

# Short Period Calculations

Many provisions of the Single Business Tax Act require that various elements of the tax base be "prorated" or "annualized" on short period returns. A short period return is one covering a tax year of less than 12 months.

## Proration

The procedure is to take an annual amount and multiply it by a fraction. The numerator of the fraction is the number of months in the tax year. The denominator is 12. This fraction is only applied to specific amounts provided in the Single Business Tax Act. The following are the elements of the Single Business Tax Base and the amount specified in that Act:

	<i>Amount</i>
Gross Receipts filing Requirement	\$350,000
Statutory exemption: Regular	\$45,000
Statutory exemption: Additional	\$12,000
Small business credit:	Part year active shareholder Percentage of outstanding stock ownership

## Example:

Taxpayer starts business on 10/1/85. A calendar year is elected. The maximum statutory exemption for this taxpayer is calculated as follows:

1. Maximum statutory for a 12-month year is \$40,000.
2. Proration fraction:
  - a. Numerator is the number of months in the tax year: (10/85 - 12/85) 3 Months.
  - b. Denominator is 12
  - c. Fraction is 3/12.
3. Maximum allowable statutory is  $\$40,000 \times 3/12 = \$10,000$ .

## Annualizing

The procedure is to take a short period amount (such as gross receipts) and extend it to determine what it would have been for 12 months. The mathematical computation is to multiply the short period amount by a fraction. The numerator is 12. The denominator is the number of months in the short tax year.

The fraction is applied against actual figures developed in the taxpayer's books and records. The following are the elements of the Single Business Tax base affected by annualizing:

1. Business income for unincorporated/sub S credit
2. Small business credit: gross receipts
3. Small business credit: adjusted business income
4. Small business credit: part-year shareholder, adjusted business income.
5. Small business credit: part-year shareholder, compensation and director's fees.

**Example:**

Taxpayer starts business of 10/1/85. A calendar year is elected. Gross receipts for the period are \$3,000,000. To determine if the taxpayer qualifies for a small business credit, under the provision that gross receipts do not exceed \$6,000,000, the following calculations are made:

1. Annualizing fraction:
  - a. Numerator is 12
  - b. Denominator is the number of months in the tax year (10/85 - 12/85) 3 Months.
  - c. Fraction is 12/3.
2. Gross receipts for small business credit is  $\$3,000,000 \times 12/3 = \$12,000,000$ .

The taxpayer does not qualify for the small business credit.

Our firm provides the information in this whitepaper for general guidance only, and does not constitute the provision of legal advice, tax advice, accounting services, investment advice, or professional consulting of any kind. The information provided herein should not be used as a substitute for consultation with professional tax, accounting, legal, or other competent advisers. Before making any decision or taking any action, you should consult a professional adviser who has been provided with all pertinent facts relevant to your particular situation. Tax articles in this whitepaper are not intended to be used, and cannot be used by any taxpayer, for the purpose of avoiding accuracy-related penalties that may be imposed on the taxpayer. The information is provided "as is," with no assurance or guarantee of completeness, accuracy, or timeliness of the information, and without warranty of any kind, express or implied, including but not limited to warranties of performance, merchantability, and fitness for a particular purpose.