

# Table of Contents

<b>Business Entities</b> .....	<b>1</b>
General Information.....	1
Sole Proprietorship.....	1
Partnership .....	2
Corporation.....	4
S Corporation .....	5
Farmers .....	5
Exempt Organizations .....	6
Limited Liability Company.....	7
Employer Identification Number .....	8
Employee or Independent Contractor .....	10
Books and Records .....	12
Accounting Periods .....	13
Calendar Year .....	14
Fiscal Year.....	15
Short Tax Year .....	15
Accounting Methods.....	15
Cash Method .....	16
Accrual Method.....	18
Hybrid Method .....	22
Inventories .....	22
Wage Reporting Requirements .....	24
W-2 Wage and Tax Statement .....	24
W-4 Employees Withholding .....	25
Form 1099-MISC.....	25
Hobby vs. Business.....	26
Determination .....	27
Reporting.....	28
Business Entities Review Questions .....	29
Business Entities Review Answers .....	33
<b>Partnerships</b> .....	<b>37</b>
Definitions.....	37
Income, Expenses, Distributions, and Flow-through .....	38
Separately Stated.....	38
Partnership Choices .....	39
Partnership Passive Activity .....	40
Portfolio Income.....	41
Uniform Capitalization .....	42
Distributive Share .....	42
Schedules L, M-1, M-2 and M-3 .....	44

Self-employment Income.....	45
Family Partnerships.....	47
Spousal Business.....	48
Partnership Distributions.....	49
Partner's Gain or Loss.....	50
Partner's Basis for Distributed Property.....	51
Partner's Dealings with Partnership.....	53
Sale or Exchange of Property.....	53
Guaranteed Payments.....	54
Contributions of Property.....	55
Basis of Partner's Interest.....	56
Adjusted Basis.....	57
Effect of Partnership Liabilities.....	58
Limits on Losses.....	59
Partner's Exclusion and Deductions.....	61
Disposition of a Partner's Interest.....	62
Sale, Exchange, or Other Transfer.....	62
Liquidation of Partner's Interest.....	63
Forming a Partnership.....	64
Partnership Agreement.....	65
Terminating a Partnership.....	65
Converting to LLC.....	65
Form 1065.....	66
Penalties.....	67
Tax Year.....	68
Electronic Filing.....	73
Contribution of Services.....	73
Debt Discharge.....	74
Partnership Review Questions.....	77
Partnership Review Answers.....	81
<b>Corporation Operations.....</b>	<b>85</b>
Filing Requirements.....	85
Penalties.....	86
Final Return.....	87
Accounting Methods and Periods.....	87
Recordkeeping.....	88
Corporate Earnings and Profits.....	88
Schedule M-3.....	89
Distributions.....	90
Money or Property Distribution.....	90
Distribution of Stock or Stock Rights.....	91
Constructive Distribution.....	91
Reporting Dividends and Other Distributions.....	92
Income, Deductions, and Special Provisions.....	97

Cost of Getting Started .....	97
Related Persons .....	101
Below-market Loans .....	103
Charitable Contributions .....	103
Dividends-received Deduction .....	106
Credits .....	108
Losses .....	108
Capital Losses .....	108
Net Operating Loss .....	109
Passive Losses .....	110
At-risk Limits .....	110
Liquidation .....	111
Redemption .....	113
Distributions to Related Parties .....	114
Taxable Income .....	115
Corporate Tax .....	116
Accumulated Earnings Tax .....	117
Estimated Tax .....	118
Alternative Minimum Tax .....	120
Corporation Operations Review Questions .....	123
Corporation Operations Review Answers .....	127
<b>Forming a Corporation .....</b>	<b>131</b>
Transfers to a Corporation .....	131
Stock for Services .....	131
Exchange of Property for Stock .....	132
Shareholder Basis .....	136
Corporation Basis .....	137
Capital Contributions .....	137
Nonshareholder Contributions .....	138
Bond Premiums .....	138
Controlled Groups .....	139
Parent-subsidiary Group .....	139
Brother-sister Group .....	139
Combined Group .....	140
Apportionment .....	140
Closely Held Corporations .....	141
Personal Service Corporation .....	142
Forming a Corporation Review Questions .....	145
Forming a Corporation Review Answers .....	149
<b>S Corporations .....</b>	<b>153</b>
Requirements for S Corporation Status .....	153
Ineligible Corporations .....	155
Other Shareholder Options .....	155
Electing S Corporation Status .....	157

Pass-through Entity .....	161
Form 1120S.....	161
General Instructions .....	161
Penalties.....	162
Electronic Filing .....	164
Accounting.....	164
Passive Activity Limitations .....	165
Income and Expense Items.....	168
Separately Stated Items .....	169
S Corporation Taxes.....	171
Accumulated Adjustments Account .....	174
Distributions.....	175
Shareholder Provisions .....	176
Allocation of Income, Loss, Expense, and Credit .....	176
Basis.....	178
Termination of S Status.....	183
Revocation.....	183
Ceasing to Qualify .....	183
Passive Investment Income.....	184
Reinstatement .....	184
Termination of a Shareholder's Interest .....	185
Debt Discharge.....	185
Noncash Distributions .....	186
S Corporation Review Questions .....	187
S Corporation Review Answers.....	191
<b>Business Financial Information .....</b>	<b>195</b>
Business Income .....	195
Bartering Income .....	196
Rental Income .....	196
Interest Income.....	197
Dividends.....	198
Miscellaneous Income .....	198
Prepaid Income .....	199
Items Not Considered Income .....	201
Cost of Goods Sold .....	203
Loss Limitations.....	209
Reporting Gains and Losses .....	215
Canceled Debt.....	225
Business Expenses and Deductions .....	226
Employees' Pay.....	227
Rent Expense .....	244
Depreciation, §179 Deduction, Amortization, and Depletion .....	245
Business Bad Debts .....	266
Travel, Meals, and Entertainment.....	268

Interest.....	275
Insurance.....	278
Taxes.....	280
Employment Taxes.....	281
Federal Excise Tax.....	282
Involuntary Conversion.....	283
Other Expenses and Deductions.....	285
Business Credits.....	289
Net Operating Loss.....	300
Business Use of Residence.....	306
Business Assets.....	307
Cost Basis.....	307
Adjusted Basis.....	309
Like-kind Exchange.....	310
Other Nontaxable Exchanges.....	316
Other Transfers.....	317
Basis Other Than Cost.....	321
Additions and Improvements.....	323
Basis Reference Chart.....	326
Sales.....	327
Self-employment Tax.....	328
Self-employment Income.....	329
Reportable Transactions.....	332
Analysis of Financial Records.....	333
Business Activity Classification.....	333
Income Statement.....	334
Balance Sheet.....	334
Change in Accounting Method.....	335
Recapture.....	335
Pass-through Activity.....	337
Reconciliation of Book Income to Tax Income.....	337
Related Party.....	341
Advising the Business Taxpayer.....	348
Filing Obligations.....	348
Deposit Obligations.....	352
Reporting Obligations for Businesses.....	353
Recordkeeping.....	356
Selection of Entity.....	358
Comingling.....	360
Advice on Accounting Method.....	360
Affordable Care Act Compliance.....	361
Small Employer.....	362
Large Employer.....	363
Business Financial Information Review Questions.....	369

Business Financial Information Review Answers .....	381
<b>Specialized Returns and Taxpayers .....</b>	<b>393</b>
Form 1041 .....	393
General Trust Information.....	394
Distributable Net Income .....	397
Income Distribution Deduction.....	398
Exemption and Deductions.....	398
Abusive Trusts.....	399
Income in Respect of a Decedent .....	400
Allocations .....	401
Separately Stated Items .....	402
Filing.....	403
Exempt Organizations .....	404
Exemption.....	404
Filing.....	406
Tax.....	408
Contributions .....	409
Retirement Plans.....	412
Available Plans .....	412
Retirement Savings Contributions Credit .....	423
Retirement Plan Reporting .....	424
Nonqualified Plans.....	426
Penalties.....	427
Nondiscrimination rules .....	429
Special Rules for Farming .....	430
Farm Income .....	430
Farm Inventory .....	434
Depreciation .....	435
Disaster Area Losses .....	435
Farm Expenses .....	436
Employment Tax Responsibilities.....	438
Tax Computation .....	440
Specialized Returns Review Questions .....	443
Specialized Returns Review Answers.....	447
<b>Appendix.....</b>	<b>451</b>
<b>Index.....</b>	<b>469</b>