

Table of Contents

Introduction	1
Accounting Fundamentals	1
Recordkeeping and accounting methods.....	1
Cash method	3
Accrual method	3
Prepayment	4
Depreciation, bonus, §179, amortization, and Form 4562	5
Depreciation.....	5
Depreciation elements.....	6
§179 expensing	21
Bonus depreciation	29
Amortization.....	32
Form 4562	34
Capital expense and improvements	40
Capital expenditures.....	40
Improvements	43
Business vehicles	45
Local transportation	46
Travel expenses	47
Allocating business use	51
Substantiation requirements	52
Standard mileage rate vs. actual expenses	53
Leased vehicles	56
Listed property	60
Business use of home	67
Eligibility	67
Business-use portion	74
Deduction limit	76

Expenses used to calculate the deduction	77
Daycare facility	82
Completing Form 8829	83
Simplified method	94
Deductible transportation expenses	101
Sole Proprietor	109
Limited liability company	109
Hobby vs. for-profit business.....	110
Safe harbor	110
Factors determining hobby.....	112
Classification	120
Schedule C.....	122
Heading.....	122
Part I: Income	124
Other types of income	126
Part II: Expenses	133
Advertising.....	134
Car and truck expenses	134
Commission and fees.....	135
Contract labor	135
Depletion.....	135
Depreciation.....	135
Employee benefit programs	135
Insurance other than health.....	136
Interest.....	136
Legal and professional services.....	137
Office expenses	137
Pension and profit-sharing plans	137
Rent or lease.....	138
Repairs and maintenance.....	138

Supplies.....	138
Taxes and licenses	138
Travel and meals	139
Utilities	141
Wages.....	141
Other expenses	142
Total expenses, business use of home, net profit	143
Part III: Cost of Goods Sold	146
Part IV: Information on Your Vehicle.....	150
Part V: Other Expenses.....	152
Self-employment tax.....	155
Chapter 11 bankruptcy cases	156
Ministers and members of religious orders	156
Qualified joint ventures	158
Community property income	158
Completing Schedule SE	158
Part I: Self-Employment Tax	159
Part II: Optional Methods to Figure Net Earnings	161
Schedule E	169
Part I: Income or Loss From Rental Real Estate and Royalties	169
Exceptions	169
Limited liability companies	171
Accounting method	171
Passive vs. nonpassive activity	171
Participation levels.....	173
Tax treatment of passive losses.....	180
Suspended passive activity loss	181
Rental activity reported on Schedule E	188
Personal residence with limited rental use	189
Vacation home rules	190

Rental property with limited personal use	201
Other rental uses.....	203
Types of rental activity not reported on Schedule E	209
Personal property	209
Not-for-profit rental.....	210
Schedule E overview	211
Reporting income and expenses.....	214
Undeveloped land rental.....	215
Spousal qualified joint venture	216
Rental income	216
Other rents received.....	217
Royalties	221
Rental and royalty expenses	222
Summary	230
Rentals and qualified business income deduction	232
Rental real estate enterprise.....	232
Safe harbor test	233
Safe harbor statement.....	234
Rental services.....	234
Ineligible property	235
Self-rentals.....	235
Schedule E: Comprehensive illustration of a rental	236
Reporting Pass-Through Activities.....	255
Partnerships and S corporations	255
Overview of basis limitations.....	256
Material participation	257
Partner outside basis	258
Initial outside basis	259
Adjustments.....	261
Outside basis vs. capital accounts	266

Partnership liabilities	267
Shareholder basis	269
Stock basis	270
Debt basis.....	274
Basis worksheet.....	275
At-risk basis for partner	281
At-risk basis for loans.....	281
At-risk basis for shareholder.....	285
Passive activity limitation.....	286
QBI from Schedule K-1.....	286
Part II: Income or Loss From Partnerships and S Corporations.....	291
Schedule K-1	292
Schedule K-1 (Form 1065)	293
Schedule K-1 (Form 1120-S).....	294
Part I: Entity information	295
Part II: Owner information.....	296
Part III: Allocation of entity's activity	298
Other reportable items for partners.....	337
Other reportable items for shareholders	345
Part III: Income or Loss From Estates and Trusts	352
Part IV: Income or Loss From Real Estate Mortgage Investment Conduits (REMICs)—Residual Holder	353
Part V: Summary	354
Case Study.....	355
Index.....	376