

Table of Contents

Introduction.....	1
Core Concepts.....	1
Limited liability companies	1
Basis.....	2
Initial basis review.....	2
Adjusting basis.....	4
Accounting methods.....	4
Cash method	5
Accrual method	5
Prepayment	6
Pass-through income.....	7
Passive activity income limitations	8
Material participation	9
Self-employment tax.....	12
Depreciation.....	13
Depreciation elements.....	14
Placed-in-service date.....	15
MACRS depreciation.....	16
Asset class.....	17
Conventions.....	20
MACRS depreciation methods.....	25
Bonus depreciation	27
§179 expensing	30
Amortization.....	38

Listed property	40
Defined	42
Passenger automobiles.....	42
Other property used for transportation	43
Excepted vehicles	43
Business-use requirement.....	44
Annual limit	46
SUV limits	47
Section 280F recapture.....	47
Repair regulations.....	48
Capital expenditures.....	48
Improvements	51
Qualified business income deduction (QBID)	53
Basic formula	54
Qualified business income (QBI)	55
Taxable income limitation.....	55
QBID calculation illustration	56
Cancellation of debt income.....	57
Exclusions.....	57
Transportation and travel costs	59
Local transportation	60
Travel expenses	62
Business use of home	66
Eligibility	66
Business-use portion	73
Bartering income	74

Sole Proprietorship (Schedule C).....	83
Hobby vs. for-profit business.....	84
Safe harbor	85
Postponing determination	86
Factors determining hobby.....	87
Classify activity properly	96
Recordkeeping.....	97
Start-up costs	99
Election to deduct	99
How to make the election.....	100
Schedule C	100
Income (Part I).....	103
Gross receipts or sales sources (Part I, Line 1)	103
Cost of goods sold (Part I, Line 4 & Part IV).....	111
Other income (Part I, Line 6).....	115
Expenses (Part II)	116
Advertising	117
Car and truck expenses	117
Commission and fees.....	129
Contract labor	129
Depletion.....	129
Employee benefit programs	129
Insurance other than health.....	130
Interest.....	130
Legal and professional services.....	131
Office expenses	131
Pension and profit-sharing plans	131

Rent or lease.....	132
Repairs and maintenance.....	132
Supplies.....	132
Taxes and licenses	133
Travel and meals	133
Utilities	135
Wages.....	136
Other (Part II, Line 27a, Part V)	136
Depreciation	141
Completing Form 4562	141
Business use of home.....	154
Completing Form 8829	171
Self-employment tax	184
Completing Schedule SE	185
Part I — Self-Employment Tax.....	186
Real Property Rental Activities	201
Exceptions	201
Limited liability companies	202
Accounting method	203
Schedule E overview	203
Rental real estate or royalties	206
Rental activity participation levels	207
Active participation - special \$25,000 loss allowance	208
Real estate professionals	210
Determining tax treatment of passive losses.....	212
Determining tax treatment	214
Personal residence with limited rental use	215
Vacation home rules	215

Rental property with limited personal use	227
Rental of a room in the taxpayer's residence	229
Home office rented to employer	229
Alternative rental activities	231
Donation of right to use vacation home	233
Reporting income (Part I)	233
Undeveloped land rental.....	234
Self-rentals.....	235
Spousal qualified joint venture	236
Rental income	237
Advance rent.....	237
Tenant payment of owner expense.....	238
Security deposit	240
Receipt of property or services.....	240
Lease cancellation payment	241
Purchase option.....	241
Partial interests.....	242
Royalty income	242
Rental expenses	243
Summary	252
Suspended passive activity loss.....	254
Types of rental activity not reported on Schedule E.....	260
Personal property	260
Not-for-profit rental.....	260

Rentals and QBID	261
Rental real estate enterprise	262
The safe harbor test	262
Safe harbor statement.....	263
Rental services.....	264
Ineligible property	264
Self-rentals.....	265
Schedule E - Rental Comprehensive Illustration	265
Reporting Pass-Through Activity.....	286
Partnerships and S corporations	286
Basis limitations overview.....	286
Partner outside basis.....	289
Initial outside basis	290
Adjustments.....	292
Outside basis vs. capital accounts	298
Partnership liabilities	298
Shareholder basis	300
Stock basis	301
Debt basis.....	304
Basis worksheet.....	306
At-risk basis-partner	314
Partner at-risk	314
Illustration.....	315
At-risk basis-shareholder.....	318
Passive activities limitation	319
QBI from Schedule K-1	319
QBID illustration.....	322
Schedule E, Part II	324

Schedule K-1	325
Schedule K-1 (Form 1065)	327
Schedule K-1 (Form 1120-S).....	329
Part I - Entity information	331
Part II - Owner information	332
Part III - Allocation of entity's activity	334
Other reportable items – partners.....	378
Other reportable items – shareholders	386
Schedule E, Part IV	393
Case Study.....	394
Index.....	413