

Table of Contents

Business Entities	1
Objectives:.....	1
General Information.....	2
Sole Proprietorship.....	2
Partnership	2
Corporation.....	4
Limited Liability Company.....	4
Employer Identification Number	6
Employee or Independent Contractor	7
Books and Records	9
Accounting Periods	9
Calendar Year	10
Fiscal Year.....	10
Short Tax Year	11
Accounting Methods.....	11
Cash Method	11
Accrual Method.....	13
Hybrid Method	14
Inventories	15
Change in Accounting Method	16
Capital Expenses	17
Basis of Assets.....	18
Cost Basis	18
Basis Other Than Cost	18
S Corporation Stock	20
Basis Reference Chart	22
Business Entities Review Questions	23
Business Entities Review Answers	29
Income, Loss and Expenses	31
Objectives:.....	31
Income.....	32
Business Income	32
Prepaid Income	34
Items Not Considered Income	35
Expenses.....	36
Cost of Goods Sold	36
Inventories	38
Business Expenses	42
Depreciation, §179 Deduction, Amortization and Depletion	69
Net Operating Loss	89
Determining the NOL.....	91

When to Use an NOL	91
Alternative Minimum Tax Net Operating Loss	93
Reportable Transactions	94
Income, Loss and Expenses Review Questions	95
Income, Loss and Expenses Review Answers.....	115
Sales, Exchanges, Credits, Farming and SE Tax	121
Objectives:.....	121
Sales and Other Dispositions	122
General Information.....	122
Like-kind Exchange	123
Other Nontaxable Exchanges.....	127
Other Transfers	128
Reporting Gains and Losses	131
Depreciable Property.....	132
Business Credits	135
General Business Credit.....	135
Credits For Which Separate Limit Applies.....	141
Special Rules for Farming	145
Farm Income	146
Farm Income Averaging	150
Farm Expenses	151
Employment Tax Responsibilities.....	152
Self-employment Tax	153
Self-employment Income.....	154
Sales, Exchanges, Credits, Farming and SE Tax Review Questions	157
Sales, Exchanges, Credits, Farming and SE Tax Review Answers.....	171
Partnerships	177
Objectives:.....	177
Forming a Partnership.....	178
Family Partnerships.....	178
Partnership Agreement.....	180
Contributions of Property.....	180
Contribution of Services	181
Exclusion From Partnership Rules	182
Tax Year.....	183
Exceptions	184
Terminating a Partnership	185
Converting to LLC.....	186
Partnership Distributions	186
Partner's Gain or Loss.....	187
Partner's Basis for Distributed Property	188
Partner's Dealings with Partnership	189
Sale or Exchange of Property.....	189
Guaranteed Payments.....	190

Form 1065	191
Penalties.....	192
Electronic Filing	193
Income or Loss.....	194
Partnership	194
Uniform Capitalization	197
Distributive Share	197
Reporting Distributive Share.....	199
Schedules L, M-1, M-2 and M-3	199
Partner Provisions	200
Basis of Partner's Interest	200
Limits on Losses.....	202
Partner's Exclusion and Deductions	204
Disposition of a Partner's Interest	205
Sale, Exchange or Other Transfer.....	205
Liquidation of Partner's Interest.....	206
Partnership Review Questions	209
Partnership Review Answers	228
Corporations.....	235
Objectives:.....	235
General Requirements	236
Personal Service Corporation.....	236
Paying and Filing Income Taxes	237
Accounting Methods and Periods.....	240
Transfers to a Corporation	241
Exchange of Property for Stock.....	241
Stock for Services.....	243
Basis Rules on Property Transfers.....	244
Transferor	244
Corporation.....	245
Capital Contributions	245
Nonshareholder Contributions.....	245
Bond Premiums	246
Preoperational Expenses	247
Start-up Costs.....	247
Organizational Costs	247
Amortization.....	248
Income and Deductions.....	248
Below-market Loans.....	248
Charitable Contributions	249
Dividends-received Deduction.....	251
Losses	253
Capital Losses	253
Net Operating Loss.....	254

Passive Losses.....	255
At-risk Limits	255
Corporate Tax	255
Tax Rates	256
Credits	257
Alternative Minimum Tax	258
Accumulated Earnings Tax.....	258
Corporate Earnings and Profits	260
Schedule M-3	261
Distributions.....	262
Money or Property Distribution	262
Distribution of Stock or Stock Rights	262
Constructive Distribution.....	263
Reporting Dividends and Other Distributions	264
Liquidation	265
Controlled Groups	267
Related Persons and Constructive Ownership.....	268
Shareholder Basis	270
Reportable Transactions	271
Corporation Review Questions.....	273
Corporation Review Answers	298
S Corporations	307
Objectives:.....	307
Eligible Corporations	308
Requirements for S Corporation Status.....	308
Other Shareholder Options.....	309
Electing S Corporation Status	311
Basics of S Corporations.....	314
Pass-through Entity	314
Form 1120S.....	315
General Instructions	315
Penalties.....	316
Electronic Filing	317
Accounting.....	317
Income and Expense Items	318
S Corporation Taxes.....	321
Basis.....	324
Stock Basis.....	324
Loan Basis.....	325
At-risk Limitations	326
Passive Activity Limitations	326
Accumulated Adjustments Account.....	327
Distributions.....	328
Termination	329

Terminating S Corporation Status	329
Ceasing to Qualify	330
Termination of a Shareholder's Interest	331
S Corporation Review Questions	333
S Corporation Review Answers.....	346
Trusts, Retirement and Exempt	351
Objectives:.....	351
Form 1041	352
General Trust Information.....	352
Distributable Net Income	353
Fraudulent Trusts	354
Separately Stated Items	355
Income Distribution Deduction.....	355
Filing	355
Self-employed Retirement Plans.....	356
Simplified Employee Pension.....	356
Savings Incentive Match Plans for Employees.....	358
Qualified Plans	360
Penalties and Reporting	367
Penalties.....	367
Retirement Savings Contributions Credit	369
Pension Start-up Costs.....	369
Retirement Plan Reporting	370
Exempt Organizations	375
Exemption.....	375
Filing	375
Tax.....	376
Contributions	377
Trust, Plans and Exempt Review Questions	381
Trust, Plans and Exempt Review Answers	392
Formulas and Worksheets	395
Index	409