

Table of Contents

Introduction.....	1
Accounting Fundamentals	1
Recordkeeping and accounting methods.....	1
Cash method	3
Accrual method	3
Prepayment	4
Depreciation, bonus, §179 and amortization.....	5
Depreciation elements.....	6
Bonus depreciation	20
§179 expensing	23
Amortization.....	30
Repair regulations.....	32
Capital expenditures.....	33
Improvements	36
Business Vehicles	38
Local transportation	38
Travel expenses	40
Allocating business use.....	43
Substantiation requirements	44
Standard mileage rate vs. actual expenses	45
Leased vehicles	49
Listed property	53
Business use of home	60
Eligibility	60
Business-use portion	67
Deduction limit	70
Expenses used to calculate the deduction	71
Daycare facility	76

Completing Form 8829	77
Simplified method	88
Deductible transportation expenses	95
Sole Proprietor	103
Limited liability company	103
Hobby vs. for-profit business.....	104
Safe harbor	104
Factors determining hobby.....	106
Classification	114
Schedule C.....	116
Heading.....	116
Part I: Income	118
Other types of income	120
Part II: Expenses	127
Advertising.....	128
Car and truck expenses	128
Commission and fees.....	128
Contract labor	129
Depletion.....	129
Depreciation.....	129
Employee benefit programs	132
Insurance other than health	132
Interest.....	133
Legal and professional services.....	133
Office expenses	134
Pension and profit-sharing plans	134
Rent or lease.....	134
Repairs and maintenance.....	134
Supplies.....	135
Taxes and licenses	135

Travel and meals	136
Utilities	138
Wages.....	138
Other expenses	139
Totals, business use of home, profit	139
Part III: Cost of goods sold	142
Part IV: Information on Your Vehicle.....	146
Part V: Other Expenses.....	148
Self-employment tax.....	151
Chapter 11 bankruptcy cases	152
Ministers and members of religious orders	152
Qualified joint ventures	154
Community property income	154
Completing Schedule SE	154
Part I: Self-Employment Tax	155
Part II: Optional Methods to Figure Net Earnings	157
Schedule E: Real Property Rental and Royalty Activities	166
Exceptions	166
Limited liability companies	168
Accounting method	168
Passive vs. nonpassive activity	168
Participation levels.....	170
Tax treatment of passive losses.....	177
Suspended passive activity loss	178
Rental activity reported on Schedule E	184
Personal residence with limited rental use	185
Vacation home rules	186
Rental property with limited personal use	197
Other rental uses.....	199

Types of rental activity not reported on Schedule E	205
Personal property	205
Not-for-profit rental.....	206
Schedule E overview	207
Reporting income and expenses.....	210
Undeveloped land rental.....	211
Spousal qualified joint venture	212
Rental income	212
Other rents received.....	213
Royalties	217
Rental and royalty expenses	217
Summary	225
Rentals and qualified business income deduction	227
Rental real estate enterprise	227
Safe harbor test	228
Safe harbor statement.....	229
Rental services.....	229
Ineligible property	230
Self-rentals.....	230
Schedule E: Comprehensive Illustration of a Rental.....	231
Reporting Pass-Through Activities	249
Partnerships and S corporations	249
Overview of basis limitations.....	250
Material participation	251
Partner outside basis	252
Initial outside basis	253
Adjustments.....	256
Outside basis vs. capital accounts	260
Partnership liabilities	261

Shareholder basis	263
Stock basis	264
Debt basis.....	267
Basis worksheet.....	269
At-risk basis for partner	274
At-risk basis for partner	274
At-risk basis for shareholder.....	278
Passive activity limitation.....	279
QBI from Schedule K-1	279
Part II: Income or Loss From Partnerships and S Corporations.....	284
Schedule K-1	285
Schedule K-1 (Form 1065)	286
Schedule K-1 (Form 1120-S).....	287
Part I: Entity information	288
Part II: Owner information.....	289
Part III: Allocation of entity's activity	291
Other reportable items for partners.....	331
Other reportable items for shareholders	339
Part III: Estates and trusts	346
Part IV: Real estate mortgage investment conduits	347
Part V: Summary	348
Case Study.....	349
Index.....	371