

## Part IV - Items of General Interest

### Changes in Annual Accounting Period

Announcement 2003-49

#### PURPOSE

This announcement discusses some of the changes that the Internal Revenue Service and Treasury Department have made in finalizing Notice 2002-75, 2002-47 I.R.B. 884, which proposes procedures for individuals to obtain the automatic approval of the Commissioner to change their annual accounting period from a fiscal year to a calendar year. The final procedures are contained in Rev. Proc. 2003-62, page \_\_\_ of this Bulletin.

#### BACKGROUND

The Service published Notice 2002-75 on November 25, 2002, and requested public comments on the proposed procedures contained therein. No public comments were received. However, the Service and Treasury Department have made certain changes to Notice 2002-75 to further conform the rules for automatic accounting period changes by individuals to those provided in Rev. Proc. 2002-37, 2002-1 C.B. 1030 (providing procedures for automatic approval of annual accounting period changes by corporations) and Rev. Proc. 2002-39, 2002-1 C.B. 1046 (providing procedures for the prior approval of annual accounting period changes by taxpayers generally, including individuals). Also, the Service and Treasury Department have made conforming changes to Notice 2002-75 as a result of Rev. Proc. 2003-34, 2003-18 I.R.B. 856, which modifies the term and condition of Rev. Proc. 2002-37 and Rev. Proc. 2002-39 regarding the carryback of losses incurred in the short period.

#### CHANGES

##### A. *Interest in a Pass-through Entity*

The Service and Treasury Department have determined that the \$10,000 *de minimis* exception for an individual's interest in a pass-through entity provided in section 4.02(2)(d) of Notice 2002-75 should be raised to \$500,000. This change is consistent with the \$500,000 *de minimis* exception to the "substantial distortion" rule provided in section 5.05(1)(ii) of Rev. Proc. 2002-39. The corresponding example in Notice 2002-75 is modified to reflect this change.

Section 4.02(2)(a) of Notice 2002-75 is modified to remove the reference to foreign personal holding companies (FPHCs), because FPHCs cannot make a one-month deferral election under § 898(c)(1)(B) of the Internal Revenue Code. Section

4.02(2)(a) of Rev. Proc. 2002-37 also contains this reference. The Service and Treasury Department intend to remove the reference to FPHCs in section 4.02(2)(a) of Rev. Proc. 2002-37. No inference should be drawn from that reference that FPHCs are eligible to make a one month deferral election under § 898(c)(1)(B).

*B. Net Operating Loss Term and Condition.*

Section 6.05 of Notice 2002-75 provides that a net operating loss (NOL) generated in the short period is carried back or carried over if the loss is \$10,000 or less. The Service and Treasury Department have determined that the \$10,000 ceiling should be raised to \$50,000, consistent with the \$50,000 ceiling provided in section 5.04 of Rev. Proc. 2002-39. Also, the Service and Treasury Department have made other changes to this section consistent with Rev. Proc. 2003-34.

*C. Other Changes*

Additional conforming changes have been made to Notice 2002-75 to make the automatic approval procedures applicable to individuals consistent with those of Rev. Proc. 2002-37 and Rev. Proc. 2002-39. See, for example, section 6.07 of Rev. Proc. 2003-62.

**FURTHER INFORMATION**

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