

Table of Contents

Forming a C Corporation.....	1
Advantages and disadvantages	2
Advantages of C corporations.....	2
Disadvantages of C corporations	6
Incorporating.....	9
Exchanging cash for stock	10
Exchanging property for stock.....	10
Exchanging services for stock	18
Summary	18
Completing Form 1120	24
Engagement letter	24
1120 — Corporations Tax Return Engagement Letter (Sample).....	24
Tax year.....	26
Accounting method	26
Accrual method.....	27
Exceptions	28
Form 1120 heading	30
Income	32
Gross receipts.....	32
Dividends	33
Interest.....	33
Rental income	34
Royalty income	34
Capital gains	34
Ordinary gain (loss).....	34
Other income	35

Form 1125-A — Cost of Goods Sold	36
Identifying items in inventory.....	36
Valuing inventory	37
Completing Form 1125-A.....	40
Deductions	44
Compensation	45
Repairs and maintenance.....	48
Bad debts.....	48
Rent expense.....	49
Taxes and licenses	49
Interest.....	50
Charitable contributions	51
Depreciation.....	55
Depletion.....	68
Advertising.....	68
Qualified retirement plans	68
Employee fringe benefits	69
Other deductions	70
Taxable income before special deductions	74
Net operating loss deduction	74
Special deductions.....	74
Schedule C — Dividends, Inclusions and Special Deductions	75
Refundable credits and payments	81
Schedule J — Tax Computation and Payment	83
Schedule K — Other Information.....	90
Schedule L — Balance Sheets per Books	96
Assets.....	97
Liabilities and shareholders' equity	99
Schedule M-1 — Reconciliation of Income (Loss) per Books with Income Per Return	101

Schedule M-2 — Analysis of Unappropriated Retained Earnings per Books (Line 25, Schedule L).....	105
Completing the return.....	106
Electronic filing	106
Signing the return.....	107
Refund.....	107
Paying the tax	107
When to file.....	109
Where to file.....	110
Assembling the return	111
Case Study — XYZ Corp.	112
Distributions	154
Taxation of distributions.....	154
Earnings and profits	154
Qualified dividends	160
Types of distributions.....	161
Nonliquidating distributions	161
Liquidating distributions.....	162
Distributions of stock or stock rights	163
Constructive dividends.....	164
Reporting distributions	164
Form 1099-DIV	165
Backup withholding	165
Form 5452	165
Stock basis	167
Appendix.....	176
Index.....	192