

Internal Revenue Service, Treasury

§ 1.441-1

- (i) In general.
- (ii) Exceptions.
 - (A) 52-53-week taxable years.
 - (B) Partnerships, S corporations, and PSCs.
 - (C) Specified foreign corporations.
- (3) Annual accounting period.
- (4) Calendar year.
- (5) Fiscal year.
 - (i) Definition.
 - (ii) Recognition.
- (6) Grandfathered fiscal year.
- (7) Books.
- (8) Taxpayer.
 - (c) Adoption of taxable year.
 - (1) In general.
 - (2) Approval required.
 - (i) Taxpayers with required taxable years.
 - (ii) Taxpayers without books.
 - (d) Retention of taxable year.
 - (e) Change of taxable year.
 - (f) Obtaining approval of the Commissioner or making a section 444 election.

§ 1.441-2 Election of taxable year consisting of 52-53 weeks

- (a) In general.
 - (1) Election.
 - (2) Effect.
 - (3) Eligible taxpayer.
 - (4) Example.
- (b) Procedures to elect a 52-53-week taxable year.
 - (1) Adoption of a 52-53-week taxable year.
 - (i) In general.
 - (ii) Filing requirement.
 - (2) Change to (or from) a 52-53-week taxable year.
 - (i) In general.
 - (ii) Special rules for short period required to effect the change.
 - (3) Examples.
 - (c) Application of effective dates.
 - (1) In general.
 - (2) Examples.
 - (3) Changes in tax rates.
 - (4) Examples.
 - (d) Computation of taxable income.
 - (e) Treatment of taxable years ending with reference to the same calendar month.
 - (1) Pass-through entities.
 - (2) Personal service corporations and employee-owners.
 - (3) Definitions.
 - (i) Pass-through entity.
 - (ii) Owner of a pass-through entity.
 - (4) Examples.
 - (5) Transition rule.

§ 1.441-3 Taxable year of a personal service corporation

- (a) Taxable year.
 - (1) Required taxable year.
 - (2) Exceptions.
 - (b) Adoption, change, or retention of taxable year.
 - (1) Adoption of taxable year.

- (2) Change in taxable year.
- (3) Retention of taxable year.
- (4) Procedures for obtaining approval or making a section 444 election.
 - (5) Examples.
 - (c) Personal service corporation defined.
 - (1) In general.
 - (2) Testing period.
 - (i) In general.
 - (ii) New corporations.
 - (3) Examples.
 - (d) Performance of personal services.
 - (1) Activities described in section 448(d)(2)(A).
 - (2) Activities not described in section 448(d)(2)(A).
 - (e) Principal activity.
 - (1) General rule.
 - (2) Compensation cost.
 - (i) Amounts included.
 - (ii) Amounts excluded.
 - (3) Attribution of compensation cost to personal service activity.
 - (i) Employees involved only in the performance of personal services.
 - (ii) Employees involved only in activities that are not treated as the performance of personal services.
 - (iii) Other employees.
 - (A) Compensation cost attributable to personal service activity.
 - (B) Compensation cost not attributable to personal service activity.
 - (f) Services substantially performed by employee-owners.
 - (1) General rule.
 - (2) Compensation cost attributable to personal services.
 - (3) Examples.
 - (g) Employee-owner defined.
 - (1) General rule.
 - (2) Special rule for independent contractors who are owners.
 - (h) Special rules for affiliated groups filing consolidated returns.
 - (1) In general.
 - (2) Examples.

§ 1.441-4 Effective date

[T.D. 8996, 67 FR 35012, May 17, 2002]

§ 1.441-1 Period for computation of taxable income.

(a) *Computation of taxable income*—(1) *In general.* Taxable income must be computed and a return must be made for a period known as the taxable year. For rules relating to methods of accounting, the taxable year for which items of gross income are included and deductions are taken, inventories, and adjustments, see parts II and III (section 446 and following), subchapter E,

§ 1.441-1**26 CFR Ch. I (4-1-05 Edition)**

chapter 1 of the Internal Revenue Code, and the regulations thereunder.

(2) *Length of taxable year.* Except as otherwise provided in the Internal Revenue Code and the regulations thereunder (e.g., § 1.441-2 regarding 52-53-week taxable years), a taxable year may not cover a period of more than 12 calendar months.

(b) *General rules and definitions.* The general rules and definitions in this paragraph (b) apply for purposes of sections 441 and 442 and the regulations thereunder.

(1) *Taxable year.* *Taxable year* means—

(i) The period for which a return is made, if a return is made for a period of less than 12 months (short period). See section 443 and the regulations thereunder;

(ii) Except as provided in paragraph (b)(1)(i) of this section, the taxpayer's required taxable year (as defined in paragraph (b)(2) of this section), if applicable;

(iii) Except as provided in paragraphs (b)(1)(i) and (ii) of this section, the taxpayer's annual accounting period (as defined in paragraph (b)(3) of this section), if it is a calendar year or a fiscal year; or

(iv) Except as provided in paragraphs (b)(1)(i) and (ii) of this section, the calendar year, if the taxpayer keeps no books, does not have an annual accounting period, or has an annual accounting period that does not qualify as a fiscal year.

(2) *Required taxable year*—(i) *In general.* Certain taxpayers must use the particular taxable year that is required under the Internal Revenue Code and the regulations thereunder (the required taxable year). For example, the required taxable year is—

(A) In the case of a foreign sales corporation or domestic international sales corporation, the taxable year determined under section 441(h) and § 1.921-1T(a)(11), (b)(4), and (b)(6);

(B) In the case of a personal service corporation (PSC), the taxable year determined under section 441(i) and § 1.441-3;

(C) In the case of a nuclear decommissioning fund, the taxable year determined under § 1.468A-4(c)(1);

(D) In the case of a designated settlement fund or a qualified settlement

fund, the taxable year determined under § 1.468B-2(j);

(E) In the case of a common trust fund, the taxable year determined under section 584(i);

(F) In the case of certain trusts, the taxable year determined under section 644;

(G) In the case of a partnership, the taxable year determined under section 706 and § 1.706-1;

(H) In the case of an insurance company, the taxable year determined under section 843 and § 1.1502-76(a)(2);

(I) In the case of a real estate investment trust, the taxable year determined under section 859;

(J) In the case of a real estate mortgage investment conduit, the taxable year determined under section 860D(a)(5) and § 1.860D-1(b)(6);

(K) In the case of a specified foreign corporation, the taxable year determined under section 898(c)(1)(A);

(L) In the case of an S corporation, the taxable year determined under section 1378 and § 1.1378-1; or

(M) In the case of a member of an affiliated group that makes a consolidated return, the taxable year determined under § 1.1502-76.

(ii) *Exceptions.* Notwithstanding paragraph (b)(2)(i) of this section, the following taxpayers may have a taxable year other than their required taxable year:

(A) *52-53-week taxable years.* Certain taxpayers may elect to use a 52-53-week taxable year that ends with reference to their required taxable year. See, for example, §§ 1.441-3 (PSCs), 1.706-1 (partnerships), 1.1378-1 (S corporations), and 1.1502-76(a)(1) (members of a consolidated group).

(B) *Partnerships, S corporations, and PSCs.* A partnership, S corporation, or PSC may use a taxable year other than its required taxable year if the taxpayer elects to use a taxable year other than its required taxable year under section 444, elects a 52-53-week taxable year that ends with reference to its required taxable year as provided in paragraph (b)(2)(ii)(A) of this section or to a taxable year elected under section 444, or establishes a business purpose to the satisfaction of the Commissioner under section 442 (such as a grandfathered fiscal year).

(C) *Specified foreign corporations.* A specified foreign corporation (as defined in section 898(b)) may use a taxable year other than its required taxable year if it elects a 52-53-week taxable year that ends with reference to its required taxable year as provided in paragraph (b)(2)(ii)(A) of this section or makes a one-month deferral election under section 898(c)(1)(B).

(3) *Annual accounting period.* *Annual accounting period* means the annual period (calendar year or fiscal year) on the basis of which the taxpayer regularly computes its income in keeping its books.

(4) *Calendar year.* *Calendar year* means a period of 12 consecutive months ending on December 31. A taxpayer who has not established a fiscal year must make its return on the basis of a calendar year.

(5) *Fiscal year*—(i) *Definition.* *Fiscal year* means—

(A) A period of 12 consecutive months ending on the last day of any month other than December; or

(B) A 52-53-week taxable year, if such period has been elected by the taxpayer. See § 1.441-2.

(ii) *Recognition.* A fiscal year will be recognized only if the books of the taxpayer are kept in accordance with such fiscal year.

(6) *Grandfathered fiscal year.* *Grandfathered fiscal year* means a fiscal year (other than a year that resulted in a three month or less deferral of income) that a partnership or an S corporation received permission to use on or after July 1, 1974, by a letter ruling (i.e., not by automatic approval).

(7) *Books.* *Books* include the taxpayer's regular books of account and such other records and data as may be necessary to support the entries on the taxpayer's books and on the taxpayer's return, as for example, a reconciliation of any difference between such books and the taxpayer's return. Records that are sufficient to reflect income adequately and clearly on the basis of an annual accounting period will be regarded as the keeping of books. See section 6001 and the regulations thereunder for rules relating to the keeping of books and records.

(8) *Taxpayer.* *Taxpayer* has the same meaning as the term *person* as defined

in section 7701(a)(1) (e.g., an individual, trust, estate, partnership, association, or corporation) rather than the meaning of the term *taxpayer* as defined in section 7701(a)(14) (any person subject to tax).

(c) *Adoption of taxable year*—(1) *In general.* Except as provided in paragraph (c)(2) of this section, a new taxpayer may adopt any taxable year that satisfies the requirements of section 441 and the regulations thereunder without the approval of the Commissioner. A taxable year of a new taxpayer is adopted by filing its first Federal income tax return using that taxable year. The filing of an application for automatic extension of time to file a Federal income tax return (e.g., Form 7004, "Application for Automatic Extension of Time to File Corporation Income Tax Return"), the filing of an application for an employer identification number (i.e., Form SS-4, "Application for Employer Identification Number"), or the payment of estimated taxes, for a particular taxable year do not constitute an adoption of that taxable year.

(2) *Approval required*—(i) *Taxpayers with required taxable years.* A newly-formed partnership, S corporation, or PSC that wants to adopt a taxable year other than its required taxable year, a taxable year elected under section 444, or a 52-53-week taxable year that ends with reference to its required taxable year or a taxable year elected under section 444 must establish a business purpose and obtain the approval of the Commissioner under section 442.

(ii) *Taxpayers without books.* A taxpayer that must use a calendar year under section 441(g) and paragraph (f) of this section may not adopt a fiscal year without obtaining the approval of the Commissioner.

(d) *Retention of taxable year.* In certain cases, a partnership, S corporation, electing S corporation, or PSC will be required to change its taxable year unless it obtains the approval of the Commissioner under section 442, or makes an election under section 444, to retain its current taxable year. For example, a corporation using a June 30 fiscal year that either becomes a PSC or elects to be an S corporation and, as a result, is required to use the calendar

year under section 441(i) or 1378, respectively, must obtain the approval of the Commissioner to retain its current fiscal year. Similarly, a partnership using a taxable year that corresponds to its required taxable year must obtain the approval of the Commissioner to retain such taxable year if its required taxable year changes as a result of a change in ownership. However, a partnership that previously established a business purpose to the satisfaction of the Commissioner to use a taxable year is not required to obtain the approval of the Commissioner if its required taxable year changes as a result of a change in ownership.

(e) *Change of taxable year.* Once a taxpayer has adopted a taxable year, such taxable year must be used in computing taxable income and making returns for all subsequent years unless the taxpayer obtains approval from the Commissioner to make a change or the taxpayer is otherwise authorized to change without the approval of the Commissioner under the Internal Revenue Code (e.g., section 444 or 859) or the regulations thereunder.

(f) *Obtaining approval of the Commissioner or making a section 444 election.* See § 1.442-1(b) for procedures for obtaining approval of the Commissioner (automatically or otherwise) to adopt, change, or retain an annual accounting period. See §§ 1.444-1T and 1.444-2T for qualifications, and 1.444-3T for procedures, for making an election under section 444.

[T.D. 8996, 67 FR 35012, May 17, 2002]

§ 1.441-2 Election of taxable year consisting of 52-53 weeks.

(a) *In general—(1) Election.* An eligible taxpayer may elect to compute its taxable income on the basis of a fiscal year that—

- (i) Varies from 52 to 53 weeks;
- (ii) Ends always on the same day of the week; and
- (iii) Ends always on—
 - (A) Whatever date this same day of the week last occurs in a calendar month; or
 - (B) Whatever date this same day of the week falls that is the nearest to the last day of the calendar month.

(2) *Effect.* In the case of a taxable year described in paragraph

(a)(1)(iii)(A) of this section, the year will always end within the month and may end on the last day of the month, or as many as six days before the end of the month. In the case of a taxable year described in paragraph (a)(1)(iii)(B) of this section, the year may end on the last day of the month, or as many as three days before or three days after the last day of the month.

(3) *Eligible taxpayer.* A taxpayer is eligible to elect a 52-53-week taxable year if such fiscal year would otherwise satisfy the requirements of section 441 and the regulations thereunder. For example, a taxpayer that is required to use a calendar year under § 1.441-1(b)(2)(i)(D) is not an eligible taxpayer.

(4) *Example.* The provisions of this paragraph (a) are illustrated by the following example:

Example. If the taxpayer elects a taxable year ending always on the last Saturday in November, then for the year 2001, the taxable year would end on November 24, 2001. On the other hand, if the taxpayer had elected a taxable year ending always on the Saturday nearest to the end of November, then for the year 2001, the taxable year would end on December 1, 2001.

(b) *Procedures to elect a 52-53-week taxable year—(1) Adoption of a 52-53-week taxable year—(i) In general.* A new eligible taxpayer elects a 52-53-week taxable year by adopting such year in accordance with § 1.441-1(c). A newly-formed partnership, S corporation or personal service corporation (PSC) may adopt a 52-53-week taxable year without the approval of the Commissioner if such year ends with reference to either the taxpayer's required taxable year (as defined in § 1.441-1(b)(2)) or the taxable year elected under section 444. See §§ 1.441-3, 1.706-1, and 1.1378-1. Similarly, a newly-formed specified foreign corporation (as defined in section 898(b)) may adopt a 52-53-week taxable year if such year ends with reference to the taxpayer's required taxable year, or, if the one-month deferral election under section 898(c)(1)(B) is made, with reference to the month immediately preceding the required taxable year. See § 1.1502-76(a)(1) for special rules regarding subsidiaries adopting 52-53-week taxable years.