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Letter from Frank A. Gale, Assistant Secretary, American Institute of Accountants, to Members of the Committee on Natural Business Year, Re: Excerpt from an Address on Administration of the Federal Income Tax, by Norman D. Cann.

Frank A. Gale

Norman D. Cann

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1/26/45

American Institute of Accountants

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THE NATIONAL ORGANIZATION OF CERTIFIED PUBLIC ACCOUNTANTS

13 EAST 41ST STREET, NEW YORK 17, N. Y.

January 26, 1945.

To the Members of the
Committee on Natural Business Year-

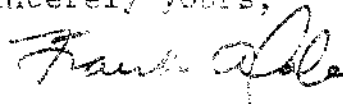
Gentlemen:

For your information, we are sending to you a quotation from an address by Norman D. Cann, Deputy Commissioner of Internal Revenue, presented before the New York State Society of Certified Public Accountants at a meeting in New York on November 27, 1944.

Please note that Mr. Cann states the Bureau of Internal Revenue desires to cooperate with taxpayers who wish to establish natural taxable years or who have other sound reasons for change, and urges that all questions in Form 1128 be answered completely. Mr. Cann also states:

".....the Bureau holds that the natural year should end with a month which is near the close of the peak period or the end of the season's operations, as the case may be".

Sincerely yours,



Assistant Secretary

Frank A. Gale..*

Encl.

From: The American Institute of Accountants
To: Members of the Committee on Natural Business Year

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*** Extract ***

From an address on
ADMINISTRATION OF THE FEDERAL INCOME TAX
by
Norman D. Cann
Deputy Commissioner of Internal Revenue

At a Meeting of
The New York State Society of Certified Public Accountants
November 27, 1944

"The Bureau looks with disfavor on changes in taxable years which are requested merely for the purpose of a tax saving or a tax deferment. However, it desires to cooperate with taxpayers who wish to establish a natural taxable year or who for other sound business reasons desire to change their taxable years.

"In general, Section 29.41-4 of Regulations 111 provides that the return of a taxpayer is to be made and his income computed for his taxable year, which in general means his fiscal year, or the calendar year if he has not established a fiscal year. Except in the case of a taxpayer making his first return, the regulations require that he shall make his return upon the same basis used in making his return for the preceding taxable year, unless of course, the taxpayer has received approval from the Commissioner to change.

"Applications for a change in taxable years must be made on Form 1128 at least 60 days prior to the close of the fractional part of the year for which a return would be required to effect the change. As stated a moment ago, applications for such changes must be examined with a view to determining whether or not the change would result in establishing a natural taxable year. For this reason, it is to the mutual advantage of both taxpayers and the Bureau that all questions asked on Form 1128 be answered completely. This will enable prompt and intelligent action upon such applications.

"In deciding what is a natural year for any taxpayer, consideration should be given to the nature of the business and the flow of its income. In a business where income is more or less uniform every month, as is usually the case in the rental of apartments in an apartment building, the year could readily close at the end of any month.

"In the case of seasonal businesses in which income may be high at certain times of the year and low at other times of the year, the Bureau holds that the natural year should end with a month which is near the close of the peak period or the end of the season's operations, as the case may be.

"Under this principle a department store, which normally has a peak period ending on or about December 31st, should use a year ending on either December 31 or January 31, while a construction

company which is idle during the winter months should use a year ending soon after the completion of the construction season.

"When a natural year is used it will result in the inventory being taken after the rush period when the stock of goods on hand is at or near the minimum and the work of closing the books and preparing reports and returns can be done during the slack period when adequate time is available for that purpose. If the accounting period were to end at the close of the slack period this work would have to be done during the rush period when less time is available for such purposes. You will observe that the above idea of a natural year corresponds very closely with the recommendations of the Natural Business Year Council which was formed to distribute information about the natural business year and to promote its adoption. Experience has shown that a large majority of the taxpayers already use accounting periods which correspond to the above principle and others are requesting changes to a natural year when they understand the advantages of such an accounting period."

January 26, 1945.