



S.C. PRIVATE LETTER RULING #89-14

TO: ABC, Inc.

SUBJECT: Accounting Period Change
(Income Tax)

REFERENCE: S.C. Code Ann. Section 12-7-1410 (Law. Co-op. Supp. 1988)

AUTHORITY: S.C. Code Section 12-3-170

SCOPE: A Private Letter Ruling is a temporary document issued to a taxpayer, upon request, and it applies only to the specific facts or circumstances related in the request. Private Letter Rulings have no precedential value and are not intended for general distribution.

Question:

Can the ABC Group have a different South Carolina and federal taxable year and, therefore, file one less return for state purposes?

Facts:

ABC, Inc. and its subsidiary corporations are currently calendar year income tax filing corporations. On April 28, 1989, the "ABC Group" completed the acquisition of 100% of the ownership of ABC, Inc. and its subsidiary corporations. As a result of this change in ownership, the "ABC Group" is contemplating an accounting period change under one of the following two possible scenarios:

(1) The ABC Group will remain calendar year taxpayers. However, for federal income tax reporting purposes, the consolidated group will be required to file two returns for 1989 solely because of the change in ownership. The first federal return will cover the period from January 1, 1989, to April 28, 1989 (the closing date of the acquisition). The second federal return will cover the period from closing date to December 31, 1989. The ABC Group would not change its accounting period under this scenario, and the ABC Group would remain on its historic calendar year filing basis for succeeding federal and state income tax filing years.

(2) The ABC Group will change its accounting period for federal income tax reporting purposes. However, the beginning of the new fiscal year of the Group will not coincide with the closing date of the acquisition. Under this scenario, the Group

will be required to file three federal income tax returns to cover 1989. Because of the change in ownership caused by the acquisition, a federal return will be required to cover the period from January 1, 1989, to April 28, 1989. Because of the change in federal accounting period, a second short period return will be required to cover the period from April 28, 1989, to the end of the new federal income tax accounting period in 1989, and a third federal return will be required to cover the period from the beginning of the new federal accounting period through the succeeding twelve months. All succeeding federal income tax returns and state income tax returns would be filed on a fiscal year basis beginning on the first day of the new federal accounting period.

Based upon the above two scenarios, the "ABC Group" requests written advice as to South Carolina's requirements concerning the number of income tax returns that will be required to properly report the income of the "ABC Group" for the year 1989.

The ABC Group requests under Scenario Number 1 that the state rule that only one return is required to properly report income for 1989. This determination is requested because requiring two returns in this scenario would be both unnecessary and inefficient. Because there will be no substantive change in the nature or business of the ABC Group filers in the state pre- and post-acquisition, it is contended that requiring a single return for the 1989 calendar year will fully protect all state revenues and will greatly ease the administrative burden on the state by reducing its return review and processing workload. Likewise, the filing of a single return for each legal entity with tax nexus with the state will reduce the taxpayers' workload by eliminating the completion and filing of an additional return for part of 1989.

Under Scenario Number 2, the ABC Group requests that no more than two returns be required in order to properly comply with the state's income tax reporting requirements for 1989. In the interest of efficiency and economy, at most, the state should require one return for the period from January 1, 1989 to the date of the change in accounting period made for federal income tax reporting purposes, and one return to cover the twelve month period beginning in 1989 with the first day of the new federal accounting period.

Discussion:

S.C. Code Section 12-7-1410 provides in part:

- (a) A taxpayer's taxable year under this chapter must be the same as his taxable year for federal income tax purposes.
- (b) If a taxpayer's taxable year is changed for federal income tax purposes, his taxable year for purposes of this chapter is similarly changed without applying to the Commission, but the taxpayer must provide the Commission with a copy of the written permission received from the Internal Revenue Service.

Thus, the reporting requirements at the state level are identical to those at the federal level.

Conclusion:

Section 12-7-1410 states that the South Carolina and federal taxable year must be the same. Therefore, regardless of the scenario chosen, the "ABC Group" will be required to file with South Carolina the same number of returns as required for federal reporting purposes.

SOUTH CAROLINA TAX COMMISSION

s/S. Hunter Howard Jr.

S. Hunter Howard, Jr., Chairman

s/A. Crawford Clarkson Jr.

A. Crawford Clarkson, Jr., Commissioner

s/T. R. McConnell

T. R. McConnell, Commissioner

Columbia, South Carolina
August 23, 1989