

# **IRC Section 1377(a)(2)**

## **Election to Terminate S Corporation Year**

### **Overview**

Generally, the determination of each shareholder's share of any item (income, deduction, credit, etc.) is determined on a per-share, per-day basis pursuant to 1377(a)(1). If a shareholder in an S corporation terminates his or her entire interest in the corporation, 1377(a)(2) permits the corporation to elect to have the 1377(a)(1) rules applied as if the taxable year consisted of two taxable years. The first taxable year ends on the date of the termination. A 1377(a)(2) election allows the shareholder who terminated his or her interest in the S-corporation to recognize only the pro rata share of items attributable to the portion of the year through the termination date.

In order to make the 1377(a)(2) election, the S corporation must have the written consent of each person who was a shareholder in the corporation **at any time** during the taxable year. In addition, the election statement must be signed by an individual authorized to sign the corporation's income tax return.

### **When to File**

The 1377(a)(2) election is made by attaching a statement to the S corporation's income tax return for the year in which a shareholder's interest was terminated. The election must be made no later than the due date, including extensions, of the S corporation's return.

### **Where to File**

The election statement must be attached to the corporation's timely-filed return, which is mailed to the designated Internal Revenue Service Center.

### **Index**

1. Code Section: 1377
2. Topic: S Corporations
3. Return Type: 1120S

## **Authorities**

IRC 1377(a)(2); Reg. 18.1377-1