

# Table of Contents

<b>Forming a C Corporation.....</b>	<b>1</b>
Advantages and disadvantages .....	2
Advantages of C corporations.....	2
Disadvantages of C corporations .....	6
<b>Incorporating.....</b>	<b>9</b>
Exchanging cash for stock .....	10
Exchanging property for stock.....	10
Exchanging services for stock .....	19
Summary .....	19
<b>Completing Form 1120 .....</b>	<b>24</b>
Engagement letter .....	24
1120 – Corporations Tax Return Engagement Letter (Sample).....	24
Tax year.....	26
Accounting method .....	26
Accrual method.....	27
Exceptions .....	27
Heading .....	30
Income .....	32
Gross receipts.....	32
Dividends .....	33
Interest.....	33
Rental income .....	33
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.....	37
Valuing inventory .....	38
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 .....	52
Depreciation.....	55
Depletion.....	69
Advertising .....	69
Qualified retirement plans .....	69
Employee fringe benefits .....	70
Other deductions .....	71
Taxable income before special deductions .....	76
Net operating loss deduction .....	76
Special deductions.....	77
Schedule C — Dividends, Inclusions, and Special Deductions .....	78
Refundable credits and payments .....	84
Schedule J — Tax Computation and Payment .....	86
Schedule K — Other Information.....	92
Schedule L — Balance Sheets per Books .....	98
Assets.....	100
Liabilities and shareholders' equity .....	102
Schedule M-1 — Reconciliation of Income (Loss) per Books with Income Per Return.....	104

Schedule M-2 — Analysis of Unappropriated Retained Earnings per Books (Line 25, Schedule L) .....	108
Completing the return.....	109
Electronic filing .....	109
Signing the return.....	110
Refund .....	110
Paying the tax .....	110
When to file.....	112
Where to file.....	113
Assembling the return .....	114
Case Study — XYZ Corp.....	115
<b>Distributions .....</b>	<b>137</b>
Taxation of distributions.....	137
Earnings and profits .....	137
Qualified dividends .....	143
Types of distributions.....	144
Nonliquidating distributions .....	144
Liquidating distributions.....	145
Distributions of stock or stock rights .....	146
Constructive dividends.....	147
Reporting distributions .....	147
Form 1099-DIV .....	148
Backup withholding .....	148
Form 5452 .....	148
Stock basis .....	150
<b>Appendix.....</b>	<b>157</b>
<b>Index.....</b>	<b>172</b>