

## **EITF ABSTRACTS**

**Issue No. 88-4**

**Title:** Classification of Payment Made to IRS to Retain Fiscal Year

**Date Discussed:** January 28, 1988

### **ISSUE**

On December 22, 1987, the Revenue Act of 1987 was enacted, which allows partnerships and S corporations to elect to retain their fiscal year rather than adopt a calendar year for tax purposes as previously required by the Tax Reform Act of 1986. Entities that elect to retain a fiscal year are required to make an annual payment in a single installment each year that approximates the income tax that the partners-owners would have paid on the short-period income had the entity switched to a calendar year.

The issue is how the payment should be recorded in the financial statements of the entity.

### **EITF DISCUSSION**

The Task Force reached a consensus that partnerships and S corporations should account for the payment as an asset. Task Force members viewed the payment as a deposit that is adjusted annually and will be realized when the entity liquidates, its income declines to zero, or it converts to a calendar year-end. Some Task Force members noted that the payment is made by the entity and is not identified with individual partners-owners. They also observed that the amount is not adjusted if a partner-owner leaves the entity.

### **STATUS**

No further EITF discussion is planned.