exempt Organizations

The purpose of Rev. Proc. 76-9 is to provide an administrative procedure whereby certain organizations wholly exempt from Federal income tax may expeditiously obtain approval of a change in annual accounting period. Such organizations complying with this Rev. Proc. will be deemed to have

obtained the Commissioner's approval to change its accounting period. A central organization should follow Rev. Proc. 76-10 to apply for a group change in accounting period for all its subordinate organizations.

These Revenue Procedures do not apply to: farmers' cooperatives exempt from Federal income tax under section 521; organizations that have unrelated business income defined in section 512(a) and do not meet the terms of section 3.03 of Rev. Proc. 76-9; and organizations that are private foundations defined in section 509(a).

Signature

Form 1128 **MUST** be signed.

Individual.—If this application pertains to a husband and wife, the names of both should appear in the heading and both must sign.

Estate or trust.—Show the name of the estate or trust and the signature and title of the fiduciary or other person legally authorized to sign.

Partnership.—Show the partnership name, followed by the signature of one of the partners and the phrase "Member of partnership."

Corporations, S corporations, DISCs, Cooperatives, Foreign Corporations, Controlled Foreign Corporations (CFCs).—The application must show the name of the company and the signature of the president, vice-president, treasurer, assistant treasurer, or chief accounting officer (such as tax officer) authorized to sign, and their official title. Receivers, trustees, or assignees must sign any application they are required to file. For a subsidiary corporation filing a consolidated return with its parent, the form should be signed by an authorized officer of the parent corporation. For a CFC, the form must be signed by the controlling U.S. shareholder(s).

Tax exempt organization.—Show the name of the organization and the signature of a principal officer or other person authorized to sign, followed by his or her title.

Preparer other than applicant.—Sign on page 4 and, unless you are self-employed, show the name of the firm that employs you. If you file on an applicant's behalf, include a power of attorney. Show any specific acts the power of attorney grants, such as representation before IRS.