Table of Contents

TAB 1: Introduction 1

Table 2. Legal Forms of Organization, 2017 1

Types of Entities 2

Types of Business Returns 6

TAB 2: Accounting 7

Accounting Overview 7

Types of Financial Accounts 7

Assets Chart 7

Liabilities Chart 8

Equity Chart 8

Revenue Chart 9

Cost of Goods Sold Chart 9

Selling, General and Administrative Expenses Chart 9

Depreciation and Amortization Chart 10

Interest Chart 10

Tax Expense Chart 10

Debits and Credits 11

Accounting Methods 11

Cash 11 Accrual 12

Hybrid 12

Inventory Accounting Methods 13

Accounting Periods 14

Financial Reporting Frameworks 14

Trial Balance, and Reconciliation of Accounts 15

Basic Trial Balance Reconciliations and Adjustments 15

Assets 15

Liabilities and Equity 18

Income Statement Accounts 23

Revenues 23

Expenses 24

Business Related Meals Chart 28

Other Income and Expenses 31

Book to Tax Reconciliation 32

EIN Issues – When Do I Need A New EIN? 34

Sole Proprietors 34

Corporations 34

Partnerships 35

TAB 3: Depreciation 37

Basis 37

Ownership & Qualification 38

Timing 40

Calculating Depreciation 41

Methods 42

3-year property 42

5-year property 42

7-year property 43

10-year property 43

15-year property 43

20-year property 43

25-year property 43

27.5-year property 43

39-year property 43

Table A-1. 3, 5, 7, 10, 15 & 20-Year Property Half-Year Convention 44

Chart: Changes from TCJA, Secure Act, Families First Act and CARES Act 45

In Service Date MACRS Depreciation Lives & Issues 47

Applicable Life 49

Repairs and Maintenance 50

Summary of the Rules 51

Materiality of Repairs Determines Expense versus Capital 55

Capital Expenses 57

Amounts Paid to Acquire or Produce Tangible Property 58

Amounts Paid to Improve Property 58

Betterment 59

Restoration 59

Bonus Depreciation 61

QIP recovery period/bonus summary 62

Bonus Qualifying Assets 65

Non-Qualified Property 65

Electing Out of Bonus Depreciation 66

Property bought and sold in the Same Year 66

The Bonus Depreciation Trap 67

Luxury Property 68

What are the Section 280F depreciation limits? 69

Depreciation Limits for Vehicles 1st in Service after 2017 69

SUV, Trucks and Vans > 6,000 GVWR 70

Depreciation Summary for 2024 -Assumes >50% Business Use 71

Section 179 73

Property 74

Qualified improvement property 75

Section 179 Limitations 75

Luxury Property 76

Married Filing Jointly 76

Purchase Limit 76 Business Income Limit 77

Taxable income adjustments for Sec 179 income deduction limit 78

Section 179 Carryovers 78

Section 179 Recapture 79

Vehicles Excepted from Listed Property Definition 80

Record Keeping Requirements for Listed Property 81

Leased Property 83

Rev. Proc. 2024-13 Table 3 84

How to determine the lease inclusion amount 84

Auto Lease Inclusion Amount 85

Amortization-In General 85

Form 4562 Amortization Codes 87

What Constitutes a “Section 197 Intangible Asset”? 89

Business Startup & Organization Costs 90

Computer Software 90

Lease Acquisition Cost 91

Depletion-In General 92

IRS Percentage Depletion Rates at (IRC Sec. 613) 93

Cost Depletion 93

Water Depletion 95

Timber Depletion 96

Percentage Depletion 97

Depletion Recapture 97

Manufacturer’s and Producer’s Deduction 98

TAB 4: Fringe Benefits 99

Overview 99

General rules for Qualified Fringe Benefits 99

Accountable VS Non- Accountable Plans 100

Sample accountable plan 101

Qualified Allowable Business Expenses for Employer Reimbursement 103

How to deduct fringe benefits for 2% shareholders in S Corporations 105

Definitions that apply to Fringe Benefit Plans 106

Treatment Under Employment Taxes Chart 108

Accident & Health Benefits 109

Section 106 health insurance benefits 109

Overview 109

The requirement to provide insurance 110

The Self-employed health insurance deduction rule for Form 1040 112

Health Care Fringe Benefits Chart 113

The Qualified Small Employer HRA 114

QSEHRA contributions limits 114

Steps to establish an SEHRA 115

Model Attestation for Initial Proof of MEC 116

Achievement Awards 117

Adoption Assistance 119

Cafeteria Plans 120

Health FSA Savings 125

De Minimis Fringes 126

When are Meals 100% or 50% Deductible for 2023 but free to employees? 127

Dependent Care Assistance 128

Educational Assistance Programs 129

Sample Educational Assistance Plan 131

Employer Provided Cell Phones 132

Employee Discounts 132

Employee Stock Options 133

Group Term Life Insurance 134

Lodging 136

Meals 139

Authoritative Ex: Meals Meeting Substantial Business Purpose Test 141

Meals that do not meet the tests and are therefore taxable 142

Moving Expense Reimbursements 142

No Additional Cost Services 142

Product Testing 143

Retirement Planning 144

Qualified Transportation Benefits 144

Working Condition Fringes 146

Employer Provided Vehicles & Employee Vehicle Reimbursements 150

Valuing the Employee’s Use of An Employer Provided Vehicle 151

The Commuting Rule 151

The Cents-Per-Mile Rule 152

The Lease Value Method 153

Example: Auto Lease Valuation Rule 155

The Unsafe Commuting Conditions Rule 156

Gifts, Skyboxes, & Entertainment Suites 156

Long Term Care Insurance 157

Miscellaneous Items 159

TAB 5: Additional Items 161

Overview-IRC Section 163(j) Business Interest Limitation 161

2023 Business Interest Comparison Table 162

$30 Million Revenue Test 163

The Limits-use IRS Form 8990 164

Pass Through Entities 167

Excess taxable income 167

Excess business interest income 167

Schedules K-2 and K-3 169

Schedule K-2 specific guidance for businesses without foreign activity or owners 171

TAB 6: C Corporations 175

Introduction 175

Operational Tax Advantages of the C Corporation 176

Operational Tax Disadvantages of C Corporations 176

General C Corporation Issues-IRS Pub. 542 177

Filing Issues-All entities taxed as C Corporations file IRS Form 1120 177

Special C Corporation Issues 182

Capital Gains and Losses 182

Amended Returns 183

Charitable Contributions 183

Dividends Received Deduction 185

Related Parties 186

Net Operating Losses in General 187

Chart: NOL Carrybacks 189

Reasonable Compensation 190

Distributions & Redemptions 192

Form 1099-DIV 196

Form 5452 197

Worksheet for Figuring Current Year Earnings and Profits 199

Form 8937 200

C Corporation Non-Liquidating Distributions 202

Other- UTP Threshold 203

Reporting of Schedule UTP 204

Policy of Restraint 204

Schedule UTP 205

Alternative Minimum Tax 208

Accumulated Earnings Tax 209

AET-Pertinent Law 210

The AET-Reasonable Accumulation Needs 210

The AET-Key Court Cases and Arguments for Accumulation 212

Favorable Arguments to Refute the AET-Specific Court Cases 213

The AET-Factors to Avoid 213

Calculation 214

The Tax Calculation 217

Ordinary Gross Income, Adjusted Ordinary Gross Income, & PHC Test 218

Personal Service Corporations 219

Tax Characteristics of the PSC 219

The PSC Definition 220

Which rules apply on the 1120? 223

The PSC-Summary 223

Filing Form 1120 – C-corporation return 224

Tax return Preparation 225

Who Must File 226

When to File 226

Who Must Sign 227

Where to File 228

How to Pay Taxes 229

Line Instructions for the Form 1120 229

Name and Address 229 Personal Holding Corporation – Box A2 229

Personal Service Corporation – Box A3 229

Schedule M-3 Attached – Box A4 230

Employer Identification Number – Item B 230

Date Incorporated – Item C 230

Total Assets – Item D 230

Initial Return – Box E1 230

Final Return – Box E2 230

Name Change – Box E3 231

Address Change Boxes – Box E4 231

Income 231

Deductions 232

Schedule J – Tax Computation and Payment 235

Schedule K – Other Information 235

Schedule L – Balance Sheet per Books 239

Schedule M-1 239

Case Study – C Corporation 240

Form 1120 241

TAB 7: Qualified Business Income 247

Specified Service Trades or Businesses 248

W-2 Wages 249

Unadjusted Basis Immediately After Acquisition (UBIA) of Qualified Property 249

Section 199A Dividends 249

Aggregation 250

TAB 8: S Corporations 251

S Corporations information from the SBA 251

Table 2. Legal Form of Organization, 2017 251

Figure 2: Net New Jobs, 2000-2019 251

What is the role of small business in the economy? 251

Operating Issues 252

Tax/Compliance Issues 253

Form 2553 254

Special LLC Issues 258

Fringe Benefits for >2% Shareholders 259

Fringe Benefit Chart 260

How to deduct fringe benefits for 2% shareholders in S Corporations 261

QBI, Health Insurance and Software Problems 264

S Corp pays state tax for shareholders to avoid SALT limits 265

Shareholder Income Allocation 267

Example Illustrating Pro-Rata vs. Closing of Books Election 270

Charitable Contributions 271

Shareholder Expenses 272

Home Office Expenses 272

Overview of S Corporate Equity Accounts 275

S Corp. Distribution Ordering, Basis & Taxability Rules 275

Net Negative Adjustment-Ordering Rules for AAA 278

Example 1: Net Negative Adjustment 278

Distribution Computation When Accumulated Earnings & Profits Exist 281

Distributions 282

Hierarchy of Cash & Property Distributions 282

S Corporation Distributions 284

Elections regarding Distributions 288

Election & Shareholder Consent to Deemed Dividend 290

Election & Shareholder Consent to Distribute E&P Before AAA 290

Preparation of the S corporation Return 291

General Information 291

Amending an S-Corporation Return 291

Reportable Transaction Disclosure Statement 291

At-Risk Rules 291

Passive Activity 292

Self-Charged Interest 292

Grouping Activities 292

Net Investment Income Tax Reporting 293

Reasonable Compensation 293

Line by Line Instructions Form 1120S 295

Where to File 298

When to File 298

Form 8716 300

Who Must Sign 300

Tax Payments 301

Name and Address 301

S-Corporation Effective Date – Box A 302

Business Code – Item B 302

Schedule M-3 Attached – Box C 302

Employer Identification Number – Item D 302

Date Incorporated – Item E 302

Total Assets – Item F 302

Electing to be an S Corporation – Item G 302

Final Return, Name or Address Change, Amended Return/S Election Termination 302

Item J 303

Income 303

Deductions 305

Schedule B – Other Information 310

Schedule K 312

Deductions 315

Credits 317

Alternative Minimum Tax Items 319

Items Affecting Shareholder Basis 319

Other Information 320

Schedule L – Balance Sheets per Books 322

Schedule M-1 323

Schedule M-2 324

Case Study – S Corporation 324

Form 1120-S 325

Schedule K-1 330

TAB 9: Partnerships 331

Introduction 331

General Partnerships 331

Limited Partnerships 332

Limited Liability Partnerships 333

Limited Liability Company 333

OLD IRS Audit Guide for Partnerships Issues 334

Husband-Wife Partnerships 335

Member Compensation 339

4 Main SE Tax Imposition Rules of the 1997 Proposed Regulations 341

Transfers of Partnership or LLC Ownership Interests 351

Example of pre-contribution gain allocation 352

Example of partnership agreement for unreimbursed partnership expenses 354

Capital Accounts 354

Beginning capital account balance-tax basis method not previously used 355

Capital Accounts Do Not Represent Basis! 356

Capital accounts may be less than zero, basis can’t be less than zero. 357

Preparation of the Form 1065 359

Amending a Partnership Tax Return 359

Reportable Transaction Disclosure Statement 359

At-Risk Rules 360

Passive Activity 361

Self-Charged Interest 361

Grouping Activities 361

Net Investment Income Tax Reporting 361

Section 721(c) Partnership 362

Line by Line Instructions Form 1065 362

Filing Requirements 365

Termination of the Partnership 365

Where to File 365

When to File 367

Who Must Sign 367

Penalties 367

Tax Payments 368

Name and Address 368

Item A - Principal Business Activity 368

Item B - Principal Product or Service 368

Item C - Business Code Number 368

Item D - Employer Identification Number 368

Item E - Date Business Started 368

Item F - Total Assets 368

Item G - Initial Return, Final Return, Name or Address Change/Amended Return 369

Item H - Check Accounting Method 369

Item I - Number of Schedules K-1 369

Item J - Check if Schedules C and M-3 are attached 370

Item K - Check if the partnership 370

Income 370

Deductions 372

Schedule B – Other Information 378

Schedule K and K-1 383

Income 383

Deductions 387

Self-Employment 389

Worksheet for Figuring Net Earnings (Loss) from Self-Employment 390

Credits 391

Alternative Minimum Tax Items 393

Tax-Exempt and Nondeductible Expenses 394

Distributions 394

Other Information 394

Statement A- QBI Pass-Through Entity Reporting 396

Analysis of Net Income (Loss) 397

Schedule L – Balance Sheets per Books 398

Schedule M-1 – Reconciliation of Income (Loss) With Income (Loss) per Return 399

Schedule M-2 – Analysis of Partners’ Capital Accounts 400

Case Study – Partnership 402

Form 1065 403

Schedule K-1 409