Tax practice Guides and Checklists 1998

American Institute of Certified Public Accountants. Tax division

Tax Practice Guides and Checklists
1998 EDITION

AICPA

AICPA

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

1998 EDITION

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WARNING!

- This package of practice guides was completed in the fall of 1998. It does not necessarily reflect subsequent legislative, administrative or tax form changes. You may need to revise these guides accordingly.

- The Tax and Trade Relief Extension Act of 1998 was passed shortly after these guides were updated! Any changes due to this new law have not been reflected in these guides.

- The IRS Restructuring and Reform Act of 1998 established confidentiality privileges relating to taxpayer communications that apply to CPAs. Because these changes are far reaching, the AICPA is preparing a separate practice guide that deals entirely with this subject, including sample engagement letters. Tax division members will receive separate notification when it is available. If you have immediate concerns regarding the privilege practice guide, contact: Ed Karl (202)-434-9228 or via e:Mail at Ekarl@aicpa.org.

- Due to exorbitant cost, we do not include 3-ring binders with this mailing. Additionally we now have the same gray thumbtab shading index that is common in other tax publications. These have replaced the tab dividers that were used in prior years.

- If you have any questions about the content of these guides please contact James Clark (202)-434-9229 or JClark@aicpa.org. Questions regarding membership issues or address problems should be directed to Judy Smith (202)-434-9270 or JSmith@aicpa.org.

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Tax Practice Guides and Checklists

AICPA Tax Division

059522

PREFACE

Enclosed are the *1998 Tax Practice Guides and Checklists* prepared by the Tax Practice Guides Committee of the AICPA Tax Division. If you are a Tax Section member, this package was sent to you as part of your basic membership benefit package.

If you are not a member of the Section, you may wish to join in order to expedite receipt of these guides and checklists and to take advantage of the many benefits of Section membership. The price of the guides and checklists to non-members is $100 ($120 for non-AICPA members). For just $100 ($124 with *The Tax Adviser* magazine), you can receive supplemental practice guides, the quarterly *Tax Division Newsletter* and other publications, as well as additional membership benefits. Please contact Judy Smith at (202) 434-9270 if you would like information on membership.

The Committee hopes these practice guides and checklists will be helpful to you and solicits your comments for their improvement. Please send comments and suggestions to James Clark using the following address:

American Institute of CPAs
Tax Division
1211 Avenue of the Americas
New York, NY 10109-0004

Attn: James S. Clark, Jr.

A blank, preaddressed comment sheet with return postage is included for your use. To mail, fold the sheet with the address showing on the back of the form, tape and place in mail.

NOTICE TO READERS

Tax practice guides are designed as educational and reference material for the members of the Tax Section and others interested in the subject. They do not establish standards or preferred practices.

Although much thought and effort have gone into the development of these guides, they are subject to change. Many of the regulations related to current and prior tax acts have not been issued. These checklists need to be revised as new developments occur.

Accordingly, these practice guides are issued as drafts only, and you retain responsibility for their final content. Please review them carefully and make any changes necessary for your particular use.

Members of the 1997-1998 AICPA Tax Practice Guides Committee prepared these practice guides. The members of that committee are listed below:

Timothy J. Bartz, *Chair*	Katherine Leonard
Rick Betts	Barbara A. Ley
Robert A. Docili	James Littlefield
Craig Fisher	Donald Orr
Robert F. Kane	T. Charles Parr III
Arthur Kersh	Wilburn Robinson
Larry Kominsky	Rachel Thomas

Robert L. Holman, Tax Executive Committee Liaison
James S. Clark, Jr., Manager, AICPA Tax Division Staff

The Tax Division and aforementioned committee members wish to express their appreciation to the AICPA State and Local Taxation Committee and the S Corporation Taxation Committee for their preparation of the guides and checklists in Section XVI, as well as to the following technical reviewers for their outstanding assistance:

Robert Blume	Larry Hyatt	Jeffery McClanathan
Carol Calkins	Neil Keeter	Richard Mills, III
L. B. Carpenter	John Kinney	Larry Montague
William DeMayo	Michael D. Koppel	Larry Silver
Peter Fishman	Christine Landoll	Mark Stutman
Lawrence D. Friedman	Timothy Larson, Esquire	Rich Taylor
Tom Herberg	Bob Lightburn	Patricia Thompson

1998 AICPA TAX DIVISION PRACTICE GUIDES AND CHECKLISTS
USER'S RESPONSE SHEET

1) How do you use the tax return checklists and practice guides? Check the appropriate responses.

		As Is	Modified	Do Not Use
Checklists:				
Estate (706)		☐	☐	☐
Gift (709)		☐	☐	☐
Individual (1040):	Expanded Version	☐	☐	☐
	Short Version	☐	☐	☐
	Mini Version	☐	☐	☐
Estate and Trust (1041):	Expanded Version	☐	☐	☐
	Short Version	☐	☐	☐
	Mini Version	☐	☐	☐
Partnership (1065):	Expanded Version	☐	☐	☐
	Short Version	☐	☐	☐
	Mini Version	☐	☐	☐
C Corporation (1120):	Expanded Version	☐	☐	☐
	Short Version	☐	☐	☐
	Mini Version	☐	☐	☐
S Corporation (1120S):	Expanded Version	☐	☐	☐
	Short Version	☐	☐	☐
	Mini Version	☐	☐	☐
Return of Organization Exempt from Income Tax (990)				
	Expanded Version	☐	☐	☐
	Mini Version	☐	☐	☐
Exempt Organization Business Income Tax (990-T)		☐	☐	☐
Return of Private Foundation Checklist (990-PF)		☐	☐	☐
State Individual Income Tax Return		☐	☐	☐
State Corporation Income Tax Return		☐	☐	☐
Employee Benefit Plan		☐	☐	☐
Passive Activity Checklist		☐	☐	☐
State Tax Nexus Practice Guide/Checklist		☐	☐	☐
Section 704(b) Practice Guide		☐	☐	☐
Oil and Gas Practice Guide		☐	☐	☐
Vehicle Guides		☐	☐	☐
Engagement Letters		☐	☐	☐
Transmittal Letters		☐	☐	☐
State Corporate Tax Issues Practice Guide		☐	☐	☐
IRS Examination Guide		☐	☐	☐
Organizers:				
Individual (1040)		☐	☐	☐
Corporation (1120 and 1120S):		☐	☐	☐
Corporation - One Page Version		☐	☐	☐
S Corporation - One Page Version		☐	☐	☐
Fiduciary (1041)		☐	☐	☐
Partnership (1065)		☐	☐	☐
Partnership - One Page Version		☐	☐	☐
Tax Exempt Organization (990)		☐	☐	☐
Tax Exempt Organization - Short Version		☐	☐	☐
Estate Tax (706)		☐	☐	☐
Gift Tax (709)		☐	☐	☐
Qualified Retirement Plan (5500)		☐	☐	☐

2) Please use the space below to comment on the 1998 Tax Practice Guides and Checklists and how you may have modified them, and to offer suggestions for future guides.

____
____
____
____
____

3) Please attach tax checklists and practice guides developed by your firm to assist the Tax Division in preparing future guides for the membership.

No postage necessary. Please fold this form so that Business Reply Panel appears on the outside; tape along edge and mail.

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Attn: James S. Clark, Jr.

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1998 TAX PRACTICE GUIDES AND CHECKLISTS
SECTION GUIDE

See next page for Table of Contents.

1998 TAX PRACTICE GUIDES & CHECKLISTS
Table of Contents

TAX RETURN ORGANIZERS

These tax organizers have been designed to assist in compiling the information needed to prepare the respective returns. The following pages contain many of the common income items, expenses, deductions and credits, as well as questions that determine the proper handling of these items.

The organizer can be completed by the client or staff that is working on accounting or audit areas.

ESTATE TAX RETURN ORGANIZER
FORM 706

Decedent's Full Name ______________________________

Decedent's Social Security Number ______________________________

Date of Birth ______________________________

Date of Death ______________________________

Decedent's legal residence at date of death (city, county, state and zip code or foreign country)

____

Date Domicile Established ______________________________

Executor's Name ______________________________

Executor's Address ______________________________

Executor's Social Security/Federal ID Number ______________________________

Name and location of court where will was probated or estate administered

____

Case Number ______________________________

This organizer is designed to assist you, the executor in gathering the information required for preparation of the appropriate estate and inheritance tax returns. Please complete the organizer and answer all questions. Should you have questions regarding any items, please call.

ESTATE TAX RETURN ORGANIZER (706)

DONE N/A

100) GENERAL INFORMATION

101) Provide a certified copy of: ______ ______
- will
- death certificate
- letters testamentary or letters of administration

102) Provide a copy of any trust of which the decedent was a grantor, trustee, or in which decedent held any interest or power, and obtain Forms 1041 filed on behalf of the trust. ______ ______

103) Provide beneficiary information below:

FULL NAME	ADDRESS CITY/STATE/ZIP	RELATIONSHIP TO DECEDENT	SOCIAL SECURITY #	BIRTH DATE

104) If the decedent or spouse has ever filed any federal gift tax returns, provide copies. (Disregard this request if the returns were prepared by this firm). ______ ______

105) If the decedent made any gifts valued at $10,000 or more during the calendar year of his/her death, provide a schedule of the gifts, date of gift, donees, and donees' addresses. ______ ______

106) Provide a listing of the decedent's estate including all property owned or co-owned by the decedent. ______ ______

107) If the decedent had access to a safety deposit box, provide the following: ______ ______
- Location
- Joint depository, if any, and relationship to the decedent.
- Inventory of contents

108) If the decedent's spouse predeceased the decedent, provide a copy of the spouse's Form 706, state inheritance tax returns and any Forms 1041 filed on behalf of that estate. ______ ______

109) If the decedent was divorced, provide a copy of any divorce decree and/or property settlement. ______ ______

110) Provide a copy of federal and state income tax returns for the prior three years. (Disregard this request if the returns were prepared by this firm). ______ ______

		DONE	N/A
111)	Sign and return attached power of attorney.	______	______

200) REAL ESTATE

		DONE	N/A
201)	Provide copies of the most recent appraisal of real estate owned by the decedent.	______	______
202)	If appraisals have not been prepared, provide a schedule of all real estate owned or under contract to purchase with the following information:		
	• legal description and or street address, if applicable	______	______
	• assessed value for property tax purposes	______	______
	• copy of deed, if available		
203)	Include description of real estate (and length of ownership) subject to a qualified conservation easement.	______	______
204)	Provide lease documents if the property is leased to a lineal decendent or collateral heir.	______	______
205)	For jointly owned real estate acquired prior to January 1, 1977, provide copy of acquisition deed.	______	______

300) STOCKS, BONDS, AND MUTUAL FUNDS

		DONE	N/A
301)	Provide copies of all brokerage and mutual fund statements for the current year prior to the date of death and each statement since the date of death.	______	______
302)	Provide a list and copies of all stock and bond certificates held by the decedent which were not listed on the brokerage statements.	______	______
303)	If the decedent owned stock in a closely held corporation, provide the following:		
	• copy of stock certificates	______	______
	• copy of buy-sell agreements	______	______
	• copy of tax returns and/or financial statements for the prior five years	______	______
	• copy of appraisal, if any	______	______
304)	Provide documentation of worthless securities.	______	______

400) MORTGAGES, NOTES AND CASH

		DONE	N/A
401)	Provide copies of the following statements for all accounts for the period beginning two months prior to death through the present:		
	• checking accounts	______	______
	• savings accounts	______	______
	• certificates of deposits	______	______
	• money market accounts	______	______

		DONE	N/A
402)	Provide a copy of the current check registers for the above accounts, and list any outstanding checks which represent debts of estate.	______	______
403)	Provide copies of all notes and mortgages owed to the decedent.	______	______
404)	Provide the amount of cash held by the decedent at death. $ ________		

500) LIFE INSURANCE

501)	Provide a list of life insurance policies indicating:		
	• insured	______	______
	• amount	______	______
	• ownership	______	______
	• beneficiaries	______	______
	• company	______	______
	• policy number	______	______
502)	Provide Form(s) 712 issued by the life insurance companies. (Form 712 is required for each policy).	______	______
503)	If the decedent was not the owner of the policy provide date and circumstances of acquisition by the owner.	______	______

600) JOINTLY OWNED PROPERTY

601)	For all assets owned jointly by the decedent and others, indicate the portion belonging to the decedent.	______	______
602)	Provide name(s) and address(es) of co-owners other than spouse.	______	______

700) MISCELLANEOUS PROPERTY

701)	Provide copies of any available appraisals of:	______	______
	• art		
	• antiques		
	• jewelry		
	• other collectibles		
	• other property		
702)	If the decedent was a partner in a partnership, an or other unincorporated business, provide a copy of the following:		
	• partnership or other ownership agreement	______	______
	• tax returns and/or financial statements for the prior five years	______	______
	• buy-sell agreements	______	______
	• appraisal, if any	______	______
703)	Provide a list of any refunds or reimbursements received by the estate.	______	______

DONE N/A

704) Provide a list of household furnishings and personal assets owned by the decedent and the value of each. _______ _______

705) Provide a list of automobiles owned by the decedent with make, model, year, odometer reading, general condition and Blue Book values at the date of death, and copies of certificates of title, if available. _______ _______

706) Provide Forms 712 for all life insurance policies owned by the decedent on the life of another. _______ _______

707) Provide a description and fair market value of all other assets not noted above. _______ _______

800) ANNUITIES AND RETIREMENT BENEFITS

801) Provide copies of the brokerage, mutual funds, bank or plan participant statements for all IRAs, 401(k)s and other retirement plans. _______ _______

802) Provide copies of commercial annuity contracts and last statement indicating balance of account. _______ _______

803) Provide confirmation of beneficiary designation. _______ _______

900) ADMINISTRATION EXPENSES

901) Provide a copy of the funeral related expenses including the following:

- funeral arrangements _______ _______
- markers _______ _______
- reception costs _______ _______
- flowers _______ _______
- thank you notes and postage _______ _______
- obituary
- clergy or rabbi honoraria

902) Provide a schedule of other administration expenses which were not paid through the estate checking account or have yet to be paid. The schedule should include the following:

- legal fees _______ _______
- accounting fees _______ _______
- commissions paid _______ _______
- maintenance of estate property _______ _______
- appraisal fees _______ _______
- other _______ _______

1000) DEBTS, MORTGAGES, AND LIENS OF DECEDENT

1001) Provide copies of all notes, mortgages etc., owed by the decedent and a schedule of balances at date of death. _______ _______

	DONE	N/A
1002) Schedule all other debts owed by the decedent including:		
• to whom owed	_______	_______
• amount of debt	_______	_______
• interest rate	_______	_______
• due date	_______	_______
• payment amounts	_______	_______
1100) LOSSES DURING ADMINISTRATION		
1101) Schedule any losses, including casualty losses, incurred during the administration of the estate.	_______	_______
1200) CREDIT FOR PRIOR TRANSFERS		
1201) If the decedent received property during the prior ten years from the estate of another, provide a copy of the prior decedents' estate tax returns.	_______	_______

GIFT TAX RETURN ORGANIZER
FORM 709

Donor's Full Name ______________________ SS# ____________

Spouse's Name ______________________ SS# ____________

Address ____

____

City, Town or Post Office   County   State   Zip Code

Telephone Number
Home (____) ____________

Telephone Number
Office (____) ____________

Donor's Citizenship ____________
Spouse's Citizenship ____________

		YES	NO
1.	Did donor die during the year? If "yes," provide a copy of the death certificate. ______________________	____	____
2.	Have gift tax returns been filed in prior years? If "yes," provide copies, unless they were prepared by this firm.	____	____
3.	Have previously filed gift tax returns been examined? If so, provide copies of examination reports.	____	____
4.	Have the gifts (including generation-skipping transfers) to third parties during the calendar year been considered as made one-half by each spouse? If "yes,":	____	____
	Were taxpayers married during entire year?	____	____
	Did taxpayers get married during the year? If "yes," when? ______	____	____
	Did taxpayers get divorced during the year? If "yes," when? ______	____	____
	Will each spouse file a gift tax return?	____	____
5.	Has the donor's spouse made gifts? If so, complete a separate Form 709. organizer.	____	____

DONEE'S NAME AND ADDRESS	RELATIONSHIP TO DONOR	DESCRIPTION OF GIFT	IF GIFT WAS A SECURITY, CUSIP #	DONOR'S ADJUSTED BASIS IN THE GIFT	DATE OF GIFT	VALUE AT DATE OF GIFT

		YES	NO
6.	Were any of the above gifts made by means of a trust? If "yes," provide a copy of the trust instrument and the trust's identification number.	____	____
7.	Does the value of any of the above gifts reflect a valuation discount? If so, provide a copy of the valuation report or the analysis upon which the discount is based.	____	____
8.	Were any of the above gifts based upon an appraisal? If "yes", provide a copy of appraisal.	____	____

ORGANIZER FOR TAX EXEMPT ORGANIZATIONS (990) - SHORT VERSION

Organization Name ______________________________ Tax Period ____________

Address ______________________________ Federal ID# ____________

______________________________ State ID# ____________

Exempt Under § 501(c)___

Provide a general ledger, trial balance, depreciation schedules, balance sheet, and statement of receipts and expenses as of year end. Section 501(c)(3) and (c)(4) organizations and § 4947(a)(1) trusts need to categorize expenses as to program services, management/general, and fund raising. In addition, the following information will be needed:

		Done	N/A
1.	Provide information about any activities new to the organization which require IRS notification.	____	____
2.	Provide copies of any changes to the governing documents or information related to a change in organization structure.	____	____
3.	Provide a list of names and percentage owned of any related organizations and indicate whether they are exempt.	____	____
4.	List the states with which a copy of this return is to be filed.	____	____
5.	Provide a list of employee benefit plans for which the organization requires assistance in filing 5500 series forms.	____	____
6.	Provide copies of any change notices received from any taxing authority.	____	____
7.	Provide a schedule of "in-kind" contributions and indicate whether they are included in income.		
8.	Do you provide written acknowledgement to donors of individual contributions of $250 or more?	____	____
9.	Do you provide information on the amount of the deductible donation to donors of *quid pro quo* donations in excess of $75?	____	____
10.	Disclose taxes paid during the year for the following:		
	a) excess expenditures to influence legislation	____	____
	b) disqualifying lobbying expenditures	____	____
	c) political expenditures	____	____
	d) excess benefit transactions	____	____

		Done	N/A
11.	For each area of program service revenue, provide an explanation of how the activity contributes to the organization's exempt purpose.	_____	_____
12.	Attach information related to the income and expenses from unrelated business income.	_____	_____
13.	Provide a list of investments at year end including cost and market value of each item.	_____	_____
14.	Provide copies of all K-1s received.	_____	_____
15.	Provide a schedule of donors who gave property with a value of at least $5,000.	_____	_____
16.	Provide a schedule of the three largest fund raising events, describe the event and indicate the amount raised. (Attach a copy of fundraising materials.)		
17.	Prepare a statement describing the services provided under the four largest program services offered by the organization.	_____	_____
18.	How many employees were on the payroll as of March 12th? _____	_____	_____
19.	Provide a schedule of wages/compensation, deferred compensation and expense account payments for all officers, directors, trustees, key employees and advisors. Include a schedule of time devoted to fundraising, managment, exempt purpose and average hours worked per week.	_____	_____
20.	Provide a list of names and addresses of employees (other than officers) who received compensation in excess of $50,000.	_____	_____
21.	Provide a list of officers, directors or key employees who received $10,000 or more in compensation from a related entity.	_____	_____
22.	Provide a list of names and addresses of individuals/entities providing professional services to the organization at fees in excess of $50,000.	_____	_____
23.	Provide information including amounts expended regarding legislative, lobbying or political activities during the year.	_____	_____
24.	Provide details regarding all transactions with a trustee, director, principal officer, or creator of the organization.	_____	_____
25.	Section 501(c)(7) organizations—provide the amount of initiation fees and capital contributions.	_____	_____
26.	Section 501(c)(12) organizations—attach a detailed computation of the 85% qualification test.	_____	_____

		Done	N/A
27.	Public interest law firms—attach a list of cases litigated during the year and describe the benefit to the general public.	_____	_____
28.	How many additional copies of the return are needed? ________	_____	_____
29.	Do you have three years returns and the exemption application available for public inspection?	_____	_____

30. Additional information:

____

____

____

____

ORGANIZER FOR TAX EXEMPT ORGANIZATIONS (990)
(EXPANDED VERSION)

ORGANIZATION NAME ____

ADDRESS ____

____

TAX YEAR ENDING ____________________

FEDERAL ID# ____________________

STATE ID# ____________________

REGISTRATION # ____________________

EXEMPT UNDER § 501(c) ____________________

This organizer is designed to assist you in gathering the information needed to prepare the organization's current year tax returns. Complete the organizer and answer all questions. Should you have questions regarding any items, please call.

ORGANIZER FOR TAX EXEMPT ORGANIZATIONS (990)
(EXPANDED VERSION)

Provide a copy of the organization's general ledger, trial balance, depreciation schedules, balance sheet, and statement of revenues and expenses as of year-end. Section 501(c)(3) and (c)(4) organizations and § 4947(a)(1) trusts need to categorize expenses as to program services, management/general and fund raising. In addition, the following information will be needed:

YES NO N/A

100) GENERAL INFORMATION

101) If this is the first year we will prepare the tax return(s), provide the following from your file or your prior accountant: ____

- Tax returns for the prior three years ____ ____
- Depreciation schedules ____ ____
- IRS notification of exempt status ____ ____
- Application for Exemption, Form 1023 or 1024 ____ ____
- IRS determination letter for any qualified retirement plans ____ ____

102) Is the organization's address different from last year? ____ ____

103) List the names and telephone numbers of the organization's advisors.

	Name	Telephone
Attorney		
Banker		
Insurance Agent		
Broker		

104) List the states with which a copy of this return will be filed. ________________ ____

105) Did the organization engage in any activity not previously reported to the Internal Revenue Service? If "yes," provide a detailed description of each activity. ____ ____

106) Were any changes made in the organizing or governing documents? If "yes," attach a copy of the changes and indicate if they have been reported to the IRS. ____ ____

107) Did the organization undergo a liquidation, dissolution, termination, or substantial contraction during the year? If "yes," provide details. ____ ____

108) Is the organization related (other than by association with a statewide or nationwide organization) through common membership, governing bodies, trustees, officers, etc., to any other organization? If "yes," enter the name of the organization and indicate if it is exempt or non-exempt. ________________ ____ ____

109) Does the organization provide fringe benefits to employees such as health insurance, group term life insurance, education assistance, expense allowances, or personal use of organization owned real or tangible personal property? If "yes," list the benefits provided. ____ ____

	YES	NO	N/A
110) Did the organization include taxable fringe benefits as compensation in employee W-2 forms and, if applicable, subject such amounts to payroll taxes?	____	____	____
111) Does the organization sponsor any of the following employee benefit plans?	____	____	
.1) Qualified retirement plan(s)? If "yes," are we to prepare 5500 series form(s)?	____	____	
Number of plans:______	____	____	
.2) SEP plan?	____	____	
If "yes," are we to calculate contribution?	____	____	
.3) Cafeteria plan?	____	____	
If "yes," are we to prepare 5500 series form?	____	____	
.4) Non-qualified retirement plan(s)? Number of plans:_____	____	____	
.5) Other employee benefit plans not described above? If "yes," please describe:______________________	____	____	
112) Has the organization been notified of any changes to previous returns by any taxing authority? If "yes," provide copies of all correspondence.	____	____	
113) Has the organization posted the results of tax changes in its general ledger?	____	____	____
114) Did the organization establish any new general ledger accounts during the tax year? If "yes," provide a list with a brief explanation of each account.	____	____	
115) Did the organization receive donated services or the use of materials, equipment, or facilities at no charge or at substantially less than fair rental value? If "yes," provide a detailed list indicating the value of each item and whether it is included in revenue and expense.	____	____	
116) Did the organization solicit any contributions or gifts that were not tax deductible? If "yes," did the organization include with every solicitation an express statement that such contributions or gifts were not tax deductible?	____	____	
117) For each of the four largest programs services offered by the organization, prepare a statement which fully describes the services provided, the number of persons benefitted and other achievements of the program. Section 501(c)(3) and (4) organizations must also identify the amount of any grants paid to others as part of the program.	____		____
118) Complete the following schedule for all officers, directors, trustees and key employees of the organization as of the last day of the tax year.	____		____

YES NO N/A

Name, Address & Title	Average Hours Worked Per Week & % of time devoted to A) Fundraising B) Management C) Exempt Purposes	Compensation	Contribution to Employee Benefit Plans	Expense Account and Other Allowances

119) Did any officer, director, trustee or key employee receive $10,000 or more in compensation from a related entity? ____ ____

120) Did you incur any expenses to influence legislation, lobbying or other political activities during the year ? ____ ____

.1) If yes, provide a schedule of expenses and indicate to which accounts those expenses were posted. ____ ____ ____

.2) Disclose taxes paid during the year for the following: ____ ____
- a) excess expenditures to influence legislation
- b) disqualifying lobby expenditures
- c) political expenditures
- d) excess benefit transactions

.3) Has the organization elected to pay the proxy tax? ____ ____

121) Section 501(c)(3) organizations. Did the organization file Form 5678, Election/Revocation of Election by an Eligible § 501(c)(3) Organization to Influence Legislation? ____ ____ ____

122) Section 501(c)(7) organizations (club): ____

.1) Did the organization receive initiation fees or capital contributions? If "yes," indicate the amount. $ _______ ____ ____

.2) Did the organization receive gross receipts for public use of club facilities? If "yes," indicate the amount. $ _______ ____ ____

.3) Does the club's governing instrument or any written policy statement provide for discrimination against any person because of race, color, or religion? ____ ____

123) Section 501(c)(12) organizations. Attach a detailed computation of the 85% qualification test, including a detailed listing of gross income received from: (1) members or shareholders and (2) other sources. ____ ____

YES NO N/A

124) Public interest law firms. Attach information describing each case litigated during the year or still in litigation and describe how the litigation will benefit the general public.

125) Does the organization have a taxable first or second-tier subsidiary? If "yes," complete the following:

Name, Address, and TIN of Corporation or Partnership	Percentage of Ownership Interest	Nature of Business Activities	Total Income	End-of-year Assets
1)				
2)				
3)				
4)				
5)				

126) Did the organization have unrelated business taxable income (UBTI) as a result of the operation of a trade or business not related to the organization's exempt function?

Note: UBTI is one of the most critical issues within tax exempt organization reporting. Provide complete information related to your revenue sources to allow proper determination of the income classification.

127) Provide copies of all Schedules K-1 received.

128) Provide a detailed list of the expenses directly related to the UBTI activity.

129) Provide a detailed list and explanation of the allocation method of general expenses allocated to UBTI.

130) Have cash receipts for UBI activities over $10,000 been reported on Form 8300?

131) How many additional copies of the return are needed? _______

132) Provide a list, including amounts paid by year of contribution, of persons who contributed $5,000 to the organization. Label each page of the list as "Not Open For Public Inspection".

133) Did the organization comply with the public inspection rules?

134) Did the organization provide a copy of its exemption application and/or Form 990 to anyone who requested it?

135) Provide a list of independant contractors, other than professionals such as attorneys and accountants. Indicate amounts paid, nature of work performed and normal working hours.

136) Did the organization file all necessary Forms 1099, 1098?

YES NO N/A

200) SECTIONS 501(c)(3), 501(e), (f) & (k) ORGANIZATIONS AND § 4947(a)(1) TRUSTS

201) Did the organization pay compensation in excess of $50,000 to any employee other than officers, directors and/or trustees? If "yes," complete the following schedule for the five highest paid employees. ____ ____

Name and Address of Employees Paid More Than $50,000	Title and Average Hours Per Week Devoted to Position	Compensation	Contributions to Employee Benefit Plans	Expense Account and Other Allowances
1)				
2)				
3)				
4)				
5)				
Total number of other employees paid over $50,000 ________				

202) Did the organization's board approve all compensation, including fringe benefits, travel and loans to all officers, directors and trustees? If so, provide a copy of the minutes where this action was taken. ____ ____

203) Did the organization pay any individuals or companies in excess of $50,000 for professional services? If "yes," complete the following schedule for the five highest paid service providers. ____ ____

Name and Address of Persons Paid More Than $50,000	Type of Service	Compensation
Total number of others receiving over $50,000 for professional services ______		

204) How many employees were on the payroll as of March 12th? ________ ____

205) Provide the actual cash receipts from public support. $ ________ ____

206) During the tax year, has the organization, either directly or indirectly, engaged in any of the following acts with a trustee, director, principal officer or creator of the organization or any taxable organization or corporation with which such person is affiliated as an officer, director, trustee, majority owner, or principal beneficiary? If "yes," provide an explanation of the transaction(s): ____ ____

.1) Sale, exchange or lease of property? ____ ____ ____

YES NO N/A

.2) Lending of money or other extension of credit? ____ ____ ____
.3) Furnishing of goods, services, or facilities? ____ ____ ____
.4) Payment of compensation or payment or reimbursement of expenses if more than $1,000. ____ ____ ____
.5) Transfer any part of the organization's income or assets? ____ ____ ____
If "yes," describe:____________________

207) Does the organization make grants for scholarships, fellowships, student loans, etc.? If "yes," provide a statement explaining how the organization determines that those receiving disbursements from the organization in furtherance of its charitable programs qualify to receive payments. ____ ____

208) Did the organization directly or indirectly engage in any of the following with any other organization described in § 501(c) (other than § 501(c)(3) organizations) or with any organizations described in § 527 (relating to political organizations):

.1) Transfers from the organization to a noncharitable exempt organization of:
(a) Cash? ____ ____ ____
(b) Other assets? ____ ____ ____

.2) Other transactions:
(a) Sales of assets to a noncharitable exempt organization? ____ ____ ____
(b) Purchases of assets from a noncharitable exempt organization? ____ ____ ____
(c) Rental of facilities or equipment? ____ ____ ____
(d) Reimbursement arrangements? ____ ____ ____
(e) Loans or loan guarantees? ____ ____ ____
(f) Performance of services or membership or fundraising solicitations? ____ ____ ____

.3) Sharing of facilities, equipment, mailing lists or other assets, or paid employees? ____ ____ ____

.4) If the answer to any of the above is "yes," complete the following schedule.

Amount Involved	Name of Noncharitable Exempt Organization	Description of Transfers, Transactions, and Sharing Arrangements

209) Is the organization directly or indirectly affiliated with, or related to, one or more tax-exempt organizations described in § 501(c) (other than § 501(c)(3)) or with any organizations described in § 527 (relating to political organizations)? If "yes," complete the following schedule. ____ ____

YES NO N/A

Name of Organization	Type of Organization	Description of Relationship

300) PRIVATE SCHOOLS

301) Does the organization have a racially nondiscriminatory policy toward students by statement in its charter, bylaws, other governing instrument, or in a resolution of its governing body? ____

302) Does the organization include a statement of its racially nondiscriminatory policy toward students in all its brochures, catalogues, and other written communications with the public dealing with student admissions, programs, and scholarships? ____ ____ ____

303) Has the organization publicized its racially nondiscriminatory policy through newspaper or broadcast media during the period of solicitation for students, or during the registration period if it has no solicitation program, in a way that makes the policy known to all parts of the general community served? If "yes," provide a description; if "no," provide an explanation. ____ ____

304) Does the organization maintain the following (provide an explanation of any "no" or "n/a" answers):

.1) Records indicating the racial composition of the student body, faculty, and administrative staff? ____ ____
.2) Records documenting that scholarships and other financial assistance are awarded on a racially nondiscriminatory basis? ____ ____
.3) Copies of all catalogues, brochures, announcements, and other written communications to the public dealing with student admissions, programs, and scholarships? ____ ____
.4) Copies of all material used by the organization or on its behalf to solicit contributions? ____ ____

305) Did the organization discriminate by race in any way with respect to (provide an explanation for any "yes" answers):

.1) Students' rights or privileges? ____ ____
.2) Admissions policies? ____ ____
.3) Employment of faculty or administrative staff? ____ ____
.4) Scholarships or other financial assistance? ____ ____

YES NO N/A

.5) Educational policies? ____ ____
.6) Use of facilities? ____ ____
.7) Athletic programs? ____ ____
.8) Other extracurricular activities? ____ ____

306) Did the organization receive any financial aid or assistance from a governmental agency? If "yes," provide a schedule and indicate if the organization's right to such aid has ever been revoked or suspended. ____ ____

307) Does the organization certify that it has complied with the applicable requirements of §§ 4.01 through 4.05 of Rev. Proc. 75-50, covering racial nondiscrimination? If "no," provide an explanation. ____ ____

400) REVENUE AND SUPPORT

401) Provide a schedule listing contributors who, during the tax year, gave (directly or indirectly) money, securities or property with a value totaling at least $5,000 (exclude individual gifts of less than $1,000). Provide the donor's name, address, total amount contributed and the date contributed. If the organization is exempt under § 501(c)(7), (8), (10), or (19), substitute $1,000 for the $5,000 above and explain the specific purpose and actual use of each gift. For non-cash contributions provide a description of the property and its fair market value. ____ ____

____

____

402) Did the organization sell or dispose of any assets (other than inventory) during the tax year? If "yes," provide a schedule listing (sales of publicly traded securities may be aggregated): ____ ____

- Description of asset
- Date acquired
- How acquired
- Date sold
- Buyer
- Gross sales price
- Cost, other basis, or if donated, value at time acquired (state which)
- Expense of sale
- Improvements made after acquisition
- Depreciation since acquisition

403) Did the organization sponsor any special fund raising events? If "yes," provide a schedule listing the three largest special events conducted, as measured by gross receipts. Describe each of these events and indicate for each event the gross receipts, the amount of contributions included in gross receipts, the gross revenue (gross receipts less contributions), the direct expenses, and the net income (gross revenue less direct expenses). Furnish the same information in total figures for all other special events held that are not among the three largest. Indicate the type and number of the events not listed individually (for example, three dances and two raffles). (Provide copies of fundraising materials.) ____ ____ ____

YES NO N/A

404) Provide a computation of cost of goods sold for the sale of inventory items.

405) Do you provide written acknowledgment to donors of individual contributions of $250 or more? ____ ____ ____

406) Do you provide information on the amount of the deductible donation to donors of *quid pro quo* donations in excess of $75? ____ ____ ____

407) If membership dues and contributions have been reported in one income catagory provide a breakout. ____ ____ ____

500) EXPENSES

501) For all organizations other than § 501(c)(3) and (4) organizations and § 4947(a)(1) charitable trusts, does the organization desire to allocate expenses under the classifications of expenses related to management/general, program services, and fundraising? If "yes," categorize expenses on the organization's trial balance. ____ ____ ____

502) Did the organization award any grants or other allocations during the tax year? If "yes," provide a schedule of the following for each class of activity: ____ ____

- Donee's name and address
- Amount of the grant or allocation
- Relationship of any donee to any person or corporation with an interest in the organization

503) Does the organization provide any of the following benefits to members or dependents (do not include employment-related benefits provided to officers and employees)? If "yes," provide a schedule showing amounts of: ____ ____

- Death, sickness, hospitalization, or disability benefits
- Unemployment compensation benefits
- Other benefits (describe)

____
____
____
____

504) Did the organization make payments to affiliates? If "yes," provide a schedule listing the following: ____ ____ ____

- Name and address of each affiliate receiving payments
- Amount and purpose of the payments

505) For § 501(c)(3),(4) organizations, did the organization evaluate compensation and benefits payments to officers, directors and employees under the excess benefit rules? ____ ____

YES NO N/A

506) If the organization incurred joint costs for a combined educational campaign and fundraising solicitation, provide a schedule that allocates the amount incurred among programs services, management and fundraising. ____ ____ ____

600) BALANCE SHEET

601) Does the organization have any loans receivable (include receivables from officers, directors, trustees and key employees) at year-end? If "yes," provide a schedule showing the following information: ____ ____ ____

- Borrower's name (identify officers, directors, trustees or key employees)
- Original amount
- Balance due at year end
- Date of note
- Maturity date
- Repayment terms
- Interest rate
- Security provided by the borrower
- Purpose of the loan
- Description and fair market value of the consideration furnished by the lender (for example, cash - $1,000; or 100 shares of XYZ, Inc. common stock - $9,000).

602) Does the organization hold any land, buildings or equipment for investment purposes? If "yes," provide a schedule listing the following: Description, cost or other basis, accumulated depreciation, investment in fixed assets held at year-end. Show the cost or other basis, accumulated depreciation, and book value for each asset. ____ ____

603) Does the organization hold securities or other investments (other than land, buildings and equipment)? If "yes," provide a schedule describing each of these investments held at year-end, including the cost and end of year market value. ____ ____

604) Did the organization receive contributions or grants that contributors or grantors have designated as payable for one or more future years? If "yes," provide a schedule describing each contribution or grant and indicate the total amount of each item and the amount applicable to each future period. ____ ____

605) Does the organization have loans payable at year end? If "yes," provide a schedule showing the following information (identify officers, directors, trustees or key employees): ____ ____ ____

- The name of lender
- Original amount
- Balance due at year end
- Date of note
- Maturity date
- Repayment terms
- Interest rate
- Security provided by the borrower
- Purpose of the loan

YES NO N/A

- The relationship of the lender to any officer, director, trustee, or key employee of the organization.

606) Did the organization own 50% or greater interest in a taxable corporation or partnership? If yes, provide the name of the organization and describe the nature and amount of any intercompany payments. ____ ____

COMMENTS OR EXPLANATIONS

INDIVIDUAL TAX ORGANIZER
FORM 1040

Enclosed is an organizer to assist you in compiling the information necessary to prepare your individual income tax returns.

The Internal Revenue Service matches information returns with amounts reported. A negligence penalty may be assessed where dividends and interest are underreported. Accordingly, all Forms W-2, 1098 and 1099, Schedules K-1 and other information returns reflecting amounts reported to the Internal Revenue Service should be submitted with your organizer.

For your convenience there is an engagement letter enclosed which explains the services to be performed for you. Please sign the copy and return it in the enclosed envelope. Keep the original for your records.

To continue providing quality services on a timely basis, I urge you to collect your information as soon as possible. If information from "passthrough" entities such as partnerships, trusts and S corporations is the only data you are missing, please send the data you have assembled and forward the missing information as soon as it is available.

I look forward to providing services to you. Should you have questions regarding any items, please do not hesitate to contact us (me).

INDIVIDUAL TAX ORGANIZER (1040)

If we did not prepare your prior year returns, provide a copy of federal and state returns for the three previous years. Complete pages 1 through 3 and all applicable sections.

Your Name ______________________ SS# ______________________ Occupation ____________

Spouse's Name ______________________ SS# ______________________ Occupation ____________

Home Address ____

______________________ City, Town, or Post Office ____________ County ____ State ________ Zip Code ____________ School District

Telephone Number
Home (____) ____________
Email ____________

Telephone Number (T)*
Office (____) ____________
Fax (____) ____________

Telephone Number (S)*
Office (____) ____________
Fax (____) ____________

Taxpayer: Date of Birth____________ Blind? - Yes ___ No ___

Spouse: Date of Birth____________ Blind? - Yes ___ No ___

Dependent Children Who Lived With You:

Full Name	Social Security Number	Relationship	Birth date

Other Dependents:

Full Name	Social Security Number	Relationship	Number Months Resided in Your Home	% Support Furnished By You

*T= Taxpayer *S=Spouse

INDIVIDUAL TAX ORGANIZER (1040)

Please answer the following questions and submit details for any question answered "Yes":

		YES	NO
1.	Did your marital status change during the year?	______	______
2.	Will the address on your current returns be different from that shown on your prior year returns? If yes, provide the new address and date moved.	______	______
3.	Were there any changes in dependents from the prior year?	______	______
4.	Are you entitled to a dependency exemption due to a divorce decree?	______	______
5.	Did any of your dependents have income of $650 or more?	______	______
6.	Did any of your children under age 14 have investment income of over $1,300?	______	______
	If yes, do you want to include your child's income on your return?	______	______
7.	Are any dependent children married and filing a joint return with their spouse?	______	______
8.	Did any dependent child over 19 years of age attend school less than 5 months during the year?	______	______
9.	Did you receive income from any legal proceedings, cancellation of student loans or other indebtedness during the year? If yes, furnish details.	______	______
10.	Did you make any gifts during the year directly or in trust exceeding $10,000 per person?	______	______
11.	Did you have any interest in, or signature, or other authority over a bank, securities, or other financial account in a foreign country?	______	______
12.	Were you a resident of, or did you earn income in, more than one state during the year?	______	______
13.	Do you wish to have $3 (or $6 on joint return) of your taxes applied to the Presidential Campaign Fund?	______	______
14.	Do you wish to contribute to any state fund(s)? If yes, indicate amount(s) and which fund(s): ____ ____	______	______
15.	Do you want any overpayment of taxes applied to next year's estimated taxes?	______	______
16.	Do you want any remaining federal refund deposited directly to your bank account? If yes, enclose a voided check.	______	______
17.	Do either you or your spouse have any outstanding child or spousal support payments or federal debt?	______	______
18.	If you owe federal tax upon completion of your return, are you able to pay the balance due?	______	______
19.	Do you expect a large fluctuation in your income, deductions or withholding next year?	______	______

		YES	NO
20.	Did you receive a total distribution from an IRA or other qualified plan that was partially or totally rolled over into another IRA or qualified plan within 60 days of the distribution?	_____	_____
21.	If you received an IRA distribution which you did not rollover, what did you use the distribution for? ________________________________		
22.	Did you "convert" IRA funds into a Roth IRA? If yes, provide details. ________________________________	_____	_____
23.	Did you receive any disability payments this year?	_____	_____
24.	Did you receive tip income not reported to your employer?	_____	_____
25.	Did you sell and/or purchase a principal residence or other real estate? If yes, provide settlement sheet (HUD 1) and 1099-S.	_____	_____
26.	Did you have any installment sale amounts due from relatives?	_____	_____
27.	Did you receive income from tax-exempt securities? If yes, provide details.	_____	_____
28.	Do you have any worthless securities or any loans that became uncollectible this year?	_____	_____
29.	Did you receive unemployment compensation? If yes, provide 1099.	_____	_____
30.	Did you have any casualty or theft losses during the year? If yes, provide details.	_____	_____
31.	Did you have foreign income or pay any foreign taxes?	_____	_____
32.	If there were dues paid to an association, was any portion not deductible due to political lobbying by the association or benefits received?	_____	_____
33.	Has the IRS, or any state or local taxing agency, notified you of changes to a prior year's tax return? If yes, provide copies of all notices/correspondence received.	_____	_____
34.	Are you aware of any changes to your income, deductions and credits reported on a prior year's returns?	_____	_____
35.	Did you purchase gasoline, oil, or special fuels for non-highway vehicles?	_____	_____
36.	If you or your spouse have self-employment income, did you pay any health insurance premiums or long term care premiums? If yes, were either you or your spouse eligible to participate in an employee's health insurance or long term care plan?	_____	_____
37.	If you or your spouse have self-employment income, do you want to make a retirement plan contribution?	_____	_____
38.	Did you acquire any "qualified small business stock?"	_____	_____

		YES	NO
39.	Did you pay any household employee wages of $1,000 or more? If yes, furnish details.____________________	_____	_____
	If yes, did you pay total wages of $1,000 or more in any calendar quarter to household employees?	_____	_____
40.	Did you surrender any U.S. savings bonds?	_____	_____
41.	Did you use the proceeds from Series EE U.S. savings bonds purchased after 1989 to pay for higher education expenses?	_____	_____
42.	Did you realize a gain on property which was taken from you by destruction, theft, seizure or condemnation?	_____	_____
43.	Did you start a business?	_____	_____
44.	Did you purchase rental property?	_____	_____
45.	Did you acquire interests in partnerships or S corporations?	_____	_____
46.	Do you have records to support travel and entertainment expenses? The law requires that adequate records be maintained for travel and entertainment expenses. The documentation should include: amount, time and place, date, business purpose, description of gift(s) (if any), and business relationship of recipient(s).	_____	_____
47.	Were you the grantor, transferor or beneficiary of a foreign trust? If yes, furnish details.	_____	_____
48.	Do you have a will or trust? If yes, has it been updated within the last three years?	_____	_____

ESTIMATED TAX PAYMENTS MADE

	FEDERAL		STATE (NAME):	
	Date Paid	Amount Paid	Date Paid	Amount Paid
Prior year overpayment applied				
1st Quarter				
2nd Quarter				
3rd Quarter				
4th Quarter				

WAGES, SALARIES, AND OTHER EMPLOYEE COMPENSATION - List and enclose all W-2 Forms.

TS*	Employer	Gross Wages	Fed W/H	FICA W/H	Medicare W/H	State W/H	Local W/H

INDIVIDUAL TAX ORGANIZER (1040)

PENSION AND ANNUITY INCOME - List and enclose all Forms 1099R.

TS*	Name of Payor	Total Received	Taxable Amount	Federal Tax Withheld	State Tax Withheld

*T = Taxpayer S = Spouse

		YES	NO
1.	Did you receive a lump sum distribution from your employer?	_____	_____
2.	Did you "convert" a lump sum distribution into another plan or IRA account?	_____	_____
3.	Did you transfer IRA funds to a Roth IRA?	_____	_____
4.	Have you elected a lump sum treatment after 1986? Taxpayer	_____	_____
	Spouse	_____	_____

SOCIAL SECURITY BENEFITS RECEIVED - List and enclose all 1099 SSA Forms.

	Gross	Medicare Premiums Deducted	Net Received
Taxpayer	$	$	$
Spouse	$	$	$

INTEREST INCOME - List and enclose all 1099-INT forms and statements of tax exempt interest earned.

TSJ*	Name of Payor per Form 1099 or statement	Banks, S&L, Etc.	Seller Fin. Mtg.	U.S. Bonds, T-Bills	Tax-Exempt In-State	Tax-Exempt Out-of-State

	Early Withdrawal Penalties					

*T = Taxpayer S = Spouse J = Joint

Interest Income (Seller Financed Mortgage)

Name of Payor	Social Security Number	Address	Interest Recorded

DIVIDEND INCOME - List and enclose all 1099-DIV Forms and statements of tax exempt dividends earned.

TSJ*	Name of Payor per 1099 or statement	Gross Dividend	Non Taxable	Capital Gain	Federal Tax Withheld	Foreign Tax Withheld

*T = Taxpayer S = Spouse J = Joint

INDIVIDUAL TAX ORGANIZER (1040)

MISCELLANEOUS INCOME - List and enclose related 1099(s) or other forms.

Description	Amount
State and local income tax refund(s)	
Alimony received	
Jury fees	
Finder's fees	
Director's fees	
Prizes	
Gambling	
Other miscellaneous income	

INCOME FROM BUSINESS OR PROFESSION

Who owns this business? ☐ Taxpayer ☐ Spouse ☐ Joint

Principal business or profession ______________________________

Business name ______________________________

Business taxpayer identification number ______________________________

Business address ______________________________

____

Method(s) used to value closing inventory:

__ Cost __ Lower of cost or market __ Other (describe) ____________ N/A ____

Accounting method:

__ Cash __ Accrual __ Other (describe) ________________

INDIVIDUAL TAX ORGANIZER (1040)

		YES	NO
1.	Was there any change in determining quantities, costs or valuations between the opening and closing inventory? If "yes," attach explanation.	____	____
2.	Did you deduct expenses for the business use of your home? If "yes," complete attached schedule.	____	____
3.	Did you materially participate in the operation of the business during the year?	____	____
4.	Was all of your investment in this activity at risk?	____	____
5.	Were any assets sold during the year? If "yes," list assets sold including date acquired, date sold, sales price, basis and gain or loss.	____	____
6.	Were any assets purchased during the year? If "yes," list assets acquired, including date placed in service and purchase price, including trade-in. Include copies of purchase invoices.	____	____
7.	Was this business still in operation at the end of the year?	____	____
8.	List the states in which business was conducted. ____ ____		
9.	Provide copies of certification for members of target groups and associated wages qualifying for Work Opportunities Credit. SBJPA 1996.	____	____
10.	Provide information for welfare -to -work credit.		

Attach a schedule of income and expenses of the business or complete the following worksheet. Complete a separate schedule for each business.

INDIVIDUAL TAX ORGANIZER (1040)

Description	Amount
Part I - Income	
Gross receipts or sales	
Returns and allowances	
Other income (List type and amount)	
Part II - Cost of Goods Sold	
Inventory at beginning of year	
Purchases less cost of items withdrawn for personal use	
Cost of labor (Do not include salary paid to yourself)	
Materials and supplies	
Other costs (List type and amount)	
Inventory at end of year	
Part III - Expenses	
Advertising	
Bad debts from sales or services	
Car and truck expenses (Complete Auto Expense Schedule on Page 20)	
Commissions and fees	
Depletion	
Depreciation and section 179 expense deduction (provide depreciation schedules)	
Employee benefit programs (other than Pension and Profit Sharing plans shown below)	
Insurance (other than health)	
Interest:	
a. Mortgage (paid to banks, etc.)	
b. Other	
Legal and professional services	
Office expense	
Pension and profit-sharing plans (employee's portion only)	
Rent or lease:	
a. Vehicles, machinery, and equipment	

b. Other business property	
Repairs and maintenance	
Supplies	
Taxes and licenses (Enclose copies of payroll tax returns)	
State Taxes	
Travel, meals, and entertainment:	
a. Travel	
b. Meals and entertainment	
Utilities	
Wages (enclose copies of W-3/W-2 forms).	
Lobbying expenses	
Club dues:	
a. Civic club dues	
b. Social or entertainment club dues	
Other expenses (list type and amount)	

OFFICE IN HOME

To qualify for an office in home deduction, the area must be used exclusively for business purposes on a regular basis in connection with your employer's business and for your employer's convenience. If you are self-employed, it must be your principal place of business or you must be able to show that income is actually produced there. If business use of home relates to daycare, provide total hours of business operation for the year.

Business or activity for which you have an office	Total area of the house (square feet)	Area of business portion (square feet)	Business percentage

I. DEPRECIATION

	Date Placed in Service	Cost/Basis	Method	Life	Prior Depreciation
House					
Land					
Total Purchase Price					
Improvements (Provide details)					

INDIVIDUAL TAX ORGANIZER (1040)

II. EXPENSES TO BE PRORATED:

Mortgage interest ____________

Real estate taxes ____________

Utilities ____________

Property insurance ____________

Other expenses - itemize ____________________________ ____________

____________________________ ____________

____________________________ ____________

____________________________ ____________

III. EXPENSES THAT APPLY DIRECTLY TO HOME OFFICE:

Telephone ____________

Maintenance ____________

Other expenses - itemize ____________________________ ____________

____________________________ ____________

____________________________ ____________

____________________________ ____________

CAPITAL GAINS AND LOSSES - Enclose all 1099-B and 1099-S Forms. If you wish us to complete the following schedule furnish all your brokerage account statements and transaction slips.

Enter sales reported to you on Forms 1099-B and 1099-S:

Description	Date Acquired	Date Sold	Sales Proceeds	Cost or Basis	Gain (Loss)

INDIVIDUAL TAX ORGANIZER (1040)

Enter the sales **NOT** reported on forms 1099-B and 1099-S:

Description	Date Acquired	Date Sold	Sales Proceeds	Cost or Basis	Gain (Loss)

SALE/PURCHASE OF PERSONAL RESIDENCE

Provide closing statements on purchase and sale of old residence and purchase of new residence. If you have previously sold a residence, provide a copy of the Form 2119 filed with your tax return for the year of the most recent sale.

Date you moved into new residence ________
Improvements to old residence - itemize

Description	Amount

Was the residence that was sold ever used for business purposes or as a rental property? Yes _____ No _____

MOVING EXPENSES

Did you change your residence during this year incident to a change in employment, transfer, or self-employment? Yes _____ No _____

If "yes," furnish the following information:
Number of miles from your former residence to your new business location ________ miles
Number of miles from your former residence to your former business location ________ miles

Did your employer reimburse or pay directly any of your moving expenses? Yes _____ No _____

If "yes," enclose the employer provided itemization form and note the amount of reimbursement received. $ ________

Itemize below the total moving costs you paid without reduction for any reimbursement by your employer.

Expenses of moving from old to new home:
Transportation expenses in moving household goods and family $ ________
Cost of storing and insuring household goods $ ________

RESIDENCE CHANGE

If you changed residences during the year, provide period of residence in each location.

Residence #1 From ___/___/___ To ___/___/___

Residence #2 From ___/___/___ To ___/___/___

RENTAL INCOME - Complete a separate schedule for each property.

1. Description and location of property ____________________
____
____

2. Residential property? Yes ____ No ____

3. Personal use? Yes ____ No ____

If "yes," please complete the information below.

Number of days the property was occupied by you, a member of the family, or any individual not paying rent at the fair market value. ________
Number of days the property was not occupied. ________

4. Did you actively participate in the operation of the rental property during the year? Yes ____ No ____

5. a) Were more than half of personal services that you performed during the year performed in real property trades or businesses in which you materially participated? Yes ____ No ____
b) Did you perform more than 750 hours of services during the year in real property trades or businesses in which you materially participated? Yes ____ No ____

6. a) Were more than half of personal services that your spouse performed during the year performed in real property trades or businesses in which your spouse materially participated? Yes ____ No ____
b) Did your spouse perform more than 750 hours of services during the year in real property trades or businesses in which your spouse materially participated? Yes ____ No ____

INDIVIDUAL TAX ORGANIZER (1040)

Income:			
Rents received		Other income	
Expenses:			
Mortgage interest		Legal	
Other interest		Cleaning	
Insurance		Assessments	
Repairs and maintenance		Utilities	
Travel		Other (itemize)	
Advertising			
Taxes			

If this is the first year we are preparing your return, provide depreciation records.

If this is a new property, provide the closing statement.

List below any improvements or assets purchased during the year.

Description	Date placed in service	Cost

If the property was sold during the year, provide the closing statement.

INCOME FROM PARTNERSHIPS, ESTATES OR TRUSTS, S CORPORATIONS

Enclose all schedule K-1 forms received to date. Also list below all K-1 forms not yet received:

Name	Source Code*	Federal ID #

INDIVIDUAL TAX ORGANIZER (1040)

*Source Code: P = Partnership E = Estate/Trust S = S Corporation

CONTRIBUTIONS TO RETIREMENT PLANS

	TAXPAYER	SPOUSE
Are you covered by a qualified retirement plan? (Y/N)		
Do you want to make the maximum deductible IRA contribution? (Y/N)		
Do you want to make an IRA contribution even if part or all of it may not be deducted? (Y/N)		
If "Y," provide the following information: Copy of latest Form 8606 filed IRA payments made for this return.	$	$
IRA payments made for this return for nonworking spouse.	$	$
Do you want to make the maximum allowable Keogh/SEP SIMPLE contribution? (Y/N)		
KEOGH/SEP SIMPLE payments made for this return.	$	$

ALIMONY PAID

Name of Recipient(s) ______________________________

SS# of Recipient(s) ______________________________

Amount(s) Paid $ ______________________________

If a divorce occurred this year, enclose a copy of the divorce decree and property settlement.

MEDICAL AND DENTAL EXPENSES

Description	Amount
Premiums for health and accident insurance including medicare	
Long-term care premiums	
Medicine and drugs (prescription only)	
Doctors, dentists, nurses	
Hospitals, clinics, laboratories	

Other: Eyeglasses	
Ambulance	
Medical supplies	
Hearing aids	
Lodging and meals	
Travel	
Mileage (number of miles)	
Long-term care expenses	
Payments for in-home care (complete later section on home care expenses)	
Insurance reimbursements received	

Were any of the above expenses related to cosmetic surgery? Yes _____ No _____

DEDUCTIBLE TAXES

Description	Amount
State and local income taxes payments made this year for prior year(s).	
Real estate taxes: Primary residence	
Secondary residence	
Other	
Personal property tax	
Ad valorem tax on automobile, truck, or trailer: Vehicle #1	
Vehicle #2	
Vehicle #3	
Intangible tax	
Other taxes (itemize)	
Foreign tax withheld (may be used as a credit)	

INDIVIDUAL TAX ORGANIZER (1040)

INTEREST EXPENSE

Mortgage interest (attach 1098 forms.)

Payee	Property**	Amount

*Include address and social security number if payee is an individual.
**Describe the property securing the related obligation, i.e., principal residence, motor home, boat, etc.

Unamortized Points

Payee	Purpose	Amount

Student Loan Interest

Payee	Purpose	Amount

Investment/Passive Interest

Payee	Investment Purpose	Amount

Business Interest

Payee	Business Purpose	Amount

INDIVIDUAL TAX ORGANIZER (1040)

CONTRIBUTIONS

Cash contributions for which you have receipts, canceled checks, etc. NOTE: You need to have written acknowledgment from any charity to which you made individual donations of $250 or more during the year.

Donee	Amount	Donee	Amount

Cash contributions for which no receipts are available

Donee	Amount	Donee	Amount

Expenses incurred in performing volunteer work for charitable organizations:

Parking fees and tolls $ ____________________
Supplies $ ____________________
Meals & Entertainment $ ____________________
Other (itemize) $ ____________________
Actual out-of-pocket expenses for gas, oil, etc. $ ____________________

OR

Mileage ________

Other than cash contributions (enclose receipt(s)):

Organization name and address			
Description of property			
Date acquired			
How acquired			
Cost or basis			
Date contributed			
Fair market value (FMV)			
How FMV determined			

INDIVIDUAL TAX ORGANIZER (1040)

CASUALTY OR THEFT LOSSES

Loss of property by theft or damage to property by fire, storm, car accident, shipwreck, flood, or other "act of God."

	Property 1	Property 2	Property 3
Indicate type of property	☐ Business ☐ Personal	☐ Business ☐ Personal	☐ Business ☐ Personal
Description of property			
Date acquired			
Cost			
Date of loss			
Description of loss			
Was property insured? (Y/N)			
Was insurance claim made? (Y/N)			
Insurance proceeds			
Fair market value before loss			
Fair market value after loss			

MISCELLANEOUS DEDUCTIONS

Description	Amount
Union dues	
Income tax preparation fees	
Legal fees (provide details)	
Safe deposit box rental (if used for storage of documents or items related to income-producing property)	
Small tools	
Uniforms which are not suitable for wear outside work	
Safety equipment and clothing	
Professional dues	
Business publications	
Unreimbursed cost of business supplies	
Employment agency fees	
Necessary expenses connected with producing or collecting income or for managing or protecting property held for producing income not reported on Form 2106 - Employee unreimbursed business expense	
Business use of home - (use "office in home" schedule provided in this organizer)	
Other miscellaneous deductions - itemize	

INDIVIDUAL TAX ORGANIZER (1040)

EMPLOYEE BUSINESS EXPENSES

Expenses incurred by: ☐ Taxpayer ☐ Spouse Occupation ____________________

(Complete a separate schedule for each business)

Description	Total Expense Incurred	Employer Reimbursement Reported on W-2	Employer Reimbursement Not on W-2
Travel expenses while away from home:			
Travel fares			
Lodging			
Meals and entertainment			
Other employee business expenses - itemize			

Automobile Expenses - Complete a separate schedule for each vehicle.

Vehicle description ____________

Date placed in service ____________

Cost/Fair market value ____________

Lease term, if applicable ____________

Total business miles ____________

Total commuting miles ____________

Total other personal miles ____________

Total miles this year ____________

Average daily round trip commuting distance ____________

Actual expenses

Gas, oil ____________

Repairs ____________

Tires, supplies ____________

Insurance ____________

Parking ____________

Taxes ____________

Tags & licenses ____________

Interest ____________

Lease payments ____________

Other ____________

Did you acquire, lease or dispose of a vehicle for business during this year? Yes _____ No _____

If yes, enclose purchase and sales contract or lease agreement.

Did you use the above vehicle in this business less than 12 months? Yes _____ No _____
If "yes," enter the number of months _________.

Do you have another vehicle available for personal purposes? Yes _____ No _____

Do you have evidence to support your deduction? Yes _____ No _____

Is the evidence written? Yes _____ No _____

INDIVIDUAL TAX ORGANIZER (1040)

CHILD CARE EXPENSES/HOME CARE EXPENSES

Did you pay an individual or an organization to perform services in the care of a dependent under 13 years old in order to enable you to work or attend school on a full time basis? Yes _____ No _____

Did you pay an individual to perform in-home health care services for yourself, your spouse, or dependents? Yes _____ No _____

If "yes," complete the following information:

Name and relationship of the dependents for whom services were rendered

____

List individuals or organizations to whom expenses were paid during the year. (Services of a relative may be deductible only if that relative is not a dependent and if the relative's services are considered employment for social security purposes.)

Name and Address	ID#	Amount

If payments of $1,000 or more during the tax year were made to an individual, were the services performed in your home? Yes _____ No _____

Was the individual who performed the services age 18 or older? Yes _____ No _____

INDIVIDUAL TAX ORGANIZER (1040)

Did you or any other member of your family pay any educational expenses this year? Yes _____ No ____

If yes, was any tuition paid for either of the first two years of post secondary education? Yes _____ No ____

If yes complete the following:

Student Name	Institution	Grade/Level	Amount Paid	Date Paid

Was any of the preceding tuition paid with funds withdrawn from an educational IRA? Yes _____ No ____

If yes, how much? $ ___________

FIDUCIARY TAX ORGANIZER
FORM 1041

This organizer is designed to assist you in gathering the information needed to prepare the current year tax returns. Please complete the organizer and answer all questions. Should you have questions regarding any items, please do not hesitate to contact us (me).

FIDUCIARY TAX ORGANIZER (1041)

		YES	NO
1.	Will the address on your current returns be different from that shown on your prior year returns? If yes, provide the new address and date moved.	_____	_____
2.	Did you have any interest in, or signature, or other authority over a bank, securities, or other financial account in a foreign country?	_____	_____
3.	Were you a resident of, or did you receive income in, more than one state during the year?	_____	_____
4.	Do you want any overpayment of taxes applied to next year's estimated taxes?	_____	_____
5.	Did you have foreign income or pay any foreign taxes?	_____	_____
6.	Has the IRS, any state or local taxing agency notified you of changes to a prior year's tax return? If yes, provide copies of all notices/correspondence received.	_____	_____
7.	Are you aware of any changes to your income, deductions and credits reported on a prior year's returns?	_____	_____
8.	Were you the grantor, transferor or beneficiary of a foreign trust? If yes, furnish details.	_____	_____
9.	Were any distributions made to beneficiaries during the tax year or 65 days following year end?	_____	_____

FIDUCIARY TAX ORGANIZER (1041)

Trust/Estate Name(s) ______________________________ TIN# ______________________

Fiduciary Name(s) ______________________________ SS# ______________________

____

Address ____

____

City, Town, or Post Office County State Zip Code

Telephone Number Home ( ) ________ Telephone Number Office ( ) ________ Fax Number ( ) ________ E-Mail Address ________

If this is the first year we will prepare the tax return(s), provide the following from your file or your prior accountant:

- Will or trust agreement and amendments, if any
- Tax returns for the prior three years
- Depreciation schedules
- Passive loss carryover information

If not previously furnished, provide copies of:

- Death certificate, if an estate or grantor or beneficiaries are deceased
- Birth certificates of beneficiaries
- Marriage certificates of beneficiaries

Is the trustee a U.S. citizen? Yes ____ No ____

Has there been a change in trustee? Yes ____ No ____

Has there been a change in beneficiaries? Yes ____ No ____
If so, provide new beneficiary information. Yes ____ No ____
Is this a foreign trust? Yes ____ No ____
If a foreign trust, is the grantor or any beneficiary a U.S. person Yes ____ No ____

BENEFICIARIES

Full Name	Social Security Number	Address	Date of Birth	U.S. Citizen
				Yes No
				Yes No
				Yes No
				Yes No

FIDUCIARY TAX ORGANIZER (1041)

Did the trustee receive any gifts? Yes ____ No ____

If yes: A) How much ______________

B) From whom ______________

ESTIMATED TAX PAYMENTS MADE

	FEDERAL		STATE	
	Date Paid	Amount Paid	Date Paid	Amount Paid
Prior year overpayment applied				
1st Quarter				
2nd Quarter				
3rd Quarter				
4th Quarter				

INTEREST INCOME - Enclose 1099-INT forms and statements for all interest income including tax-exempt interest income.

Name of Payor per Form 1099 or statement	Banks, S&L, Etc.	Seller Fin. Mtg.	U.S. Bonds, T-Bills	Tax-Exempt In-State	Tax-Exempt Out-of-State
Early Withdrawal Penalties					

FIDUCIARY TAX ORGANIZER (1041)

DIVIDEND INCOME - Enclose 1099-DIV Forms and statements for all dividends including tax-exempt dividends.

Name of Payor per 1099 or statement	Gross Dividend	Non Taxable	Capital Gain	Federal Tax Withheld	Foreign Tax Withheld

MISCELLANEOUS INCOME - List or enclose related 1099(s) or other forms.

Description	Amount
State and local income tax refund(s)	
Other miscellaneous income	

FIDUCIARY TAX ORGANIZER (1041)

INCOME FROM TRADE OR BUSINESS

Principal trade or business ______________________________

Business name ______________________________

Business taxpayer identification number ______________________________

Business address ______________________________

____

Method(s) used to value closing inventory:

__ Cost __ Lower of cost or market __ Other (describe) ____________ N/A ____

Accounting method:

__ Cash __ Accrual __ Other (describe) ____________________

		YES	NO
1.	Was there any change in determining quantities, costs or valuations between the opening and closing inventory? If "yes," attach explanation.	______	______
2.	Were any assets sold during the year? If "yes," list assets sold including date acquired, date sold, sales price, basis and gain or loss.	______	______
3.	Were any assets purchased during the year? If "yes," list assets acquired, including date placed in service and purchase price, including trade-in. Include copies of purchase invoices.	______	______
4.	List states in which business was conducted.		
5.	Provide copies of certification for members of target groups and associated wages paid after September 30, 1996 qualifying for Work Opportunities Credit. SBJPA 1996.	______	______

Attach a financial statement of the business or complete the following worksheet.
Complete a separate schedule for each business.

Description	Amount
Part I - Income	
Gross receipts or sales	
Returns and allowances	
Other income (List type and amount)	

Part II - Cost of Goods Sold	
Inventory at beginning of year	
Purchases less cost of items withdrawn for personal use	
Cost of labor	
Materials and supplies	
Other costs (List type and amount)	
Inventory at end of year	
Part III - Expenses	
Advertising	
Bad debts from sales or services	
Car and truck expenses (Provide details on separate sheet)	
Commissions and fees	
Depletion	
Depreciation and section 179 expense deduction (provide depreciation schedules)	
Employee benefit programs (other than Pension and Profit Sharing plans shown below)	
Insurance (other than health)	
Interest:	
a. Mortgage (paid to banks, etc.)	
b. Other	
Legal and professional services	
Office expense	
Pension and profit-sharing plans (employee's portion only)	
Rent or lease:	
a. Vehicles, machinery, and equipment	
b. Other business property	
Repairs and maintenance	
Supplies	

FIDUCIARY TAX ORGANIZER (1041)

Taxes and licenses	
State Taxes	
Travel, meals, and entertainment:	
a. Travel	
b. Meals and entertainment	
Utilities	
Wages	
Club dues:	
a. Civic club dues	
b. Social or entertainment club dues	
Other expenses (list type and amount)	

CAPITAL GAINS AND LOSSES - Enclose all 1099-B and 1099-S Forms. If you want us to complete the following information furnish all your brokerage account statements and transaction slips.

Enter sales reported to you on Forms 1099-B and 1099-S:

Description	Date Acquired	Date Sold	Sales Proceeds	Cost or Basis	Gain (Loss)

FIDUCIARY TAX ORGANIZER (1041)

Enter any sales **NOT** reported on forms 1099-B and 1099-S:

Description	Date Acquired	Date Sold	Sales Proceeds	Cost or Basis	Gain (Loss)

INCOME FROM PARTNERSHIPS, ESTATES OR TRUSTS, S CORPORATIONS - Enclose all schedule K-1 forms received to date. Also list below all K-1 forms not yet received:

Name	Source Code*	Federal ID #

*Source Code: P = Partnership E = Estate/Trust F = Foreign Trust S = S Corporation

RENTAL INCOME - Complete a separate schedule for each property.

Description and location of property ______________________________

____

____

Residential property? Yes _____ No _____

Personal use? Yes _____ No _____

If "yes," please complete the information below.

Number of days the property was occupied by a related party not paying rent at the fair market value. _______

Number of days the property was not occupied. _______

Income:			
Rents received		Other income	
Expenses:			
Mortgage interest		Legal	
Other interest		Cleaning	
Insurance		Assessments	
Repairs and maintenance		Utilities	
Travel		Other (itemize)	
Advertising			
Taxes			

If this is the first year we are preparing your return, provide depreciation records.
If this is a new property, provide the closing statement.

List below any improvements or assets purchased during the year?

Description	Date placed in service	Cost

If the property was sold during the year, provide the closing statement.

FIDUCIARY TAX ORGANIZER (1041)

CONTRIBUTIONS

Cash contributions for which you have receipts, canceled checks, etc.
NOTE: You need to have written acknowledgment from any charity to which you made individual donations of $250 or more during the year.

Donee	Amount	Donee	Amount

Cash contributions for which no receipts are available:

Donee	Amount	Donee	Amount

Other than cash contributions:

Organization name and address			
Description of property			
Date acquired			
How acquired			
Cost or basis			
Date contributed			
Fair market value (FMV)			
How FMV determined			

FIDUCIARY TAX ORGANIZER (1041)

INTEREST EXPENSE

Mortgage interest (attach 1098 forms.)

Payee*	Property**	Amount

*Include address and social security number if payee is an individual.

**Describe the property securing the related obligation, i.e., principal residence, motor home, boat, etc.

Unamortized Points

Payee	Purpose	Amount

Investment/Passive Interest

Payee	Investment Purpose	Amount

FIDUCIARY TAX ORGANIZER (1041)

Business Interest

Payee	Business Purpose	Amount

DEDUCTIBLE TAXES

Description	Amount
State and local income tax payments made this year for prior year(s).	
Real estate taxes:	
Personal property tax	
Intangible tax	
Other taxes (itemize)	
Foreign tax withheld (may be used as a credit)	

FIDUCIARY TAX ORGANIZER (1041)

MISCELLANEOUS DEDUCTIONS

Description	Amount
Income tax preparation fees	
Legal fees (provide details)	
Safe deposit box rental (if used for storage of documents or items related to income-producing property)	
Fiduciary Fees	
Investment Fees	
Other miscellaneous deductions - itemize	

PARTNERSHIP TAX ORGANIZER (1065)
(SHORT VERSION)

Organization Name	____________________	Tax Period	____________________
Address	____________________	Federal ID#	____________________
	____________________	State ID#	____________________

Provide a general ledger, trial balance, depreciation schedules, balance sheet and profit and loss statement. In addition, provide the following information:

		DONE	N/A
1.	Copies of correspondence with tax authorities regarding changes to prior year returns.	____	____
2.	Details of partner ownership changes.	____	____
3.	For each partner, provide ID#, address, percentage of ownership, profit/loss %, and general or limited classification. Identify the Tax Matters Partner.	____	____
4.	Schedule all payments or distributions to or for partners including descriptions, amounts and the accounts to which these amounts have been posted.	____	____
5.	Schedule loans to/from partners and related parties including interest rates and payment schedules.	____	____
6.	Schedule of all fringe benefits paid on behalf of partners and indicate which benefits have been included in their guaranteed payments.	____	____
7.	Detailed analysis of entries in prepaid and accrued expense accounts.	____	____
8.	Forms 1099, 941, 940, 5500, 1042 and W-2s that have been filed.	____	____
9.	Schedule of all interest and dividend income.	____	____
10.	Schedule assets acquired and/or sold during the year including date acquired, date sold, sales or purchase price, including any trade-in allowance.	____	____
11.	Copy of the inventory uniform capitalization computation.	____	____
12.	Schedule of contributions.	____	____
13.	Detail of any lobbying expenses.	____	____
14.	Schedule non-deductible expenses such as penalties and life insurance premiums.	____	____
15.	Schedule of any club dues paid.	____	____
16.	Vehicle and mileage data for partnership owned passenger vehicles.	____	____
17.	Details of miscellaneous expenses.	____	____
18.	Details of total of meal and entertainment expenses.	____	____
19.	List each type of trade or business activity or rental activity and indicate the date started or acquired.	____	____
20.	List of activities conducted in other states.	____	____

PARTNERSHIP TAX ORGANIZER
FORM 1065
(EXPANDED VERSION)

ORGANIZATION NAME ______________________

ADDRESS ______________________

____

TELEPHONE # ______________________

FAX # ______________________

E-MAIL ADDRESS ______________________

TAX YEAR ENDING ______________________

FEDERAL ID# ______________________

STATE ID# ______________________

This organizer is designed to assist you in gathering the information needed to prepare the Partnership's current year tax returns. Complete the organizer and answer all questions. Should you have questions regarding any items, please do not hesitate to contact us (me).

PARTNERSHIP TAX ORGANIZER (1065)
(EXPANDED VERSION)

Provide a general ledger, trial balance, depreciation schedules, balance sheet, and profit and loss statement by activity. In addition, the following information will be needed:

YES NO N/A

100) GENERAL INFORMATION

101) If this is the first year we will prepare the tax return(s), provide the following from your file or your prior accountant: ____

- Partnership agreement
- Tax returns for the prior three years
- Depreciation schedules
- Partner basis carryforward schedule
- Partner buy/sell agreement
- If the partnership elected a fiscal year end, provide a schedule of section 444 tax deposits and Form 8716.
- Section 704(b) capital account reconciliation

102) Has the partnership been notified of any changes to previous returns by any taxing authority? If "yes,"provide copies of all correspondence. ____ ____

103) Have there been any amendments to the partnership agreement? If "yes," provide copies of amendments since the last year. ____ ____

104) Provide the following information for all partners:

- Name
- Address
- Social Security/Taxpayer Identification Number
- General partner or limited partner
- Type of entity
- Domestic or foreign
- Profit sharing percentage
- Loss sharing percentage
- Percentage ownership
- Changes in partner's ownership interest after 10/22/86 (if not previously provided)
- Capital account reconciliation

105) Which general partner should be designated as the Tax Matters Partner, if applicable?

____

106) Has there been a change in ownership since last year? If "yes," provide the following: ____ ____

A) Date of Transfer ____/_____/_____

B) Type of Transfer
a) sale
b) gift
c) inheritance

YES NO N/A

C) Sale price or fair market value of partnership interest transferred. (Include FMV from estate return if transfer is due to death)

D) Copy of Form 8308, if applicable.

107) Did any of the partners' taxable years change during the year? If "yes," attach a schedule detailing the change. ____ ____

108) List the names and telephone numbers of the partnership's advisors:

	Name & Address	Telephone #	Fax #	E-Mail Address
Attorney				
Banker				
Insurance				
Broker				

109) Does the partnership have any of the following employee benefit plans? ____ ____

.1) Qualified retirement plan(s)?
If "yes," are we to prepare 5500 series form(s)?__
Number of plans __
Are we to compute the contribution? __

.2) SEP or Simple plan? ____ ____

If "yes," are we to compute the contribution?__ ____ ____

.3) Cafeteria plan?
If "yes," are we to prepare 5500 series form?__ ____ ____

.4) Non-qualified retirement plan(s)? ____ ____

Number of plans ____ (describe)

____

____

If "yes," has the "one time only" filing with the Department of Labor been done? ____ ____

.5) Other benefit plans not described above?
If "yes," describe:

____

PARTNERSHIP TAX ORGANIZER (1065)
(EXPANDED VERSION)

YES NO N/A

110) Describe the principal business activity of the partnership:

____ ____ ____

.1) Did the partnership acquire or dispose of a business or business segment during this tax year? If "yes," attach a copy of the contract or agreement.

.2) Did the partnership engage in any new activities during this tax year? If "yes," attach a description of the new business. ____ ____

.3) Did the partnership discontinue operations for this year? ____ ____

111) Does the partnership provide fringe/welfare benefits to employees or partners? If "yes," provide a list of benefits provided. ____ ____

112) Did the partnership include taxable fringe/welfare benefits such as health insurance, group life insurance, educational assistance, expense allowances and personal use of company vehicles as compensation in employee's W-2 forms and, if applicable, subject such amounts to payroll taxes? ____ ____

113) Provide a schedule, by partner, of fringe benefits paid on behalf of each partner such as medical, life insurance, disability and housing. Indicate which accounts have been charged. ____ ____

114) Provide copies of Forms 1099, 941, 940 and W-2 that have been filed. ____ ____

115) Did the partnership have loans with partners and/or other related parties during the tax year? ____ ____

If "yes," attach a schedule indicating the amount of the loan, date of transaction, interest rate and payments. Also, attach a copy of the note if not previously provided.

116) Should the address shown on the return be different from last year? If so, what address should be shown on the return? ____ ____

____

____

____

117) Is the partnership a partner in another partnership? If yes, attach a copy of other partnership return(s). ____ ____

118) Circle method of accounting for tax purposes:

Cash Accrual Other (Describe) ____________

119) Did the partnership establish any new general ledger accounts during the tax year? If "yes," attach a list with a brief explanation of each account. ____ ____

120) Did the partnership post any entries to the partnership capital accounts during the year? If "yes," provide detail of the activity. ____ ____

PARTNERSHIP TAX ORGANIZER (1065)
(EXPANDED VERSION)

YES NO N/A

121) Was there a distribution of property or a transfer (for example, by sale or death) of a partnership interest during this tax year? ____ ____

If marketable securities were distributed, provide the date of distribution and fair market value at distribution dates(s). ________________________

122) Has the partnership ever elected to "step up" the basis of any assets in connection with the death of a partner or a change in ownership? (754 election) ____ ____

123) Did the partnership, at any time during the tax year, have an interest in a foreign bank account? ____ ____

124) Was the partnership the grantor of, or transferor to, a foreign trust during the tax year? ____ ____

125) Does the partnership do business in any other state(s)? If "yes," list state(s) ________ ____ ____

.1) Provide copies of supporting schedules reflecting the three factor (property, payroll, sales) multistate apportionment formula used to determine income.

.2) Provide a schedule showing any amounts for which there are known timing or treatment differences between federal and applicable state reporting.

126) How many additional copies of the return do you need? ____ ____ ____

127) Is this a final return? ____ ____

200) INCOME

201) Does the partnership engage in more than one trade or business activity? If "yes," attach a list and note those started or acquired after 10/22/86. ____ ____

202) Does the partnership engage in any rental real estate activity? If "yes," attach a list and note those started or acquired after 10/22/86. ____ ____

203) Did the partnership receive interest income from the following sources? If "yes," indicate the amount. ____ ____

U.S. agencies ________________________
U.S. government ______________________
Tax exempt-out of state ______________
Tax exempt-in state __________________
Tax exempt-private activity ___________

YES NO N/A

204) Did the partnership sell any stocks, bonds or securities during the year? If "yes," complete the following: ____ ____

Description of Securities Sold	Dates Acquired	Cost or Basis Plus Selling Expenses	(Trade Date) Date Sold	Total Sales Price

205) Did the partnership own any securities that became worthless during the year? If "yes," attach details. ____ ____

206) Did the partnership acquire any "Qualified Small Business Stock?" ____ ____

207) Did the partnership own any mutual funds? If "yes" attach year end statement. ____ ____

208) During the tax year, did the partnership sell or dispose of any assets used in the business? If "yes," provide a schedule listing: ____ ____

- Description of asset sold
- Date sold
- Sales price
- Selling expenses
- Date acquired
- Original cost or basis
- Depreciation claimed in prior years

209) Provide detail of all items greater than $_____ in the miscellaneous income account. ___

Description	Amount

YES NO N/A

210) Did the partnership have any sales during the year that qualify for the installment method of reporting? If "yes," attach a copy of the agreement, the principal and interest received, and the beginning of year and end of year contract balances. ____ ____

211) Were there any sales or exchanges during the year between the partnership and a partner? If "yes," provide a detailed listing. ____ ____

212) Did the partnership engage in any bartering activity during the year? If so, provide a schedule of all such activities. ____ ____

300) DEDUCTIONS

301) Were there any payments to partners during the year for services or for the use of capital determined without regard to income? If "yes," provide the details below: ____ ____

Partner	Description	Amount

302) Do the Uniform Capitalization Rules under section 263A related to items such as inventory and construction apply? If "yes," attach copies of all schedules reflecting the calculation of the amount of general and administrative expenses required to be capitalized in ending inventory or associated with self-constructed assets. ____ ____

303) List all charitable contributions made or accrued during the tax year:

NOTE: You need to have written acknowledgment from any charity to which individual donations of $250 or more were made during the year.

Organization	Amount

304) Did the partnership make political contributions during the tax year? ____ ____

.1) If "yes," enter the amount. $________

.2) If "yes," enter to which accounts were the contributions posted.

305) Did you incur any expenses to influence legislation (lobbying)? If "yes," provide a schedule of "lobbying expenses" and indicate to which accounts these expenses were posted. ____ ____

YES NO N/A

306) Does the partnership pay life insurance premiums (other than group term life) for any partner(s)? If "yes," provide the following for each policy: ___ ___

- Face amount
- Insured
- Policy owner
- Beneficiary
- Type of policy
- Premium paid
- Cash surrender value at year end
- Loan balance at year end
- Interest paid on policy loan

To which general ledger accounts have the payments been posted?

____

____

307) Did the partnership pay any penalties/fines during the tax year? If "yes," list amount(s) and indicate the reason for the penalty/fine. ___ ___

Description	Amount

308) Did the partnership acquire any assets during the tax year? If "yes," provide a schedule of assets purchased including the date placed in service, and a copy of the purchase invoice. Include any trade-in information. ___ ___

309) Did any partners contribute any assets to the partnership during the year? If "yes," provide a schedule of such assets received including date placed in service and partner's basis in such assets and fair market value of such asset. ___ ___

310) Does the partnership wish to use accelerated depreciation methods? ___ ___ ___
Does the partnership wish to use accelerated 179 depreciation? ___ ___ ___

311) Does the partnership own or lease any vehicles? If "yes," provide the following information for each vehicle (NOTE: certain exceptions may apply for taxpayers with more than five vehicles): ___ ___

- Vehicle description
- Date placed in service
- Business miles
- Commuting miles
- Other personal miles
- Total miles
- Average daily round trip commuting distance

YES NO N/A

.1) Does the partnership have evidence to support the claimed business use? If "yes," is the evidence written? ___ ___ ___ / ___ ___

.2) Were the vehicles available for personal use during off-duty hours? ___ ___ ___

.3) Were the vehicles used primarily by a more than 5% owner or related person? ___ ___ ___

.4) Is another vehicle available for personal use? ___ ___ ___

.5) Provide a copy of the lease for any leased vehicles. If not available, provide the following: ___ ___
- Date of lease
- Fair market value at inception
- Term of lease
- Lease payments

312) Regarding partnership policy for vehicles:

.1) Does the partnership maintain a written policy statement that prohibits all personal use of vehicles, <u>including</u> commuting, by employees? ___ ___ ___

.2) Does the partnership maintain a written policy statement that prohibits personal use of vehicles, <u>excluding</u> commuting, by employees? ___ ___ ___

.3) Does the partnership treat all use of vehicles by employees as personal use? ___ ___ ___

.4) Does the partnership provide more than five vehicles to employees and retain the information received from employees concerning the use of vehicles? ___ ___ ___

.5) Does the partnership require or maintain copies of vehicle logs? ___ ___ ___

313) Are computers, cellular phones or other property used for personal purposes? If "yes," complete the following: ___ ___ ___

Description	Date Placed in Service	Business Use %	Cost or Basis

.1) Does the partnership have evidence to support the business use claimed? ___ ___ ___

.2) If "yes," is the evidence written? ___ ___ ___

314) Did the partnership have any meal or entertainment expenses? If "yes," which account(s) were these items posted to? ___ ___

	YES	NO	N/A
315) Did the partnership pay any social or entertainment club dues? If "yes," provide the amounts $________ and to which account these items were posted.	____	____	
316) Schedule below all items in the miscellaneous expense account greater than $_______.	____	____	

Description	Amount

	YES	NO	N/A
317) Will all compensation related accruals (including vacation pay) be paid within 2½ months of year end? If "no," provide details of unpaid amounts.	____	____	____
318) Provide copies of certification for members of target groups and associated wages paid after September 30, 1996 qualifying for Work Opportunities Credit (SBJPA 1996).	____	____	____

319) Provide the following information for all items of interest expense:

Payee	Purpose of Loan	Recourse/ Non-Recourse	Year End Principal Balance	Interest Expense

	YES	NO	N/A
320) Were there any accruals of interest, compensation or other expenses to partners at year end? If "yes," provide detail.	____	____	

CORPORATION TAX ORGANIZER (1120)

Corporation Name	____________________	Tax Period	____________
Address	____________________	Federal ID#	____________
	____________________	State ID#	____________

Provide a general ledger, trial balance, depreciation schedules, balance sheet and profit and loss statement. In addition, provide the following information:

		DONE	N/A
1.	Copies of correspondence with tax authorities regarding changes to prior year returns.	______	____
2.	Details of changes in stock ownership.	______	____
3.	For each corporate officer provide SS#, compensation, percentage of ownership and time devoted to business.	______	____
4.	Schedule of loans to/from shareholders, officers and related parties including interest rates and payment schedules.	______	____
5.	Detailed analysis of entries in prepaid, accrued, and income tax expense accounts, including dates and amounts of all federal, state and local income tax payments and refunds.	______	____
6.	Copies of forms 1099, 941, 940, 5500, 1042 and W-2s that have been filed.	______	____
7.	Schedule of all interest and dividend income.	______	____
8.	Schedule of assets acquired and/or sold during the year including date acquired, date sold, sales or purchase price, including any trade-in allowance.	______	____
9.	Copy of the inventory uniform capitalization computation.	______	____
10.	Schedule of contributions.	______	____
11.	Detail of any lobbying expenses.	______	____
12.	List non-deductible expenses, such as penalties and life insurance premiums.	______	____
13.	Schedule of any club dues paid.	______	____
14.	Vehicle and mileage data for company owned passenger vehicles.	______	____
15.	Details of miscellaneous income/expense accounts.	______	____
16.	Furnish total of meal and entertainment expenses.	______	____
17.	List of activities conducted in other states.	______	____

S CORPORATION TAX ORGANIZER (1120S)

Corporation Name	____________________	Tax Period	____________________
Address	____________________	Federal ID#	____________________
	____________________	State ID#	____________________

Provide a general ledger, trial balance, depreciation schedules, balance sheet, and profit and loss statement by activity. In addition, provide the following information:

		DONE	N/A
1.	Copies of correspondence with tax authorities regarding changes to prior year returns.	____	___
2.	Details of changes in stock ownership.	____	___
3.	For each shareholder provide ID#, compensation, percentage of ownership, time devoted to business, date ownership acquired and detail of distributions received.	____	___
4.	Schedule of all fringe benefits paid on behalf of more than 2% shareholders and indicate which benefits have been included in their W-2.	____	___
5.	Schedule of loans to/from shareholders, officers and related parties including interest rates and payment schedules.	____	___
6.	Schedule of built-in gains.	____	___
7.	Detailed analysis of entries in prepaid, accrued, and income tax expense accounts, including dates and amounts of all federal, state and local income tax payments and refunds.	____	___
8.	Copies of forms 1099, 941, 940, 5500, 1042 and W-2s that have been filed.	____	___
9.	Schedule of all interest and dividend income.	____	___
10.	Schedule of assets acquired and/or sold during the year including date acquired, date sold, sales or purchase price, including any trade-in allowance.	____	___
11.	Copy of the inventory uniform capitalization computation.	____	___
12.	Schedule of contributions.	____	___
13.	Detail of any lobbying expenses.	____	___
14.	Schedule of any club dues paid.	____	___
15.	List non-deductible expenses such as penalties and life insurance premiums.	____	___
16.	Vehicle and mileage data for company owned passenger vehicles.	____	___
17.	Details of miscellaneous income/expense accounts.	____	___
18.	Furnish total of meal and entertainment expenses.	____	___
19.	List each type of trade or business activity or rental activity and indicate the date started or acquired.	____	___
20.	List of activities conducted in other states.	____	___

CORPORATION TAX ORGANIZER (1120, 1120S)
(EXPANDED VERSION)

ORGANIZATION NAME ________________________________

ADDRESS ________________________________

____

TELEPHONE # ________________________________

FAX # ________________________________

E-MAIL ADDRESS ________________________________

TAX YEAR ENDING ________________________________

FEDERAL ID# ________________________________

STATE ID# ________________________________

This organizer is designed to assist you in gathering the information needed to prepare the Corporation's current year tax returns. Please complete the organizer and answer all questions. Should you have questions regarding any items, please do not hesitate to contact us (me).

CORPORATION TAX ORGANIZER (1120, 1120S)
(EXPANDED VERSION)

Provide a general ledger, trial balance, depreciation schedules, balance sheet, and profit and loss statement by activity. In addition, the following information is required:

YES NO N/A

100) GENERAL INFORMATION

101) If this is the first year we will prepare the tax return, provide the following from your file or your prior accountant:

- Tax returns for the prior three years ____ ___
- Depreciation schedules ____ ___
- List of all investments ____ ___
- All tax carryforward schedules such as NOL, tax credits, contributions, etc. ____ ___
- Copy of buy/sell agreement ____ ___

S CORPORATION ONLY

- Provide a copy of the S corporation approval. ____

- Provide a list of all shareholders and provide the following information: ____

  - Name
  - Address
  - ID#
  - Type of entity
  - Number of shares

- If the corporation (1) filed its election to be an S corporation after December 31, 1986; and (2) was a C corporation prior to making the election, provide a copy of the schedule of net built-in gains. ____ ___

- Has the corporation elected a fiscal year end? If "yes," provide a schedule of section 444 tax deposits and a copy of Form 8716. ____ ____ ___

- Does the corporation engage in more than one trade or business activity? If "yes," list and note those started or acquired after October 22, 1986. ____ ____ ___

- Does the corporation engage in any rental activity? If "yes," list and note those started or acquired after October 22, 1986. ____ ____ ___

102) Should the address shown on the return be different from last year? If so, what address should be shown on the return? ____ ____

103) Has the corporation been notified of any changes to previous returns by any taxing authority? If "yes," provide copies of all correspondence. ____ ____

104) If ownership changed during the year, has there been a change in ownership percentages? Provide a schedule of all changes, including dates and number of shares. ___

105) Have there been any changes to the shareholders' buy/sell agreement? If "yes," provide a copy. ____ ____

CORPORATION TAX ORGANIZER (1120, 1120S)
(EXPANDED VERSION)

YES NO N/A

106) Has the corporation updated its minute book for the year? If "yes," provide copies. ____ ____

107) Provide the names and telephone numbers of the corporation's advisors:

	Name and Address	Telephone #	Fax #	E-Mail
Attorney				
Banker				
Insurance				
Broker				

108) Describe the principal business activity of the corporation:

____

.1) Did the corporation purchase or sell a business or business segment during this year? If "yes," provide a copy of contract or agreement. ____ ____

.2) Did the corporation engage in any new activities during the year? If "yes," describe new business on an attached sheet. ____ ____

.3) Did the corporation discontinue operations this year? ____ ____

109) Does the corporation have any of the following employee benefit plans?

.1) Qualified retirement plan(s)? ____ ____
If "yes," are we to prepare 5500 series form(s)? ____ ____
Are we to compute the contribution? ____ ____

.2) SEP or Simple Plan? ____ ____
If "yes," are we to compute the contribution? ____ ____

.3) Cafeteria plan? ____ ____
If "yes," are we to prepare 5500 series form? ____ ____

.4) Non-qualified retirement plan(s)? ____ ____
Number of plans ____ (describe)

____

____

If "yes," has the "one time only" filing with the Department of Labor been done? ____ ____

.5) Other benefit plans not described above? ____ ____
If "yes," describe:

____

____

	YES	NO	N/A
110) Did the corporation include taxable fringe/welfare benefits such as health insurance, group term life insurance, educational assistance, expense allowances and personal use of corporate owned vehicles as compensation in employee W-2 forms and, if applicable, subject such amounts to payroll taxes?	____	____	____
111) At year end, did the corporation own, directly or indirectly, 50% or more of the voting stock of a domestic corporation? If "yes":	____	____	

.1) Name: ____________________
Address: ____________________
____
ID#: ____________________
Ownership percentage: ____________

.2) Income (loss) of such corporation $________

	YES	NO
112) At year end did any corporation, individual, partnership, trust or estate own, directly or indirectly, 50% or more of the corporation's voting stock? If "yes":	____	____

.1) Name: ____________________
Address: ____________________
____
ID#: ____________________
Ownership percentage: ____________

	YES	NO
.2) Was such owner a person other than a U.S. citizen?	____	____
113) Do the shareholders owning 80% or more of this corporation own 80% or more of any other corporation(s)? If "yes," provide a copy of the other corporate tax returns.	____	____
114) Is this corporation a shareholder of any foreign corporation? If "yes," identify each corporation.	____	____
115) Did the corporation at any time during the year have an interest in a foreign bank account? If "yes," provide details.	____	____
116) Was the corporation the grantor or transferor to a foreign trust during the year? If "yes," provide details.	____	____
117) During this taxable year, did the corporation pay dividends? If "yes," attach a schedule reflecting date declared, date paid, amount and form of payment (cash, other).	____	____
118) Did one foreign person, at any time during the tax year, own directly or indirectly, 25% or more of the total voting power or value of all classes of stock of the corporation? If "yes":	____	____

.1) Enter the percentage owned ______________
.2) Enter the owner's country ______________

YES NO N/A

119) List income tax deposits below in order of date paid:

	Prior Year Overpayment Applied	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	Extension
FEDERAL						
Date Paid						
Amount	$					
STATE						
Date Paid						
Amount	$					

120) Provide a detailed schedule of the activity, for the tax year, in the corporation's general ledger income tax accounts (asset, liability and expense). ____ ____

121) Circle method of accounting for tax purposes:

Cash Accrual Other (Describe)______________

122) Did the corporation establish any new general ledger accounts during the year? If "yes," provide a list with a brief explanation of each new account. ____ ____

123) Did the corporation post any entries to the retained earnings account during the year? If "yes," provide details of the activity. ____ ____

124) Provide copies of forms 1099, 941, 940, 1042 and W-2s that have been filed. ____ ____

125) Did the corporation have loans with shareholder(s) and other related parties during the tax year? If "yes," provide a schedule indicating the amount of the loan, date of transaction, interest rate and payments. Also, provide a copy of the note if not previously provided. ____ ____

126) Did the corporation refinance or restructure any outstanding debt this year? If yes, provide documentation. ____ ____

127) Does the corporation do business in any other state? If "yes," list state returns required: ____ ____

____

.1) Provide copies of supporting schedules reflecting the three factor (property, payroll, sales) multistate apportionment formula. ____ ____

.2) Provide a schedule showing any amounts for which there are known timing or treatment differences between federal and state reporting. ____ ____

128) How many additional copies of the return do you need?_____

YES NO N/A

200) INCOME

201) Did the corporation receive interest income from the following sources? If "yes," list total amount. ____ ____

U.S. Agencies ____________________
Tax exempt-in state ________________
U.S. Government _________________
Tax exempt-out of state______________
Tax exempt-private activity __________

202) Did the corporation sell any stocks, bonds, or securities during the year? If "yes," complete the following: ____ ____

Description of Securities Sold	Date Acquired	Cost or Basis Plus Selling Expenses	(Trade Date) Date Sold	Total Sales Price

203) Did the corporation own securities that became worthless during the year? If "yes," attach details. ____ ____

204) Did the corporation sell any assets used in its business? If "yes," provide a schedule listing: ____ ____

- Description of asset sold
- Date sold
- Sales price
- Selling expenses
- Date acquired
- Original cost or basis
- Depreciation claimed in prior years

205) Provide detail of all items greater than $ ____ in the miscellaneous income account. ____

Description	Amount

YES NO N/A

206) Did the corporation receive dividend income this year? ___ ___

Stock/Mutual Fund Name	Date Purchased	Amount of Dividend	Percent Owned if Over 20%

.1) If dividends are from mutual funds, provide the year-end statements.

207) Did the corporation make any sales qualifying for the installment method of reporting? ___ ___

If "yes," attach a copy of the agreement, the principal and interest received, and the beginning of the year and end of the year contract balances.

208) Were there any sales or exchanges during the year between the corporation and a shareholder? If "yes," attach a detailed schedule. ___ ___

209) Did the corporation engage in any bartering activity during the year? If so, attach a schedule of all such activities. ___ ___

300) DEDUCTIONS

301) Information regarding corporate officers:

Name	Social Security Number	% Time Devoted to Business	% Stock Owned		Compensation
			Common	Preferred	

CORPORATION TAX ORGANIZER (1120, 1120S)
(EXPANDED VERSION)

YES NO N/A

302) Fiscal year Personal Service Corporation's (PSC): ____ ____

.1) Is the corporation a PSC on a fiscal year? If "yes," provide the following information:

Name of Officer/Shareholder	Compensation from Beg. of Fiscal Year to End of Calendar Year	Compensation from Beg. of Subsequent Calendar Year to End of Fiscal Year	Total Compensation

.2) If the PSC has elected a fiscal year end, provide a copy of an approved election (Form 8716) if not previously provided. ____ ____

303) Do the Uniform Capitalization Rules under section 263A related to items such as inventory and construction apply? If "yes," provide copies of all schedules supporting the calculation of the amount of general and administrative expenses required to be capitalized in ending inventory or associated with self constructed assets. ____ ____

304) List charitable contributions made or accrued during the year:

NOTE: You need to have written acknowledgment from any charity to which individual donations of $250 or more were made during the year.

Organization	Amount

.1) Did the corporation have an accrued charitable contribution at year end? If "yes," attach a copy of minutes authorizing contribution. ____ ____

.2) Did the corporation make a charitable contribution of inventory or property? If "yes," attach detail. ____ ____

.3) Did the corporation make political contributions during this tax year? If "yes," enter amount $______________. (Please note "Corporate political contributions" are illegal.) ____ ____

305) Did you incur any expenses to influence legislation and "lobbying?" If "yes," provide a schedule of "lobbying expenses" and indicate which accounts these expenses were posted to. ____ ____

306) Was any computer equipment donated to educational institutions? If yes, provide details. ____ ____

YES NO N/A

307) Does the corporation pay life insurance premiums (other than group term life) for officers of the corporation? If "yes," provide the following for each policy: ____ ____

- Face amount
- Premium paid
- Insured
- Cash surrender value at year end
- Policy owner
- Loan balance at year end
- Beneficiary
- Interest paid on policy loan
- Type of policy

To which general ledger accounts have the payments been posted? ____ ____

____

____

308) Did the corporation pay penalties/fines during the tax year? If "yes," list amount(s) and indicate the reason for the penalty/fine. ____ ____

Description	Amount

309) Did the corporation acquire any assets during the tax year? If "yes,"attach a list of assets purchased including the date placed in service and a copy of the purchase invoice. Include any trade-in information. ____ ____

310) Does the corporation wish to use accelerated depreciation methods? ____ ____ ____
Does the corporation wish to use section 179 depreciation? ____ ____ ____

311) Does the corporation own or lease any vehicles? If "yes," provide the following information for each vehicle (note certain exceptions may apply for companies with more than five vehicles): ____ ____

- Vehicle description
- Other personal miles
- Date placed in service
- Total miles
- Business miles
- Average daily round trip commuting distance
- Commuting miles

.1) Does the corporation have evidence to support the claimed business use? ____ ____ ____
If "yes," is the evidence written? ____ ____ ____

.2) Were the vehicles available for personal use during off-duty hours? ____ ____ ____

YES NO N/A

.3) Were the vehicles used primarily by a more than 5% owner or related person? ____ ____ ____

.4) Is another vehicle available for personal use? ____ ____ ____

.5) Provide a copy of the lease for any leased vehicles. If not available, provide the following: ____ ____

- Date of lease
- Fair market value at inception
- Term of the lease
- Lease payments

312) Regarding corporate policy for vehicles:

.1) Does the corporation maintain a written policy statement that prohibits all personal use of vehicles, including commuting, by employees? ____ ____ ____

.2) Does the corporation maintain a written policy statement that prohibits personal use of vehicles, excluding commuting, by employees? ____ ____ ____

.3) Does the corporation treat all use of vehicles by employees as personal use? ____ ____ ____

.4) Does the corporation provide more than five vehicles to employees and retain the information received from employees concerning the use of the vehicles? ____ ____ ____

.5) Does the corporation require or maintain copies of vehicle logs? ____ ____ ____

313) Are computers or cellular phones or other listed property used by employees for personal purposes? If "yes," complete the following: ____ ____

Description	Date Placed in Service	Business Use %	Cost or Basis

.1) Does the corporation have evidence to support the business use claimed? ____ ____ ____

.2) If "yes," is evidence written? ____ ____ ____

314) Did the corporation have any meal and/or entertainment expenses? If "yes," to which account(s) were these items posted? ________________________ ____ ____

315) Did the corporation pay any club dues? If "yes," to which account were these items posted? ____ ____

YES NO N/A

316) List all items in the miscellaneous expense account greater than $_______. ___

Description	Amount

317) Will all compensation related accruals (including vacation pay) be paid within 2½ months of year end? If "no," provide details of unpaid amounts. ___

318) Are there any accruals to shareholder(s) at year end? If "yes," provide detail. ___ ___ ___

319) Provide copies of certification for members of target groups and associated wages paid qualifying for Work Opportunities Credit (SBJPA 1996). ___ ___ ___

400) S CORPORATIONS ONLY

401) Have fringe benefits paid on behalf of more than 2% shareholders (including but not limited to medical, life insurance, disability, housing, etc.) been included in shareholder's compensation, and included in payroll taxes? Indicate to which accounts these amounts have been posted. ___ ___ ___

QUALIFIED RETIREMENT PLAN ORGANIZER
FORM 5500

This organizer is designed to assist you in gathering the information needed to prepare the Form 5500. Complete the organizer and answer all questions. Should you have questions regarding any items, please call.

QUALIFIED RETIREMENT PLAN ORGANIZER (5500)

PLAN NAME____ PLAN YEAR____________

CONTACT PERSON__________________________ PHONE #______________ FAX #____________

SPONSOR NAME_____________________________________ PLAN #_________________

SPONSOR ADDRESS__________________________________ FEDERAL ID#____________

____

TYPE OF ENTITY____

PLAN ADMINISTRATOR_______________________________ SPONSOR ID#____________

ADMINISTRATOR ADDRESS____________________________ ADMINISTRATOR ID#______

____

TRUSTEE____TRUSTEE ID#____________

TRUSTEE ADDRESS ____

PLAN ATTORNEY ____

INVESTMENT ADVISOR ____

NOTE: Certain narrowly defined terms, such as "key employee" and "highly compensated employee," are explained at the end of this organizer.

	Previously Provided	Attached	N/A
101) If this is the first year in which we are to prepare your 5500 series form, furnish the following items:			
.1) Plan document and adoption agreement and amendments.	_______	_______	_______
.2) Prior three years' summary annual reports.	_______	_______	_______
.3) Most current summary plan descriptions.	_______	_______	_______
.4) Prior three years' independent qualified accountant reports (if applicable).	_______	_______	_______
.5) Prior three years' plan financial statements.	_______	_______	_______
.6) Prior three years' 5500 series forms.	_______	_______	_______
.7) Prior three years' employee census, including balances and vesting information.	_______	_______	_______
.8) Most recent IRS determination letter.	_______	_______	_______
.9) If the plan allows for loans, provide copies of loan documents and amortization schedules.	_______	_______	_______
102) Furnish the following items for the current year:			
.1) Employee census (specimen attached or update attached census from prior year).	_______	_______	_______
.2) Plan financial statements.	_______	_______	_______
.3) If there are no financial statements for the plan, provide the following:			_______
.a) Recap of receipts and disbursements for all bank accounts.	_______	_______	_______
.b) Reconciled bank statements as of the plan's year-end.	_______	_______	_______
.c) Recaps or copies of all monthly brokerage or investment accounts for the plan year.	_______	_______	_______
.d) Schedule of fair market value of all investments as of the close of the plan year.	_______	_______	_______
.4) Detail of employer contributions for the plan year. Indicate dates accrued and paid or scheduled to be paid.	_______	_______	_______

	Previously Provided	Attached	N/A
.5) Form 5500, Schedule A, where a portion or all of the plan is invested in insurance contracts.	______	______	______
.6) Page 1 of the income tax return (Form 1040, Schedule C if sole proprietorship).	______	______	______
.7) Copies of new loan documents.	______	______	______
.8) Copies of Forms 1099-R issued.	______	______	______
.9) Copies of Forms 945.	______	______	______

		YES	NO	N/A
103)	Was the plan terminated during the plan year? If "yes," provide a copy of resolution (executed).	______	______	
104)	Were there any amendments during the plan year? If "yes," provide copies of the amendment(s).	______	______	
105)	Has the plan been audited by either the Internal Revenue Service or the Department of Labor? If "yes," attach copies of all correspondence.	______	______	
106)	Have there been any disputed claims or litigation filed or threatened with respect to the plan? If "yes," attach copies of all correspondence.	______	______	
107)	Was the plan insured by a fidelity bond for loss through fraud or dishonesty? If "yes," complete the following:	______	______	

Name of surety company ______________________________

Amount of bond ______________________________

		YES	NO	N/A
108)	Was any participant separated from service with a deferred vested benefit during the plan year?	______	______	
109)	Are there any individuals in the company who have worked more than 1,000 hours who are not considered to be a common law employee (e.g., independent contractor)? If "yes," include these individuals on the employee census form and identify them as "leased or not leased."	______	______	______

110) List officers and owner(s) of company and percentage of ownership:

NAME	TITLE	OWNERSHIP PERCENTAGE

YES NO

111) Does any key employee, or any member of the key employee's family, own an interest in any other privately owned business? If yes, complete the following. ______ ______

EMPLOYEE NAME	RELATIONSHIP TO OWNER	NAME AND TYPE OF ENTITY	OWNERSHIP PERCENTAGE

YES NO N/A

112) Do any relatives of any key employee work for the company? If "yes," identify them on the employee census. ______ ______

113) Did all new participants receive a summary plan description? ______ ______

114) Did all terminated participants receive required Forms 1099-R, Statement for Recipients of Total Distributions from Profit-sharing, Retirement Plans, etc. ______ ______ ______

115) Have participants received required annual information about their account balance(s), vested percentage(s) and matching contributions? ______ ______

116) Was the prior year summary annual report for the plan year distributed to participants? ______ ______

117) Has there been any reversion of plan assets to the employer during the plan year? ______ ______

118) Did any service provider receive more than $5,000 in compensation from the plan during the plan year? If "yes," attach a schedule. ______ ______

119) Has there been a termination of the appointment of any of the following? ______ ______

_ accountant _ enrolled actuary _ insurance carrier
_ administrator _ investment manager _ trustee or custodian

If "yes," attach explanation(s).

QUALIFIED RETIREMENT PLAN ORGANIZER (5500)

	YES	NO	
120) Did any of the following transactions occur between the plan and any parties-in-interest (e.g., employer, participant, etc.)? If "yes," attach explanation.	______	______	
.1) The sale, exchange or leasing of any property.	______	______	
.2) The lending of money or other extension or credit (with certain exemptions for plan loans to participants or beneficiaries).	______	______	
.3) The furnishing of goods, services, or facilities.	______	______	
.4) The transfer to, or use of any plan assets, by or for the benefit of a party-in-interest.	______	______	
.5) The plan's acquisition or retention of any employer security or employer property.	______	______	
121) Is the plan audited by an independent qualified public accountant? If yes, provide the accountant's opinion and report and complete the following questions concerning transactions during the plan year.	______	______	
.1) Did the plan have assets held for investment?	______	______	______
.2) Were any loans or fixed obligations due the plan in default as of the close of the plan year or considered uncollectible?	______	______	______
.3) Were any plan transactions or series of transactions in excess of 5% of the current value of plan assets?	______	______	______
.4) Did the plan engage in any non-exempt transactions with parties-in-interest not reported in the notes to the financial statement?	______	______	______
.5) Did the plan hold qualifying employer securities that are not publicly traded?	______	______	______
.6) Did the plan purchase or receive any nonpublicly traded securities that were not appraised in writing by an unrelated third party within three months prior to their receipt?	______	______	______
.7) Did any person manage plan assets who had a financial interest worth more than 10% in any party providing services to the plan or receive anything of value from any party providing services to the plan?	______	______	______

QUALIFIED RETIREMENT PLAN ORGANIZER (5500)

EMPLOYEE CENSUS

EMPLOYEE NAME (LAST, FIRST, I.)	SOCIAL SECURITY NUMBER	TYPE CODES*	DATE OF BIRTH	DATE OF HIRE	DATE OF TERM	DATE OF REHIRE	HOURS OF SERVICE	COMPENSATION**	EMPLOYEE CONTRIBUTIONS DEFERRAL	EMPLOYEE CONTRIBUTIONS NON-DEDUCT	DISTRIBUTION IN PLAN YEAR
	___-___-___		_/_/_	_/_/_	_/_/_	_/_/_		___.___	___.___	___.___	
	___-___-___		_/_/_	_/_/_	_/_/_	_/_/_		___.___	___.___	___.___	
	___-___-___		_/_/_	_/_/_	_/_/_	_/_/_		___.___	___.___	___.___	
	___-___-___		_/_/_	_/_/_	_/_/_	_/_/_		___.___	___.___	___.___	
	___-___-___		_/_/_	_/_/_	_/_/_	_/_/_		___.___	___.___	___.___	
	___-___-___		_/_/_	_/_/_	_/_/_	_/_/_		___.___	___.___	___.___	
	___-___-___		_/_/_	_/_/_	_/_/_	_/_/_		___.___	___.___	___.___	
	___-___-___		_/_/_	_/_/_	_/_/_	_/_/_		___.___	___.___	___.___	
	___-___-___		_/_/_	_/_/_	_/_/_	_/_/_		___.___	___.___	___.___	
	___-___-___		_/_/_	_/_/_	_/_/_	_/_/_		___.___	___.___	___.___	
	___-___-___		_/_/_	_/_/_	_/_/_	_/_/_		___.___	___.___	___.___	
	___-___-___		_/_/_	_/_/_	_/_/_	_/_/_		___.___	___.___	___.___	
	___-___-___		_/_/_	_/_/_	_/_/_	_/_/_		___.___	___.___	___.___	
	___-___-___		_/_/_	_/_/_	_/_/_	_/_/_		___.___	___.___	___.___	

* See type codes on attached page

** Compensation is generally defined by the plan.

QUALIFIED RETIREMENT PLAN ORGANIZER (5500)

EMPLOYEE CENSUS INSTRUCTIONS

Compensation

For defined contribution plans, contributions and allocations are based upon a definition of compensation which generally will be contained in the plan document. Complete the employee census after indicating below how compensation is defined in your plan.

[ ] Compensation reported as taxable income for W-2 purposes
[ ] Wages paid during the plan year
[ ] Compensation before 401(k) deferrals and after section 125 deferrals
[ ] Wages accrued during the plan year

[ ] Includes bonus	[ ] Excludes bonus
[ ] Includes tips	[ ] Excludes tips
[ ] Includes commissions	[ ] Excludes commissions

[ ] Other ______________________________

Hours of Service

Hours of service may be the basis for determining eligibility to participate in the plan, eligibility to receive an employer contribution and eligibility for vesting. If actual hours are available for the plan year, please provide the actual hours of service. However, if actual hours are not maintained by the employer, you may use the following coding to identify hours of service:

L Less than 500 hours **S** Between 499 and 1000 hours **F** 1,000 hours or more.

Type Codes

Type codes are used in calculating distributions and in preparing various government reports, and may also affect eligibility for certain benefits.

Type 1: Employee Status		Type 2: Key or Highly Compensated Employee	Type 3: Marital Status
1 = Active	7 = Deceased	a = Key employee	Y = Married
2 = Terminated	8 = Excluded	b = Highly compensated	N = Unmarried
3 = Retired	9 = Independent Contractor/ Leased	c = Key & highly compensated	
4 = Disabled		d = Family member of key employee	
5 = Ineligible	10 = Independent Contractor/ Not Leased		
6 = Leave of Absence			

DEFINITIONS

KEY EMPLOYEE

A key employee means any employee who at any time during the current or preceding four years meets any one of the tests described below:

(1) Officer Test. An officer of the employer whose annual compensation is equal to or greater than 50% of the defined benefit dollar limitation (50% = $65,000 for plan years beginning in 1998). The number of officers to be taken into account is limited to 50. If there are fewer than 50 officers for purposes of this test, the lesser of 10% of total employees or three officers is used for the test. If there are more officers than the limited number, the officers with the highest one-year compensation during the five-year period are used.

(2) Compensation Test. One of the ten employees having annual compensation in excess of $30,000 and owning the largest interest in the employer. Only consider interests owned by employees to determine the ten largest interests. If two or more employees own the same percentage interest, the employee with the greatest compensation is used for the test.

(3) 5% Owner Test. An employee who owns more than 5% of the employer. An individual is considered as owning stock owned directly or indirectly by a spouse, children, grandchildren and parents.

(4) 1% Owner Test. An employee who owns more than 1% of the employer and whose annual compensation exceeds $150,000.

HIGHLY COMPENSATED EMPLOYEE

A highly compensated employee is an employee who (even if now terminated):

(1) Was a more than 5% owner of the employer during the current or preceding year, or

(2) Received compensation in excess of $80,000 in the preceding year. The $80,000 amount will be adjusted periodically by the Secretary of the Treasury. The employer may elect under Internal Revenue Code ("Code") section 414(q)(1)(B)(ii) to limit the class of employees receiving compensation in excess of $80,000 who are considered key employees to those who were in the "top-paid group" of employees for such preceding year. Under Code section 414(q)(3), "top-paid group" means generally the top 20 percent of employees when ranked on the basis of compensation.

SAMPLE ENGAGEMENT LETTERS

This package contains samples of engagement letters to be used in connection with engagements to prepare income tax returns for:

- Individuals (Form 1040)
- Partnerships/LLPs/LLCs (Form 1065)
- Corporations (Form 1120)
- S Corporations (Form 1120S)
- Estates and Trusts (Form 1041)
- Qualified Retirement Plans (Form 5500)
- Estate Tax (Form 706)
- Tax Examination Engagement Letter

In addition, there are several optional paragraphs that may be used in lieu of or to supplement the various sample engagement letters contained herein. These optional paragraphs include 1) substantial understatement penalty disclosures for each type of engagement letter, 2) a paragraph limiting the scope of the engagement, 3) a paragraph discussing client records, 4) a paragraph disclosing the use of an outside processing service, 5) a paragraph regarding outside disclosure for peer review programs, 6) a paragraph disclosing finance charges, 7) a paragraph discussing the negligence penalty, and 8) a paragraph offering the option of electronically filing the tax return. A sample letter for use in connection with a tax examination engagement is also provided.

<u>These engagement letter samples are issued as drafts only and do not represent an official AICPA position. Practitioners using them retain responsibility for their final content</u>. They should be reviewed carefully and changed as necessary for your particular use. In adapting these drafts to your particular needs you should be sure to consider the following:

1) AICPA Statements on Responsibilities in Tax Practice,

2) state requirements regarding disclosure of finance charges,

3) state Board of Accounting requirements pertaining to disclosure of the use of an outside service bureau,

4) the desirability of obtaining the signed affirmation of the client (or clients in the case of joint and consolidated returns),

5) the need for a new engagement letter each year, and

6) a paragraph disclosing late payment charges.

1040 - INDIVIDUAL TAX RETURN ENGAGEMENT LETTER

Dear Client:

This letter is to confirm and specify the terms of our/my engagement with you and to clarify the nature and extent of the services we/I will provide. In order to ensure an understanding of our mutual responsibilities, we/I ask all clients for whom returns are prepared to confirm the following arrangements.

We/I will prepare your 199__ federal and requested state income tax returns from information that you will furnish us/me. We/I will not audit or otherwise verify the data you submit, although it may be necessary to ask you for clarification of some of the information. We/I will furnish you with questionnaires and/or worksheets to guide you in gathering the necessary information. Your use of such forms will assist in keeping pertinent information from being overlooked.

It is your responsibility to provide all the information required for the preparation of complete and accurate returns. You should retain all the documents, canceled checks and other data that form the basis of income and deductions. These may be necessary to prove the accuracy and completeness of the returns to a taxing authority. You have the final responsibility for the income tax returns and, therefore, you should review them carefully before you sign them.

Our/My work in connection with the preparation of your income tax returns does not include any procedures designed to discover defalcations or other irregularities, should any exist. We/I will render such accounting and bookkeeping assistance as determined to be necessary for preparation of the income tax returns.

We/I will use professional judgment in resolving questions where the tax law is unclear, or where there may be conflicts between the taxing authorities' interpretations of the law and other supportable positions. Unless otherwise instructed by you, we/I will resolve such questions in your favor whenever possible.

The law provides various penalties that may be imposed when taxpayers understate their tax liability. If you would like information on the amount or the circumstances of these penalties, please contact us/me.

Your returns may be selected for review by the taxing authorities. Any proposed adjustments by the examining agent are subject to certain rights of appeal. In the event of such government tax examination, we/I will be available upon request to represent you and will render additional invoices for the time and expenses incurred.

Our/My fee for these services will be based upon the amount of time required at standard billing rates plus out-of-pocket expenses. All invoices are due and payable upon presentation.

If the foregoing fairly sets forth your understanding, please sign the enclosed copy of this letter in the space indicated and return it to our/my office. However, if there are other tax returns you expect us/me to prepare, such as gift and/or property, please inform us/me by noting so at the end of the returned copy of this letter.

We/I want to express our appreciation for this opportunity to work with you.

Very truly yours,

Accepted By: ________________

Date: ______________________

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1065 - PARTNERSHIP/LLP/LLC TAX RETURN ENGAGEMENT LETTER

Dear Client:

This letter is to confirm and specify the terms of our/my engagement with (Name of Partnership or Limited Liability Company) for the year ended (__) and to clarify the nature and extent of the services we/I will provide. Also, by sending you this engagement letter we/I have assumed that you are the person responsible for the tax matters of the partnership. If this is not a correct assumption, please furnish us/me with the name of the tax matters partner.

Our/My engagement will be designed to perform the following services:

1. Prepare the federal, state, and local income tax returns with supporting schedules.

2. Perform any bookkeeping necessary for preparation of the income tax returns.

Our/My work in connection with the preparation of your income tax returns does not include any procedures designed to discover defalcations or other irregularities, should any exist.

We/I will use our/my judgment in resolving questions where the tax law is unclear, or where there may be conflicts between the taxing authorities' interpretations of the law and other supportable positions. Unless otherwise instructed by you, we/I will resolve such questions in your favor, whenever possible.

The law provides various penalties that may be imposed when taxpayers understate their tax liability. If you would like information on the amount or circumstances of these penalties, please contact us/me. Because this is an entity whose tax attributes flow through to its partners or members, the penalty for substantial understatement of tax relating to this entity may be imposed on the partners or members.

Management is responsible for the proper recording of transactions in the books of accounts, for the safeguarding of assets, and for the substantial accuracy of the financial records. You have the final responsibility for the income tax returns and, therefore, you should review them carefully before you sign and file them.

Your returns may be selected for review by the taxing authorities. Any proposed adjustments by the examining agent are subject to certain rights of appeal. In the event of such government tax examination, <u>we/I</u> will be available upon request to represent you and will render additional invoices for the time and expenses incurred.

<u>Our/My</u> fee for these services will be based upon the amount of time required at standard billing rates plus out-of-pocket expenses. All invoices are due and payable upon presentation.

If the foregoing fairly sets forth your understanding, please sign the enclosed copy of this letter in the space indicated and return it to <u>our/my</u> office. However, if there are any additional returns you expect <u>us/me</u> to prepare, please note this at the end of the returned copy of this letter, just below your signature.

<u>We/I</u> want to express <u>our/my</u> appreciation for this opportunity to work with you.

Very truly yours,

Accepted By: ____________________

Title: __________________________

Date: __________________________

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1120 - CORPORATION TAX RETURN ENGAGEMENT LETTER

Dear Client:

This letter is to confirm and specify the terms of our/my engagement with (Name of Corporation) for the year ended (__) and to clarify the nature and extent of the services we/I will provide. Also, by sending you this engagement letter we/I have assumed that you are the person responsible for the tax matters of the corporation. If this is not a correct assumption, please furnish us/me with the name of the individual with whom this work should be coordinated.

Our/My engagement will be designed to perform the following services:

1. Prepare the federal, state, and local income tax returns with supporting schedules.

2. Perform any bookkeeping necessary for preparation of the income tax returns.

Our/My work in connection with the preparation of your income tax returns does not include any procedures designed to discover defalcations or other irregularities, should any exist.

We/I will use our/my judgment in resolving questions where the tax law is unclear, or where there may be conflicts between the taxing authorities' interpretations of the law and other supportable positions. Unless otherwise instructed by you, we/I will resolve such questions in your favor whenever possible.

The law provides various penalties that may be imposed when taxpayers understate their tax liability. If you would like information on the amount or circumstances of these penalties, please contact us/me.

Management is responsible for the proper recording of transactions in the books of accounts, for the safeguarding of assets, and for the substantial accuracy of the financial records. You have the final responsibility for the income tax returns and, therefore, you should review them carefully before you sign and file them.

Your returns may be selected for review by the taxing authorities. Any proposed adjustments by the examining agent are subject to certain rights of appeal. In the event of such government tax examination, we/I will be available upon request to represent you and will render additional invoices for the time and expenses incurred.

Our/My fee for these services will be based upon the amount of time required at standard billing rates plus out-of-pocket expenses. All invoices are due and payable upon presentation.

If the foregoing fairly sets forth your understanding, please sign the enclosed copy of this letter in the space indicated and return it to our/my office. However, if there are any additional returns you expect us/me to prepare, please note this at the end of the returned copy of this letter, just below your signature.

We/I want to express our appreciation for this opportunity to work with you.

Very truly yours,

Accepted By: ____________________

Title: ____________________

Date: ____________________

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1120S - S CORPORATION TAX RETURN ENGAGEMENT LETTER

Dear Client:

This letter is to confirm and specify the terms of our/my engagement with (Name of S Corporation) for the year ended (__) and to clarify the nature and extent of the services we/I will provide. Also, by sending you the engagement letter, we/I have assumed that you are the person responsible for the tax matters of the corporation. If this is not a correct assumption, please furnish us/me with the name of the tax matters person.

Our/My engagement will be designed to perform the following services:

1. Prepare the federal, state, and local income tax returns with supporting schedules.

2. Perform any bookkeeping necessary for preparation of the income tax returns.

Our/My work in connection with the preparation of your income tax returns does not include any procedures designed to discover defalcations or other irregularities, should any exist.

We/I will use our/my judgment in resolving questions where the tax law is unclear, or where there may be conflicts between the taxing authorities' interpretations of the law and other supportable positions. Unless otherwise instructed by you, we/I will resolve such questions in your favor whenever possible.

The law provides various penalties that may be imposed when taxpayers understate their tax liability. If you would like information on the amount or circumstances of these penalties, please contact us/me. Because an S corporation is an entity whose tax attributes generally flow through to its shareholders, the penalty for substantial understatement of tax relating to S corporation items may be imposed at either the corporate or shareholder level.

Management is responsible for the proper recording of transactions in the books of accounts, for the safeguarding of assets, and for the substantial accuracy of the financial records. You have the final responsibility for the income tax returns and, therefore, you should review them carefully before you sign and file them.

Your returns may be selected for review by the taxing authorities. Any proposed adjustments by the examining agent are subject to certain rights of appeal. In the event of such government tax examination, <u>we/I</u> will be available upon request to represent you and will render additional invoices for the time and expenses incurred.

<u>Our/My</u> fee for these services will be based upon the amount of time required at standard billing rates plus out-of-pocket expenses. All invoices are due and payable upon presentation.

If the foregoing fairly sets forth your understanding, please sign the enclosed copy of this letter in the space indicated and return it to our office. However, if there are additional returns you expect <u>us/me</u> to prepare, please note this at the end of the returned copy of this letter, just below your signature.

<u>We/I</u> want to express <u>our/my</u> appreciation for this opportunity to work with you.

Very truly yours,

Accepted By: ____________________

Title: ___________________________

Date: ___________________________

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1041 - FIDUCIARY (ESTATES AND TRUSTS) TAX RETURN ENGAGEMENT LETTER

Dear Client:

This letter is to confirm and specify the terms of our/my engagement with (Name of Estate or Trust) for the year ended (____) and to clarify the nature and extent of the services we/I will provide. In order to ensure an understanding of our mutual responsibilities, we/I ask all clients for whom returns are prepared to confirm the following arrangements.

We/I will prepare the 199__ federal and requested state fiduciary income tax returns from information which you will furnish to us/me. We/I will not audit or otherwise verify the data you submit, although it may be necessary to ask you for clarification of some of the information. We/I will furnish you with questionnaires and/or worksheets to guide you in gathering the necessary information. Your use of such forms will assist in keeping pertinent information from being overlooked.

It is your responsibility to provide all the information required for the preparation of complete and accurate returns. You should retain all the documents, canceled checks and other data that form the basis of income and deductions. These may be necessary to prove the accuracy and completeness of the returns to a taxing authority. You have the final responsibility for the fiduciary income tax returns and, therefore, you should review them carefully before you sign them.

Our/My work in connection with the preparation of the fiduciary income tax returns does not include any procedures designed to discover defalcations or other irregularities, should any exist. We/I will render such accounting and bookkeeping assistance as determined to be necessary for preparation of the income tax returns.

We/I will use professional judgment in resolving questions where the tax law is unclear, or where there may be conflicts between the taxing authorities' interpretations of the law and other supportable positions. Unless otherwise instructed by you, we/I will resolve such questions in your favor whenever possible.

The law provides various penalties that may be imposed when taxpayers understate their tax liability. If you would like information on the amount or the circumstances of these penalties, please contact us/me.

The returns may be selected for review by the taxing authorities. Any proposed adjustments by the examining agent are subject to certain rights of appeal. In the event of such government tax examination, we/I will be available upon request to represent you and will render additional invoices for the time and expenses incurred.

Our/My fee for these services will be based upon the amount of time required at standard billing rates plus out-of-pocket expenses. All invoices are due and payable upon presentation.

If the foregoing fairly sets forth your understanding, please sign the enclosed copy of this letter in the space indicated and return it to our/my office. However, if there are other tax returns you expect us/me to prepare, such as gift and/or property, please inform us/me by noting so at the end of the return copy of this letter.

We/I want to express our appreciation for this opportunity to work with you.

Very truly yours,

Accepted By: _______________

Date: ______________________

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5500 - QUALIFIED RETIREMENT PLAN RETURN
ENGAGEMENT LETTER

Dear Client:

This letter is to confirm and specify the terms of our/my engagement with (name of plan) for the plan year ended (___) and to clarify the nature and extent of the services we/I will provide. In order to ensure an understanding of our mutual responsibilities, we/I ask all clients for whom returns are prepared to confirm the following arrangements.

We/I will prepare your 199__ Form 5500 (or other 5500 series form) from information which you will furnish to us/me. We/I will not audit or otherwise verify the data you submit, although it may be necessary to ask you for clarification of some of the information. We/I will furnish you with questionnaires and/or worksheets to guide you in gathering the necessary information. Your use of such forms will assist in keeping pertinent information from being overlooked.

It is your responsibility to provide all the information required for the preparation of a complete and accurate return. You should retain all the documents and other data that form the basis of the Form 5500 filing. These may be necessary to prove the accuracy and completeness of the returns to the Internal Revenue Service and Department of Labor. You have the final responsibility for the return and, therefore, you should review it carefully before you sign it.

Our/My work in connection with the preparation of your Form 5500 filing does not include any procedures designed to discover defalcations or other irregularities, should any exist.

We/I will use professional judgment in resolving questions or where there may be conflicts between the authorities' interpretations of the law and other supportable positions. Unless otherwise instructed by you, we/I will resolve such questions in your favor whenever possible.

Your return may be selected for review by the Internal Revenue Service and the Department of Labor. Any proposed corrective adjustments by the examining agent are subject to certain rights of appeal. In the event of such government examination, we/I will be available upon request to represent you and will render additional invoices for the time and expenses incurred.

Our/My fee for these services will be based upon the amount of time required at standard billing rates plus out-of-pocket expenses. All invoices are due and payable upon presentation.

This engagement letter relates only to the plan(s) specified above. Please notify us/me if you have additional employee benefit plans that might require a Form 5500 filing.

If the foregoing fairly sets forth your understanding, please sign the enclosed copy of this letter in the space indicated and return it to our/my office. However, if there are other returns you expect us/me to prepare, please inform us/me by noting so at the end of the returned copy of this letter.

We/I want to express our appreciation for this opportunity to work with you.

Very truly yours,

Accepted By: _______________

Date: _____________________

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706 - ESTATE AND INHERITANCE TAX RETURN ENGAGEMENT LETTER

Dear Fiduciary:

This letter is to confirm and specify the terms of our/my engagement with (Name of Estate) and to clarify the nature and extent of the services we/I will provide. In order to ensure an understanding of our mutual responsibilities, we/I ask all clients for whom returns are prepared to confirm the following arrangements.

We/I will prepare the appropriate federal and state estate and inheritance tax returns from information which you will furnish to us/me. We/I will not audit or otherwise verify the data you submit, although it may be necessary to ask you for clarification of some of the information. We/I will furnish you with questionnaires and/or worksheets to guide you in gathering the necessary information. Your use of such forms will assist in keeping pertinent information from being overlooked.

It is your responsibility to provide all the information required for the preparation of complete and accurate returns. You should retain all the documents and other data that form the basis of calculating the gross estate and appropriate deductions. These may be necessary to prove the accuracy and completeness of the returns to a taxing authority. You have the final responsibility for the estate and inheritance tax returns and, therefore, you should review them carefully before you sign them.

Our/My work in connection with the preparation of the estate and inheritance tax returns does not include any procedures designed to discover defalcations or other irregularities, should any exist. Likewise, we/I do not warrant the accuracy of any valuations or the appropriateness of the values used in the preparation of the tax returns.

We/I will use professional judgment in resolving questions where the tax law is unclear, or where there may be conflicts between the taxing authorities' interpretations of the law and other supportable positions. Unless otherwise instructed by you, we/I will resolve such questions in your favor whenever possible.

The law provides various penalties that may be imposed when taxpayers understate their tax liability. If you would like information on the amount or the circumstances of these penalties, please contact us/me.

Your returns may be selected for review by the taxing authorities. Any proposed adjustments by the examining agent are subject to certain rights of appeal. In the event of such government tax examination, we/I will be available upon request to represent you and will render additional invoices for the time and expenses incurred.

Our/My fee for these services will be based upon the amount of time required at standard billing rates plus out-of-pocket expenses. All invoices are due and payable upon presentation.

If the foregoing fairly sets forth your understanding, please sign the enclosed copy of this letter in the space indicated and return it to our/my office. However, if there are other tax returns you expect us/me to prepare, please inform us/me by noting so at the end of the returned copy of this letter.

We/I want to express our appreciation for this opportunity to work with you.

Very truly yours,

Accepted By: _______________

Date: ______________________

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TAX EXAMINATION ENGAGEMENT LETTER

Dear Client:

This letter will confirm the arrangements for our/my representation of you with respect to the Internal Revenue Service examination of your _______ Federal income tax return. As part of this engagement, we/I request that you sign the attached Form 2848, *Power of Attorney and Declaration of Representative*, which will notify the IRS that we/I are your authorized representative.

We/I will represent you before the Internal Revenue Service during this examination, unless the arrangement is terminated in writing by either party. Furthermore, in the event we/I cannot resolve all of the issues at the examination level, we/I will be available to appeal any proposed deficiency at the Appeals Division of the Internal Revenue Service, although that appeal is not part of this engagement.

We/I will not audit, or otherwise verify, any information provided by you for presentation to the Internal Revenue Service during the course of the examination, unless we/I deem it necessary or you specifically request us to do so in writing. However, we/I may ask you for further clarification and expect you to provide that clarification promptly and candidly.

Our communications are "confidential," not "privileged." That is, they may not be disclosed unless you approve under *most* circumstances. On the other hand, privileged communications are not permitted to be disclosed, even in court. There is no CPA-client privilege in Federal matters. Accordingly, if we/I are served by a properly issued administrative summons compelling us/me to testify in court proceedings, even our/my confidential communications are subject to disclosure.

The Internal Revenue Service has recently begun emphasizing a number of procedures during examinations to ascertain that taxpayers have reported all of their income. These procedures have led to a growing number of requests by examining agents to interview the taxpayer directly. However, you do have a statutory right to be represented, and *not* to meet with the examining agent (unless you are served with an enforceable administrative summons). It is in your best interest to refer any questions or other contact from the agent to us/me without discussing the case with the agent. By signing this engagement letter you acknowledge that any direct contact by the IRS will be promptly referred to us/me as your authorized representative. It is hereby acknowledged that if you choose to appear before or discuss this case with the agent against our/my advice, you do so at your own risk.

Fees for our/my representation (plus out-of-pocket expenses) will be billed as incurred. We/I also require a retainer of $_____, payable on acceptance of this agreement.

Fees and expenses are due and payable upon presentation of our invoice to you. Bills rendered to you will not be applied against the $_____ retainer. Our/my fee for representing you will be based upon our/my time, billed at our/my customary rates. We/I estimate our/my fees to be $_____ or on average $_____ per hour. If we/I have not received payment in accordance with the stated terms, we/I reserve the right to terminate this engagement with no further notice.

If this letter reflects your understanding of the terms of our engagement, please sign below and return one copy in the enclosed envelope.

We/I look forward to serving you.

Very truly yours,

Accepted By: ____________________

Title: __________________________

Date: __________________________

OPTIONAL PARAGRAPHS FOR INCLUSION IN TAX ENGAGEMENT LETTERS

A) Accuracy-Related Penalty Disclosures

1. For Individuals:

The law provides for a penalty to be imposed where a taxpayer makes a substantial understatement of their tax liability. For individual taxpayers, a substantial understatement exists when the understatement for the year exceeds the greater of 10 percent of the tax required to be shown on the return, or $5,000. The penalty is 20 percent of the tax underpayment. Taxpayers may seek to avoid all or part of the penalty by showing (1) that they acted in good faith and there was reasonable cause for the understatement, (2) that the understatement was based on substantial authority, or (3) that the relevant facts affecting the item's tax treatment were adequately disclosed on Form 8275 or 8275-R attached to the return and there was reasonable basis for the position. You agree to advise us/me if you wish disclosure to be made in your returns or if you desire us/me to identify or perform further research with respect to any material tax issues for the purpose of ascertaining whether, in our/my opinion, there is "substantial authority" for the position proposed to be taken on such issue in your returns.

2. For Partnerships and Limited Liability Companies:

The law provides for a penalty to be imposed where a taxpayer makes a substantial understatement of their tax liability. For partnerships and individual taxpayers, a substantial understatement exists when the understatement for the year exceeds the greater of 10 percent of the tax required to be shown on the return, or $5,000. The penalty is 20 percent of the tax underpayment. Taxpayers other than "tax shelters" may seek to avoid all or part of the penalty by showing (1) that they acted in good faith and there was reasonable cause for the understatement, (2) that the understatement was based on substantial authority, or (3) that the relevant facts affecting the item's tax treatment were adequately disclosed on Form 8275 or 8275-R attached to the return and there was reasonable basis for the position. A taxpayer is considered a "tax shelter" if its principal purpose is to avoid federal income tax. Because a partnership is an entity whose tax attributes flow through to its partners, the penalty for substantial understatement of tax relating to partnership items may be imposed on the partner. You agree to advise us/me if you wish disclosure to be made in your returns or if you desire us/me to identify or perform further research with respect to any material tax issues for the purpose of ascertaining whether, in our/my opinion, there is "substantial authority" for the position proposed to be taken on such issue in your returns.

3. For C Corporations:

The law provides for a penalty to be imposed where a taxpayer makes a substantial understatement of their tax liability. For corporate taxpayers, a substantial understatement exists when the understatement for the year exceeds the greater of 10 percent of the tax required to be shown on the return, or $10,000. The penalty is 20 percent of the tax underpayment. Taxpayers may seek to avoid all or part of the penalty by showing (1) that they acted in good faith and there was reasonable cause for the under-statement, (2) that the understatement was based on substantial authority, or (3) that the relevant facts affecting the item's tax treatment were adequately disclosed on Form 8275 or 8275-R attached to the return and there was reasonable basis for the position. You agree to advise us/me if you wish disclosure to be made in your returns or if you desire us/me to identify or perform further research with respect to any material tax issues for the purposes of ascertaining whether, in our/my opinion, there is "substantial authority" for the position proposed to be taken on such issue in your returns.

4. For S Corporations:

The law provides for a penalty to be imposed where a taxpayer makes a substantial understatement of their tax liability. For S corporations and individual taxpayers, a substantial understatement exists when the understatement for the year exceeds the greater of 10 percent of the tax required to be shown on the return, or $5,000. The penalty is 20 percent of the tax underpayment. Taxpayers other than "tax shelters" may seek to avoid all or part of the penalty by showing (1) that they acted in good faith and there was reasonable cause for the understatement, (2) that the understatement was based on substantial authority, or (3) that the relevant facts affecting the item's tax treatment were adequately disclosed on Form 8275 or 8275-R attached to the return and there was reasonable basis for the position. A taxpayer is considered a "tax shelter" if its principal purpose is to avoid Federal income tax. Because an S corporation is an entity whose tax attributes generally flow through to its shareholders, the penalty for substantial understatement of tax relating to S corporation items may be imposed at either the corporate or shareholder level. You agree to advise us/me if you wish disclosure to be made in your returns or if you desire us/me to identify or perform further research with respect to any material tax issues for the purpose of ascertaining whether, in our/my opinion, there is "substantial authority" for the position proposed to be taken on such issue in your returns.

5. For Fiduciaries (Estates and Trusts):

   The law provides for a penalty to be imposed where a taxpayer makes a substantial understatement of its tax liability. For fiduciary taxpayers, a substantial understatement exists when the understatement for the year exceeds the greater of 10 percent of the tax required to be shown on the return, or $5,000. The penalty is 20 percent of the tax underpayment. Fiduciaries may seek to avoid all or part of the penalty by showing (1) that they acted in good faith and there was reasonable cause for the understatement, (2) that the understatement was based on substantial authority, or (3) that the relevant facts affecting the item's tax treatment were adequately disclosed on Form 8275 or 8275-R attached to the return and there was reasonable basis for the position. You agree to advise us/me if you wish disclosure to be made in the returns or if you desire us/me to identify or perform further research with respect to any material tax issues for the purpose of ascertaining whether, in our/my opinion, there is "substantial authority" for the position proposed to be taken on such issue in the returns.

B) The engagement does not include any services not specifically stated in this letter. However, we/I would be pleased to consult with you regarding the income tax matters such as proposed or completed transactions, income tax projections, and for research in connection with such matters. We/I will render additional invoices for such services at our/my standard billing rates.

C) You represent that the information you are supplying to us/me is accurate and complete to the best of your knowledge and that your expenses for meals, entertainment, travel, business gifts, charitable contributions, dues and memberships, and vehicle use are supported by records as required by law. We/I will not verify the information you give us/me. However, we/I may ask you for clarification of some of the information.

D) Your tax return will be processed by an outside tax computer processing center. Please advise us/me if you prefer that we/I request extra security or forego the outside processing altogether.

E) We/I subscribe to a program of peer review for maintenance of quality control in our/my office. As part of this program, your return may be selected for review by other CPAs under strict rules of confidentiality. Your acceptance below constitutes your agreement for disclosure under the program.

F) A late payment charge of __ percent per month will be assessed on any unpaid balance after deduction of current payments, credits, and allowances made within 30 days of date of billing. This is an Annual Percentage Rate of ___ percent.

G) The law provides for a penalty of 20 percent to be imposed on any underpayment that results from negligence or disregard of rules or regulations. Negligence "includes any failure to make a reasonable attempt to comply ..." with the code. Disregard "includes any careless, reckless or intentional disregard." Taxpayers may seek to avoid all or part of the penalty by showing they acted in good faith and can demonstrate reasonable basis for the understatement.

H) You may choose to have us/me file your return electronically with the Internal Revenue Service Center. You must review and sign the return before it can be electronically transmitted. We/I are/am not responsible for the length of time it takes the IRS to process your return. Our/my fee for this service is ________.

I) We/I have attached a tax organizer. It is designed to assist you in gathering the data necessary for us/me to prepare a complete and accurate return.

1040 - INDIVIDUAL TRANSMITTAL LETTER

(Date)

(Taxpayer)
(Address)

Dear (Taxpayer) :

Enclosed are the originals and copies of your 19XX federal, (State) , and (Local) individual income tax returns. The copies are for your files. The originals are to be filed as follows:

FORM 1040 - The original return should be signed and dated by you/both of you and mailed on or before (Date) to:

Internal Revenue Service
(Center Address)

☐ The return shows no balance due and no refund.

☐ The return shows a balance due of $_____. Attach a check payable to 'Internal Revenue Service' for this amount to your return, noting your social security number and '19XX Form 1040' on your check.

☐ The return shows an overpayment of $____, of which $____ will be credited to your estimated tax for 19XX, the balance of $_____ will be refunded to you.

FORM (STATE) - The original return should be signed and dated by you/both of you and mailed on or before (Date) to:

(Agency)
(Address)

☐ The return shows no balance due and no refund.

☐ The return shows a balance due of $_____. A check payable to (Payee) in this amount should be attached to/enclosed with your return. Your social security number and '19XX Form ______' should be noted on your check.

☐ The return shows an overpayment of $_____, of which $____ will be credited to your estimated tax for 19XX and $_____ will be refunded to you.

FORM (LOCAL) - The original return should be signed and dated by you/both of you and mailed on or before (Date) to:

(Agency)
(Address)

☐ The return shows no balance due and no refund.

☐ The return shows a balance due of $_____. A check payable to (Payee) in this amount should be attached to/enclosed with your return. Your social security number and '19XX Form _______' should be noted on your check.

☐ The return shows an overpayment of $_____, of which $____ will be credited to your estimated tax for 19XX and $_____ will be refunded to you.

These returns were prepared from information you furnished to us/me. Before signing and filing these returns you should review them carefully to be sure that there are no omissions or misstatements.

Your returns are subject to review by federal, state and local taxing agencies. Upon examination, requests may be made for supporting documentation. Accordingly, we/I recommend that you retain your tax records for a period of at least ____ years.

Please contact us/me immediately if you receive any notification from federal, state or local taxing agencies regarding your tax returns.

Also enclosed are originals and copies of your federal, (State) and (Local) estimated tax payment vouchers for 19XX/the tax year ending (Date). The copies are for your files. The originals are to be filed as follows:

FEDERAL ESTIMATES

On or before each due date shown below, mail the respective voucher to:

Internal Revenue Service
(Address)

Enclose a check payable to 'Internal Revenue Service' in the amount indicated, noting your social security number and '19XX Form 1040-ES' on your check.

	Due Date	Amount
Overpayment Applied		$
First Quarter	April 15, 19XX	$
Second Quarter	June 15, 19XX	$
Third Quarter	September 15, 19XX	$
Fourth Quarter	January 15, 19XX	$
TOTAL		$

(STATE) ESTIMATES

On or before each due date shown below, mail the respective voucher to:

(Agency)
(Address)

Enclose a check payable to (Payee) in the amount indicated, noting your social security number and '19XX Form ___' on your check.

	Due Date	Amount
Overpayment Applied		$
First Quarter		$
Second Quarter		$
Third Quarter		$
Fourth Quarter		$
TOTAL		$

(LOCAL) ESTIMATES

On or before each due date shown below, mail the respective voucher to:

(Agency)
(Address)

Enclose a check payable to (Payee) in the amount indicated, noting 'Form ___,' tax period ending (Date), and your (Local) identification number on the check.

	Due Date	Amount
Overpayment Applied		$
First Quarter		$
Second Quarter		$
Third Quarter		$
Fourth Quarter		$
TOTAL		$

Your estimated tax payments were based on prior year taxable year income and withholdings. Therefore, you should contact us/me concerning any changes in income or withholding.

The original documents you furnished with your organizer are enclosed.

We/I appreciate this opportunity to be of service to you. Please contact us/me should you have any questions regarding the enclosed returns or if we/I can be of any further assistance.

Very truly yours,

(Preparer)

1041 - FIDUCIARY TRANSMITTAL LETTER

(Date)

(Fiduciary Estate/Trust name)
(Address)

Dear Fiduciary :

Enclosed are the originals and copies of the 19XX federal, (State) , and (Local) fiduciary income tax returns for the estate/trust. The copies are for your files. The originals are to be filed as follows:

FORM 1041 - The original return should be signed and dated by the fiduciary and mailed on or before (Date) to:

Internal Revenue Service
(Center Address)

☐ The return shows no balance due and no refund.

☐ The return shows a balance due of $____. Attach a check payable to 'Internal Revenue Service' for this amount to the return, noting the taxpayer identification number and '19XX Form 1041' on the check.

☐ The return shows an overpayment of $____, of which $____ will be credited to the estimated tax for 19XX and $____ will be refunded.

FORM (STATE) - The original return should be signed and dated by the fiduciary and mailed on or before (Date) to:

(Agency)
(Address)

☐ The return shows no balance due and no refund.

☐ The return shows a balance due of $____. A check payable to (Payee) in this amount should be attached to/enclosed with the return. The taxpayer identification number and '19XX Form _____' should be noted on the check.

☐ The return shows an overpayment of $____, of which $____ will be credited to the estimated tax for 19XX and $____ will be refunded.

FORM (LOCAL) - The original return should be signed and dated by the fiduciary and mailed on or before (Date) to:

(Agency)
(Address)

☐ The return shows no balance due and no refund.

☐ The return shows a balance due of $____. A check payable to (Payee) in this amount should be attached to/enclosed with the return. The taxpayer identification number and '19XX Form ______' should be noted on the check.

☐ The return shows an overpayment of $____, of which $____ will be credited to the estimated tax for 19XX and $_____ will be refunded.

These returns were prepared from information furnished to us/me. Before signing and filing these returns they should be reviewed carefully to be sure that there are no omissions or misstatements.

The returns are subject to review by federal, state and local taxing agencies. Upon examination, requests may be made for supporting documentation. Accordingly, we/I recommend that the tax records be retained for a period of at least ____ years.

Please contact us/me immediately if any notification from federal, state or local taxing agencies is received regarding tax returns.

Also enclosed are originals and copies of the federal, (State) and (Local) estimated tax payment vouchers for 19XX/the tax year ending (Date). The copies are for your files. The originals are to be filed as follows:

FEDERAL ESTIMATES

On or before each due date shown below, mail the respective voucher to:

Internal Revenue Service
(Address)

Enclose a check payable to 'Internal Revenue Service' in the amount indicated, noting the taxpayer identification number and '19XX Form 1041-ES' on the check.

	Due Date	Amount
Overpayment Applied		$
First Quarter	April 15, 19XX	$
Second Quarter	June 15, 19XX	$
Third Quarter	September 15, 19XX	$
Fourth Quarter	January 15, 19XX	$
TOTAL		$

(STATE) ESTIMATES

On or before each due date shown below, mail the respective voucher to:

(Agency)
(Address)

Enclose a check payable to (Payee) in the amount indicated, noting the taxpayer identification number and '19XX Form ___' on the check.

	Due Date	Amount
Overpayment Applied		$
First Quarter		$
Second Quarter		$
Third Quarter		$
Fourth Quarter		$
TOTAL		$

(LOCAL) ESTIMATES

On or before each due date shown below, mail the respective voucher to:

(Agency)
(Address)

Enclose a check payable to (Payee) in the amount indicated, noting 'Form ___,' tax period ending (Date), and the (Local) identification number on the check.

	Due Date	Amount
Overpayment Applied		$
First Quarter		$
Second Quarter		$
Third Quarter		$
Fourth Quarter		$
TOTAL		$

The estimated tax payments were based on prior year taxable year income and withholdings. Therefore, you should contact us/me concerning any changes in income or withholding.

The original documents you furnished with you organizer are enclosed.

We/I appreciate this opportunity to be of service to you. Please contact us/me should you have any questions regarding the enclosed returns or if we/I can be of any further assistance.

Very truly yours,

(Preparer)

1065 - PARTNERSHIP TRANSMITTAL LETTER

(Date)

(Taxpayer)
(Address)

Dear (Taxpayer) :

Enclosed are the originals and copies of your federal, (State) , and (Local) partnership income tax returns for 19XX/the year ended (Date). The copies are for your files. The originals are to be filed as follows:

FORM 1065 - The original return should be signed and dated by a general partner of the Partnership and mailed on or before Date to:

Internal Revenue Service
(Center Address)

The return shows no balance due and no refund.

FORM (STATE) - The original return should be signed and dated by a general partner of the Partnership and mailed on or before (Date) to:

(Agency)
(Address)

The return shows no balance due and no refund.

FORM (LOCAL) - The original return should be signed and dated by a general partner of the Partnership and mailed on or before (Date) to:

(Agency)
(Address)

The return shows no balance due and no refund.

Also enclosed is a Schedule K-1 for each partner. Please distribute the Schedule K-1s to the respective partners immediately.

These returns were prepared from information you furnished to us/me. Before signing and filing these returns you should review them carefully to be sure that there are no omissions or misstatements.

Your returns are subject to review by federal, state, and local taxing agencies. Upon examination, requests may be made for supporting documentation. Accordingly, we/I recommend that you retain your tax records for a period of at least ___ years.

Please contact us/me immediately if you receive any notification from federal, state, or local taxing agencies regarding your tax returns.

We/I appreciate this opportunity to be of service to you. Please contact us/me should you have any questions regarding the enclosed returns or if we/I can be of any further assistance.

Very truly yours,

(Preparer)

1120 - CORPORATION TRANSMITTAL LETTER

(Date)

(Taxpayer)
(Address)

Dear (Taxpayer):

Enclosed are the originals and copies of your federal, (State), and (Local) corporation income/franchise tax returns for 19XX/the year ended (Date). The copies are for your files. The originals are to be filed as follows:

FORM 1120 - The original return should be signed and dated by an authorized officer of the Corporation and mailed on or before (Date) to:

Internal Revenue Service
(Center Address)

- ☐ The return shows no balance due and no refund.
- ☐ The return shows a balance due of $____. Deposit this amount at a qualifying financial institution along with a completed Form 8109, 'Federal Tax Deposit Coupon,' on or before (Date). Be sure to darken the '1120' box for type of tax and the '4th Quarter' box for tax period on the Deposit Coupon. On the check indicate 'Form 1120,' tax period ended (Date), and your employer identification number. Based upon your past deposit history, you may be required to use the Electronic Fund Transfer (EFT) method for making these deposits.
- ☐ The return shows an overpayment of $____, of which $____ will be refunded to you and $____ will be credited to your estimated tax for 19XX/the tax year ending (Date).

FORM (STATE) - The original return should be signed and dated by an authorized officer of the Corporation and mailed on or before (Date) to:

(Agency)
(Address)

- ☐ The return shows no balance due and no refund.
- ☐ The return shows a balance due of $____. A check payable to (Payee) in this amount should be attached to/enclosed with the return. 'Form ____,' tax period ended (Date), and your (State) identification number should be noted on the check.
- ☐ The return shows an overpayment of $____, of which $____ will be refunded to you and $____ will be credited to your estimated tax for 19XX/the tax year ending (Date).

FORM (LOCAL) - The original return should be signed and dated by an authorized officer of the Corporation and mailed on or before (Date) to:

(Agency)
(Address)

- ☐ The return shows no balance due and no refund.

☐ The return shows a balance due of $____. A check payable to __(Payee)__ in this amount should be attached to/enclosed with your return. 'Form __,' tax period ended _(Date)_, and your (Local) identification number should be noted on the check.

☐ The return shows an overpayment of $____, of which $____ will be refunded to you and $____ will be credited to your estimated tax for 19XX/the tax year ending (Date).

These returns were prepared from information you furnished to us/me. Before signing and filing these returns you should review them carefully to be sure that there are no omissions or misstatements.

Your returns are subject to review by federal, state and local taxing agencies. Upon examination, requests may be made for supporting documentation. Accordingly, we/I recommend that you retain your tax records for a period of at least ___ years.

Please contact us/me immediately if you receive any notification from federal, state, or local taxing agencies regarding your tax returns.

Also enclosed are originals and copies of your federal, _(State)_ and _(Local)_ estimated tax payment vouchers for 19XX/the tax year ending (Date). The copies are for your files. The originals are to be filed as follows:

FEDERAL ESTIMATES

On or before each due date shown below, deposit the respective amount along with a completed Form 8109, 'Federal Tax Deposit Coupon' at an authorized financial institution. Be sure to darken the '1120' box for type of tax and the '1st Quarter' box for tax period on the Deposit Coupon. On the check indicate 'Form 1120,' tax period ending _(Date)_, and your employer identification number. Based upon your past deposit history, you may be required to use the Electronic Fund Transfer (EFT) method for making these deposits.

	Due Date	Amount
Overpayment Applied		$
First Quarter		$
Second Quarter		$
Third Quarter		$
Fourth Quarter		$
TOTAL		$

(STATE) ESTIMATES

On or before each due date shown below, mail the respective voucher to:

__(Agency)__
__(Address)__

Enclose a check payable to ___(Payee)___ in the amount indicated, noting 'Form _____,' tax period ending (Date), and your (State) identification number on the check.

	Due Date	Amount
Overpayment Applied		$
First Quarter		$
Second Quarter		$
Third Quarter		$
Fourth Quarter		$
TOTAL		$

(LOCAL) ESTIMATES

On or before each due date shown below, mail the respective voucher to:

(Agency)
(Address)

Enclose a check payable to ___(Payee)___ in the amount indicated, noting 'Form _____,' tax period ending (Date), and your (Local) identification number on the check.

	Due Date	Amount
Overpayment Applied		
First Quarter		$
Second Quarter		$
Third Quarter		$
Fourth Quarter		$
TOTAL		$

Your estimated tax payments for 19XX/the tax year ending (date) were calculated using taxable income of $__________/the same as 19XX/the tax year ended (date). If your situation changes, contact us/me immediately to determine if your estimated payments need to be revised.

We/I appreciate this opportunity to be of service to you. Please contact us/me should you have any questions regarding the enclosed returns or if we/I can be of any further assistance.

Very truly yours,

(Preparer)

1120S - S CORPORATION TRANSMITTAL LETTER

(Date)

(Taxpayer)
(Address)

Dear (Taxpayer) :

Enclosed are the originals and copies of your federal, (State), and (Local) S Corporation income/franchise tax returns for 19XX/the year ended (Date). The copies are for your files. The originals are to be filed as follows:

FORM 1120S - The original return should be signed and dated by an authorized officer of the Corporation and mailed on or before (Date) to:

Internal Revenue Service
(Center Address)

- ☐ The return shows no balance due and no refund.
- ☐ The return shows a balance of $ ____. Deposit this amount at a qualifying financial institution along with a completed Form 8109, 'Federal Tax Deposit Coupon,' on or before Date. Be sure to darken the '1120' box for type of tax and the '4th Quarter' box for tax period on the Deposit Coupon. On the check indicate 'Form 1120,' tax period ended (Date) and your employer identification number. Based upon your past deposit history, you may be required to use the Electronic Fund Transfer (EFT) method for making these deposits.
- ☐ The return shows an overpayment of $___, of which $____ will be refunded to you and $ ____ will be credited to your estimated tax for 19XX/the tax year ending (Date).

FORM (STATE) - The original return should be signed and dated by an authorized officer of the Corporation and mailed on or before (Date) to:

(Agency)
(Address)

The return shows no balance due and no refund.

FORM (LOCAL) - The original return should be signed and dated by an authorized officer of the Corporation and mailed on or before (Date) to:

(Agency)
(Address)

Also enclosed is a Schedule K-1 for each shareholder. Please distribute the Schedule K-1s to the respective shareholders immediately.

These returns were prepared from information you furnished to us/me. Before signing and filing these returns you should review them carefully to be sure that there are no omissions or misstatements.

Your returns are subject to review by federal, state, and local taxing agencies. Upon examination, requests may be made for supporting documentation. Accordingly, we/I recommend that you retain your tax records for a period of at least ___ years.

Please contact us/me immediately if you receive any notification from federal, state, or local taxing agencies regarding your tax returns. We/I appreciate this opportunity to be of service to you. Please contact us/me should you have any questions regarding the enclosed returns or if we/I can be of any further assistance.

Very truly yours,

(Preparer)

OPTIONAL PARAGRAPHS FOR INCLUSION IN TRANSMITTAL LETTERS

A) Estimated Tax Responsibilities for Certain Corporations

Your return for 19XX either reflected no taxable income or a short year, or you had taxable income of $1,000,000 or more for any of the three previous years. Therefore, you cannot utilize the 100% of prior year tax safe harbor provisions in meeting your quarterly estimated tax responsibilities. Accordingly, you are required to make quarterly estimated tax payments equaling 100% of your current year tax liability. If there are any questions concerning the calculation of these quarterly payments, please contact us/me immediately.

B) Retirement Plan Contributions

1. For Individuals

We/I have reported (a) contribution(s) to your Individual Retirement Account(s) on the enclosed tax returns as follows:

(Taxpayer) ______________	$__________
(Spouse) ______________	$__________

If not already made, the contribution(s) must be made on or before April 15, 19XX.

We/I have reported (a) contribution(s) to your Keogh/SEP retirement plan(s) on the enclosed tax returns as follows:

(Keogh) ______________	$__________
(SEP) ______________	$__________

If not already made, the contribution(s) must be made on or before the date you timely file your return.

2. For Businesses

We/I have reported (a) contribution(s) to your qualified retirement plan(s) on the enclosed tax returns as follows:

(Profit Sharing Plan) ________	$__________
(Money Purchase Pension Plan)	$__________
(Defined Benefit Pension Plan)	$__________
(Target Benefit Pension Plan)	$__________
(Other) ______________	$__________

If not already made, the contribution(s) must be made on or before the date you timely file your return.

C) Client Representation

Recent legislation specifically reinforces that you, the taxpayer, are responsible for the accuracy of your returns. Although we/I have been engaged to prepare your returns, you are ultimately responsible for them. We/I have prepared your returns using the information that you provided. We/I have not audited or independently verified the data you furnished, although we/I may have asked for further clarification on some of the information. Accordingly, you should examine the enclosed returns carefully before signing and filing them.

If there is anything on the returns that you do not understand, ask us/me to explain. It is important to ensure that the returns are true and accurate to the best of your knowledge.

NEW CLIENT WELCOME LETTER

(Date) __

(Taxpayer) __
(Address) ___
____

Dear __(Taxpayer)_____:

Thank you for choosing our/my firm. We/I will work on your behalf to maintain the confidence you have in us/me by selecting our/my firm.

In order to compile a complete file, please provide copies of the following documents:

Select Items To Be Requested

____ From your corporate record book:
 Articles of Incorporation and Bylaws
 Minutes
 Stock register
____ Partnership agreement
____ Depreciation schedules
____ Tax returns for _____, _____, and _____/the years ended _____, _______ and _______
____ Financial statements for the year(s) ended _____, ____, and _______.
____ Buy/sell agreement(s)
____ Employment agreement(s)
____ Lease agreement(s)
____ Loan agreement(s)
____ Tax elections and related approvals
____ Copies of taxing authority audit reports
____ Will
____ Trust agreement
____ ______________________________
____ ______________________________

Thanks again for choosing us/me to service your accounting, tax and related needs. We/I look forward to a long and mutually satisfying relationship. Should you have any questions or concerns regarding your account or our/my services, please contact us/me.

Sincerely,

(Preparer) _____________

CLIENT REVIEW FOR ADDITIONAL SERVICES

These forms were designed to assist practitioners in providing more complete service to their clients and increase billings from their existing client base. It is anticipated that any individual working on the account may initiate the review as different levels of personnel are likely to provide differing perspectives. The procedure may be performed on an annual basis, perhaps in conjunction with the year-end, and may then be suspended to be addressed at a more convenient time of the year. The completed form may then be routed to the various personnel in charge of the areas for which additional services are being considered, as well as to the person in charge. The respective specialists may provide their comments to the partner in charge, or whoever is deemed applicable, to determine the appropriate action to be taken. A firm may appoint a business development committee to review the completed forms on a regular basis.

As a final matter, the practitioner may wish to consider color coding these forms to facilitate routing and access by staff.

INDIVIDUAL CLIENT REVIEW FOR ADDITIONAL SERVICES

CLIENT NAME/NUMBER____

PERSON IN CHARGE________________ PREPARED BY__________________ DATE______________

ROUTE TO:______________, ______________, ______________, ______________, ______________

The following services should be considered for this client: (check applicable items)

		DISPOSITION/COMMENTS	CLEARED BY
________	Amend prior year returns - additions, deductions, carrybacks, etc.	____________________	__________
________	Cash/credit management	____________________	__________
________	Compensation and benefit planning	____________________	__________
________	Income and AMT tax planning	____________________	__________
________	Investment and insurance evaluation and planning	____________________	__________
________	Estate planning	____________________	__________
________	Liability and risk management	____________________	__________
	Tax Attribute Maximization:		
________	- NOL planning	____________________	__________
________	- Review for available tax credits	____________________	__________
________	Retirement funding adequacy	____________________	__________
________	Children's education funding	____________________	__________
	Other:		
________	____________________	____________________	__________
________	____________________	____________________	__________
________	____________________	____________________	__________
________	____________________	____________________	__________
________	____________________	____________________	__________

BUSINESS CLIENT REVIEW FOR ADDITIONAL SERVICES

CLIENTNAME/NUMBER ____

PERSON IN CHARGE __________________ PREPARED BY ____________________ DATE ______________

ROUTE TO: _______________, _______________, _______________, _______________, _______________

The following services should be considered for this client: (check applicable items)

		DISPOSITION/COMMENTS	CLEARED BY
______	Amend prior year returns - additions, deductions, carrybacks, etc.	______________	________
______	Business/Strategic Planning	______________	________
______	Buy/sell agreements	______________	________
______	Cash/credit management	______________	________
	Change in Accounting Method:		
______	- Alternative methods to defer recognition of income	______________	________
______	- Alternative methods to accelerate expense recognition	______________	________
______	- Alternative methods to minimize AMT	______________	________
______	Enhance or change accounting system	______________	________
______	Change tax year	______________	________
______	Compensation and benefit planning:	______________	________
______	- Retirement plans (retirement/401(k))	______________	________
______	- Deferred compensation plans	______________	________
______	- Flexible benefit plans	______________	________
______	- Medical reimbursement	______________	________
______	Computer Services:	______________	________
______	- has no computer, may need one	______________	________
______	- has computer, may need I/C review	______________	________
______	- has computer, needs assistance	______________	________
______	- needs PC network or enhancements	______________	________
______	Disaster recovery planning	______________	________
______	Estate or succession planning	______________	________
______	Finance and banking relations	______________	________
______	Income tax planning	______________	________
	State and Local Tax Planning:		
______	- Income and franchise tax	______________	________

BUSINESS CLIENT REVIEW FOR ADDITIONAL SERVICES

		DISPOSITION/COMMENTS	CLEARED BY
______	- Ad valorem/property tax	______	______
______	- sales and use taxes	______	______
______	- Excise taxes and duties compliance review and planning	______	______
	Tax Attribute Maximization:		
______	- NOL planning	______	______
______	- Review for available tax credits	______	______
______	- Review for applicable economic development and other business promotion incentives	______	______
______	MAS service - financial, marketing, operations, etc.	______	______
______	Owner and/or executive retirement or financial planning	______	______
______	Risk management	______	______
______	Tax entity changes - incorporation, S election, liquidation, etc.	______	______
	Other:		
______	______	______	______
______	______	______	______
______	______	______	______
______	______	______	______
______	______	______	______

CLIENT REVIEW COMMENTS

CLIENT ____

RETURN/PROJECT______________________________ TAX YEAR ________________

REVIEWED BY ______________________________ DATE COMPLETED________________

CLEARED BY ______________________________ DATE COMPLETED ________________

- -

REF.	REVIEW COMMENTS	DISPOSITION/ EXPLANATION

Page ____ of ___

TAX RESEARCH REQUEST AND RESULTS FORMS

These forms were developed to formalize tax research assignments, notify the personnel related to an account that a research project has been initiated, provide a framework for the assigned personnel, and serve as a means to monitor the status of the project. Routing the request to other personnel associated with the client may help to insure that all pertinent facts are provided to the assigned researcher. In addition, someone may have encountered the situation, or a similar circumstance, with another client and may be able to provide some valuable assistance regarding the question at hand. Practitioners may also choose to keep a file of completed request/results forms, indexed by Code Section or some other means, as an in-house reference source.

TAX RESEARCH REQUEST

CLIENT NAME/NUMBER____

SUBJECT MATTER____

REQUESTED BY________________________ASSIGNED TO__________________

DATE OF REQUEST__________DUE DATE____________TIME BUDGET_______

- -

FACTS:

____

____

____

____

____

____

____

QUESTION(S):

____

____

____

____

____

____

Page _______ of _______

TAX RESEARCH RESULTS

CLIENT NAME/NUMBER____

SUBJECT MATTER____

PREPARED BY_______________________________________DATE_____________

REVIEWED BY_______________________________________DATE_____________

ACTUAL TIME___________

- -

FINDINGS: (Attach Research)

____

____

____

____

____

____

____

CONCLUSION(S):

____

____

____

____

____

Page ________of _______

CARRYFORWARD SCHEDULE

Client Name/Number: ____________________

Carryforward to Period:__________ Tax Form:__________

CARRYFORWARD DEDUCTION AND CREDITS (CHECK IF APPLICABLE)		AMOUNT
___	Capital Loss Carryforward	$ ______
___	Charitable Contributions Carryforward	______
___	Net Operating Loss Carryforward - Regular	______
___	Net Operating Loss Carryforward - AMT	______
___	Investment Credit Carryforward	______
___	WIN Credit Carryforward	______
___	Job Tax Credit Carryforward	______
___	Loss Carryforwards Attributable to at Risk Limitation Partnerships, S Corps., etc.)	______
___	Investment Interest Expense Carryforward	______
___	Carryforward of Office in Home Deductions	______
___	Carryforward of Suspended Passive Losses and Credits	______
___	Alternative Minimum Tax Credit	______
___	Section 179 Amount Due to Income Limitations	______
___	Foreign Tax Credit	______
___	Other ____________	______
___	____________	______
___	____________	______

DEFERRED GAINS (CHECK IF APPLICABLE)		
___	Installment Sales	______
___	Income Pick-up from Short-Year S Corp., Partnership and Trust Returns	______
___	Gain on Sale of Residence	______
___	Cash to Accrual Method Adjustments	______
___	Gain on Involuntary Conversion	______
___	Uniform Capitalization Inventory Adjustment	______
___	Recapture of Bad Debt Reserve	______
___	Other ____________	______
___	____________	______
___	____________	______

COMMENTS AND EXPLANATIONS: ____________________

____

____

Prepared by:____________________

____
Signature Date

TAX PERMANENT FILE CONTENTS - INDIVIDUAL

___ Amended return schedule

___ Basis for mortgage interest computations

___ Buy/sell agreements

___ Client background data

___ Closing documents for purchase/sale of a residence

___ Contracts

___ Copies of gift/estate tax returns

___ Divorce decree(s)/Separation agreement(s)

___ Estate planning documents

___ Forms 2119 (gain on sale of a personal residence)

___ Powers of Attorney

___ Record of taxing authority audits

___ Trust documents

___ Wills

___ Qualified plan documents, if applicable

___ Form 8606 - nondeductible IRA contributions

___ ______________________________

___ ______________________________

___ ______________________________

TAX PERMANENT FILE CONTENTS - BUSINESS ENTITIES

___ Amended return schedule

___ Annual minutes-continuing matters

___ Approval of fiscal year election

___ Approved S election/termination

___ Articles of incorporation/Partnership agreement

___ Automobile policies

___ Buy/sell agreements

___ By-laws

___ Client background data

___ Earnings and profits calculation

___ Employment/independent contractor agreements

___ Federal and state taxpayer identification numbers

___ Form 966 liquidation form

___ Fringe benefit information (i.e., medical reimbursement, education, deferred compensation, etc.)

___ Officer life insurance information

___ Qualified plan IRS determination letter and Summary Plan Description

___ Record of taxing authority audits

___ S election acceptance letter

___ Statement of assets transferred (sections 351/751)

___ Inventory information (i.e., LIFO layers, constant unit values, § 263A formulas, etc.)

___ Basis information (i.e., long-term investments, land, etc.)

___ Accounting methods and elections

___ Consolidation and elimination history

___ ____

___ ____

TAX PERMANENT FILE CONTENTS CARRYFORWARD SCHEDULES

___ Alternative minimum tax credit carryforwards

___ Basis computation for S corporations/Partnerships

___ Basis investments (including dividend reinvestments/stock dividends)

___ "Built-in gain" valuation workpapers

___ Business credits

___ Capital losses

___ Contributions

___ Data diskettes

___ Depreciation schedules

___ Excess home office expense

___ Excess section 179 deduction

___ Installment sales schedules

___ Loan amortization schedules and related notes

___ Net operating loss and AMT net operating loss carryforwards

___ Non-deductible IRAs

___ Section 1231 gains/losses

___ Suspended passive loss/credits carryforwards

___ Unamortized mortgage points schedule

___ ______________________________

___ ______________________________

___ ______________________________

___ ______________________________

___ ______________________________

___ ______________________________

___ ______________________________

SIMPLIFIED EMPLOYEE PENSION PLAN WORKSHEET

Taxpayer's Name: ______________________________

- Simplified Employee Pension Plan (SEP) contribution is based on the earned income of the self-employed individual. Earned income for this computation is determined after the deduction for half of the self-employment tax and a reduction for the self-employed participant's deductible contribution to the SEP.
- If there are eligible employees, their SEP contribution must be computed using the plan contribution rate shown below and deducted on Schedules C or F before computing the SEP deduction for the proprietor.

Plan Contribution % ___________ (Maximum of 15%) (R)

1. Schedule C Business Income	$_______________
2. Schedule F Profit from Farming	_______________
3. Other self-employment income (K-1, misc income)	_______________
4. Total lines 1 through 3	_______________
5. Self- employment tax deduction (½ total S/E tax)	_______________
6. Line 4 less line 5	_______________
7. Self-employed rate (A - from next page)	_______________
8. Lines 6 multiplied by line 7	_______________
9. Multiply $160,000 by the plan contribution rate not to exceed $30,000	_______________
10. Maximum deductible contribution (smaller lines 8 or 9)	_______________

(A) Self- Employed Rate

Self-employed rate is the plan contribution rate, divided by one plus the plan contribution rate R/(R+1).

If the plan contribution rate is a whole number, use the following table:

Plan % Contribution Rate	Self Employed % Rate		Plan % Contribution Rate	Self Employed % Rate		Plan % Contribution Rate	Self Employed % Rate
1	.009901		6	.056604		11	.099099
2	.019608		7	.065421		12	.107143
3	.029126		8	.074074		13	.115044
4	.038462		9	.082569		14	.122807
5	.047619		10	.090909		15	.130435

TAX RETURN ROUTING SCHEDULE

(To be bound with ________________)

CLIENT NAME/NUMBER________________________________ TAX YEAR____________________

TYPE OF RETURN__________ STATE/LOCAL RETURN(S) REQUESTED____________________________

DUE DATE____________________________ EXTENDED DUE DATE___________________________

DATE DATA RECEIVED FROM CLIENT______________ TARGET COMPLETION DATE_______________

IN-CHARGE____________ SIGNER_______________ ENGAGEMENT LETTER SIGNED____________

	Assigned to/ Target Date	Initial/Date	Actual Time/Cost	Budget Time/Cost
Client Interview				
Preparation				
Update Permanent File				
Math Check				
Forms Input Review				
To Computer Processing				
Data Entry/Typing				
Returned from Computer Processing				
Forms Output Review				
Technical Review				
Update Carryforward Schedule				
Assembly				
Signature				
Mail/Pick-Up/Delivery (Circle One)				
Estimate Reminder Log Updated				
Total				

BILLING	Time Charges	Computer Charges	Out-of-Pocket	Total	Billing
Prior Year					
Current Year					

SPECIAL INSTRUCTIONS/BUDGET EXCEPTIONS:

TAX RETURN GUIDE SHEET

(To be bound with __________)

Taxpayer ______________________________
Return ________________________________
Additional copies to:
Name ________________________________
Address ______________________________
____

Taxable Year(s) ____________________
Number of additional copies ___________
Name ________________________________
Address ______________________________
____

Attach Extension: Yes _______ No _________
Number of Forms W-2 _______ Number of other withholding statements ________
Other attachments to return:
_______ Federal return to state return
____
____

Other accountant information to be furnished to client: (X=Xerox, C=Computer printed)

____ Income Tax Summary
____ Carryover schedules
____ Partnership/S Corporation/Fiduciary/K-1 Reconciliations
____ Passive Activity Loss Worksheets
____ Current Year Depreciation Schedules
____ Next Year Depreciation Schedules
____ Adjusted Trial Balance
____ Federal Tax Trial Balance
____ Adjusting Journal Entries
____ Reclassifying Journal Entries
____ Federal Tax Journal Entries
____ General Ledger
____ General Journal Entries
____ Cash Disbursements
____ Cash Receipts
____ Other (description and workpaper references)
____
____

Other processing instructions:
_____ Return client data
____
____

Final release:

The return described above was signed and released by me after all pending items were cleared, all appropriate levels of review were signed off, and all processing steps completed.

______________________________ ____________________
Signature Date

VEHICLE RELATED GUIDES

EMPLOYER POLICIES REGARDING USE OF COMPANY VEHICLES

Three policies have been included that may be provided to clients as examples. Policies 1 and 2 are optional for an employer. Policy 3 is required in some form by all employers providing company owned personal use vehicles. The policies should be reviewed to determine if there are conflicts with state or local laws.

EMPLOYEE REPRESENTATION REGARDING USE OF COMPANY VEHICLE AND WORKSHEET TO CALCULATE INCOME FROM PERSONAL USE OF COMPANY VEHICLE

The IRS requires the value of the personal use of employer provided vehicles to be included in the compensation of the employee if the employee does not reimburse the employer. Forms are included for the employer to collect the necessary data from the employee and calculate the value of the personal use.

WORKSHEET TO CALCULATE "INCLUSION AMOUNT" FOR LEASED VEHICLES

The IRS requires lessees of luxury cars to calculate an "inclusion amount" to be included in their gross income. This inclusion amount must be considered by taxpayers who have leased a vehicle for a term of 30 days or more. By means of the inclusion amount, the law attempts to limit the taxpayer's lease payment deductions to the amount that would have been deductible under the limited depreciation rules had the taxpayer purchased the car. Enclosed are various worksheets to calculate the amount includible in income by the lessee for vehicles leased after 1986. Select the appropriate worksheet based on the lease date of the vehicle.

SAMPLE AUTOMOBILE USAGE POLICIES

1. POLICY PROHIBITING ALL PERSONAL USE OF COMPANY VEHICLES

Management has adopted the following policy regarding personal use of Company owned vehicles:

> Vehicles owned or leased by this Company are to be used solely for Company business. There shall be no personal use of the vehicles (including commuting to and from work). Individuals driving Company vehicles may have occasions where an incidental stop is necessary between business stops. Such use shall not be considered to be in violation of this policy.
>
> The Company requires that vehicles not in use shall be parked in designated areas on the Company premises. No personal items are to be stored in the vehicles. Company materials and supplies are to be secured in the trunk, lock boxes or within the Company offices.
>
> Keys are to be returned to ____________ upon the close of business each day.

2. POLICY PROHIBITING ALL PERSONAL USE OF COMPANY VEHICLES EXCEPT COMMUTING

Management has adopted the following policy regarding personal use of Company owned vehicles:

> For business reasons, certain employees have been designated to drive a Company owned vehicle to and from their residence. This shall be the only authorized personal use of the vehicle. Individuals driving Company vehicles may have occasions where an incidental stop is necessary between business stops. Such use shall not be considered to be in violation of this policy.
>
> The Company requires that no personal items other than incidentals be stored in the vehicle. The vehicle is to be locked each night with work articles stored either in the lock box or trunk during times when the vehicle is not in use.
>
> The Company will compute a daily value for the commuting which will be included in the employee's W-2 at the end of the calendar year. Such amount will be the minimum allowed by federal income tax laws.

Note: Internal Revenue Service regulations require the Company to maintain evidence which would enable the IRS to determine whether use of the vehicle is in accordance with policy maintained by the Company.

3. POLICY REGARDING CUT-OFF DATE TO CALCULATE THE VALUE OF PERSONAL USE OF COMPANY OWNED VEHICLES

Management has adopted the following policy regarding computation of the taxable value of the personal use of Company owned vehicles:

> The personal use of Company vehicles will be computed for the twelve months ending ____________________ (October 31, November 30 or December 31).
>
> Annually, the Company requires you to provide a complete accounting of the personal use of the vehicle as of ____________ . The taxable value of the personal use will be computed using the least costly method allowable by tax law.
>
> This income will be considered paid as of _____________ and federal, state (if appropriate) and Social Security/Medicare* withholding will be deducted from your _______________ pay check. - **or**
>
> The taxable value and related withholding amounts will be reflected on your W-2 at year-end.

Please address your questions to _______________.

* The company may elect to withhold <u>only</u> Social Security/Medicare. If so the paragraph should read as follows:

> This income will be considered paid as of ________ and Social Security/Medicare withholding will be deducted from your _______ pay check.

EMPLOYEE REPRESENTATION REGARDING USE OF COMPANY VEHICLE

The IRS requires employers to provide certain information on their tax return with respect to the vehicles provided to employees. This information is also used to calculate the amount of the fringe benefit to be included in the employee's W-2 income.

The IRS generally requires that written records be maintained to document the business use of vehicles. Since the company policy requires employees to maintain the detailed records, please provide answers to the following questions. If you were provided more than one vehicle that was used during the year, you need to prepare a separate statement for each vehicle.

The completed form must be returned no later than ______ or 100% of the value of the use of the vehicle will be included in your W-2 income. (date)

Description of vehicle ________________________________

Reporting period from __________________ to __________________

Odometer reading: Beginning ________ Ending ________

Employee Representation

(1) Was the vehicle available for your personal use during off-duty hours? YES NO

(2) Did you have another vehicle available for your personal use (this includes a car you own personally)? YES NO

(3) Are you an officer or 1% owner of the business? YES NO

(4) How many commuting round trips did you make in this vehicle? ______________

(5) For the reporting period specified above, please provide the number of miles for each of the following categories:

Total commuting miles ______________

Total other personal (non-commuting) miles ______________

Total personal miles ______________

Total business miles ______________

(6) Did the employer pay the cost of fuel consumed by this vehicle? YES NO

______________________________ ______________

(EMPLOYEE SIGNATURE) (DATE)

WORKSHEET TO CALCULATE INCOME
FROM PERSONAL USE OF COMPANY VEHICLE

EMPLOYER'S WORKSHEET TO CALCULATE EMPLOYEE'S TAXABLE INCOME RESULTING FROM EMPLOYER-PROVIDED VEHICLE FOR CALENDAR YEAR 1997

EMPLOYEE: ____

DESCRIPTION OF VEHICLE: ____________________________________

DATE VEHICLE FIRST MADE AVAILABLE TO ANY EMPLOYEE: __________

DATE VEHICLE FIRST MADE AVAILABLE TO THIS EMPLOYEE: __________

Select one method (note limitations on methods II and III)

METHOD I - ANNUAL LEASE VALUE METHOD (For Autos Available 30 Days or More)

Fair market value of vehicle (to be redetermined at the beginning of the fifth year and every four years thereafter).	$__________
Annual lease value, per attached chart	$__________ [1]
Enter number of days during the year that the vehicle was available	x__________
Divide by number of days in tax year	÷__________
Prorated annual lease value	__________
Personal use % (personal/total miles, per statement from employee)	x__________%
Personal annual lease value	$__________
If fuel is provided by employer, enter personal miles _____ x _____ [2]	+__________
Personal use taxable income	$__________

---

[1] For autos available for 7 days or less, multiply the annual lease value by 4. If the availability is more than 7 days, but less than 30, the taxpayer may elect to use the annual lease value without the 4 multiplier.

[2] If fuel is provided "in kind," the fair market value may be determined based on all facts and circumstances or, alternatively, at 5-1/2 cents per mile if auto usage is within the U.S. Canada, and Mexico. Generally, where fuel is purchased and charged to the employer, the actual cost or reimbursement should be used. If employers with a fleet of 20 or more vehicles, reimburse or allow employees to charge fuel cost, the fleet-average cents per mile may be used. If the fleet employer determines that actual cost or fleet average methods are unreasonable administrative burdens, the 5-1/2 cents per mile may be used.

WORKSHEET TO CALCULATE INCOME
FROM PERSONAL USE OF COMPANY VEHICLE

EMPLOYER'S WORKSHEET TO CALCULATE EMPLOYEE'S TAXABLE INCOME RESULTING FROM EMPLOYER-PROVIDED VEHICLE FOR CALENDAR YEAR 1997

METHOD II - STANDARD MILEAGE RATE METHOD

Generally, in order to qualify to use the cents-per-mile method, the vehicle must: (1) be expected to be regularly used in the employer's business throughout the calendar year, (2) be driven at least 10,000 miles per year, and (3) have a fair market value of $14,600 or less. Once this method is adopted for a particular vehicle, it must be continued until the vehicle no longer qualifies.

Enter personal miles	_______x $0.315 =	$ _________
If fuel is NOT provided by the employer enter personal miles	_______x $0.055 =	(_________)
Personal use taxable income		$ _________

METHOD III - SPECIAL COMMUTING METHOD

This method may only be used for vehicles covered by a written policy that allows commuting but no other personal use. DO NOT USE if employee is a 1% or more owner, an officer with compensation of $50,000 or more, or an individual with compensation equaling or exceeding $100,000.

Number of commuting round trips made	_________
Value per round trip	x____$ 3.00
Personal use taxable income	$ _________

WORKSHEET TO CALCULATE INCOME
FROM PERSONAL USE OF COMPANY VEHICLE

ANNUAL LEASE VALUE TABLE

AUTOMOBILE FAIR MARKET VALUE	ANNUAL LEASE VALUE	AUTOMOBILE FAIR MARKET VALUE	ANNUAL LEASE VALUE
$ 0- 999	600	22,000-22,999	6,100
1,000- 1,999	850	23,000-23,999	6,350
2,000- 2,999	1,100	24,000-24,999	6,600
3,000- 3,999	1,350	25,000-25,999	6,850
4,000- 4,999	1,600	26,000-27,999	7,250
5,000- 5,999	1,850	28,000-29,999	7,750
6,000- 6,999	2,100	30,000-31,999	8,250
7,000- 7,999	2,350	32,000-33,999	8,750
8,000- 8,999	2,600	34,000-35,999	9,250
9,000- 9,999	2,850	36,000-37,999	9,750
10,000-10,999	3,100	38,000-39,999	10,250
11,000-11,999	3,350	40,000-41,999	10,750
12,000-12,999	3,600	42,000-43,999	11,250
13,000-13,999	3,850	44,000-45,999	11,750
14,000-14,999	4,100	46,000-47,999	12,250
15,000-15,999	4,350	48,000-49,999	12,750
16,000-16,999	4,600	50,000-51,999	13,250
17,000-17,999	4,850	52,000-53,999	13,750
18,000-18,999	5,100	54,000-55,999	14,250
19,000-19,999	5,350	56,000-57,999	14,750
20,000-20,999	5,600	58,000-59,999	15,250
21,000-21,999	5,850		

For vehicles having a fair market value in excess of $59,999, the Annual Lease Value is equal to: (.25 x automobile fair market value) + $500.

LEASED VEHICLES
WORKSHEET TO CALCULATE INCLUSION AMOUNT

Description of vehicle:____

Date of lease:____

Lease term:____

Fair market value of vehicle at inception of lease:______________________________

Dollar amount per attached tables. (Select the appropriate table based on the inception date of the lease.)	$________ (1)
Enter number of days during the year that the vehicle was leased.	x________
Divide by number of days in tax year.	÷________
Prorated dollar amount.	$________
Business use % (business/total miles).	x________ % (2)
Prorated inclusion amount.	$________

(1) The dollar amount for the preceding year is used for the last tax year of the lease.

(2) Use 100% if all expenses are deducted by the employer and the personal use value is added to the employee's income.

Worksheet to Calculate "Inclusion Amount" for Leased Vehicles
Dollar Amounts for Automobiles with a Lease Term Beginning in Calendar Year 1993

Fair Market Value of Automobile		Tax Year During Lease *				
Over	Not Over	1st	2nd	3rd	4th	5th and Later
$14,300	14,600	1	1	2	2	3
14,600	14,900	3	5	7	9	9
14,900	15,200	4	9	13	15	17
15,200	15,500	6	13	18	22	25
15,500	15,800	8	16	24	29	32
15,800	16,100	9	20	30	35	40
16,100	16,400	11	24	35	42	48
16,400	16,700	13	27	41	49	55
16,700	1,700	14	32	46	55	63
17,000	17,500	17	36	54	64	73
17,500	18,000	20	42	63	75	87
18,000	18,500	22	49	72	86	99
18,500	1,900	25	55	82	97	112
19,000	19,500	28	61	91	108	125
19,000	20,000	31	67	100	120	137
20,000	20,500	34	74	109	130	150
20,500	21,000	37	80	118	142	163
21,000	21,500	39	86	128	153	175
21,500	22,000	42	92	138	163	189
22,000	23,000	47	101	151	181	207
23,000	24,000	52	114	170	202	233
24,000	25,000	58	127	187	225	259
25,000	26,000	64	139	206	247	285
26,000	27,000	69	152	224	270	310
27,000	28,000	75	164	243	292	335
28,000	29,000	81	176	262	313	362
29,000	30,000	86	189	280	336	387
30,000	31,000	92	201	299	358	412
31,000	32,000	98	214	317	380	438
32,000	33,000	103	226	336	402	464
33,000	34,000	109	239	354	424	490
34,000	35,000	115	251	373	446	515
35,000	36,000	120	264	391	469	540
36,000	37,000	126	276	410	491	566
37,000	38,000	132	288	429	513	591
38,000	39,000	137	301	447	535	617
39,000	40,000	143	314	465	557	643
40,000	41,000	149	326	484	579	669
41,000	42,000	154	339	502	601	695
42,000	43,000	160	351	521	623	720
43,000	44,000	166	363	539	646	746
44,000	45,000	171	376	558	668	771
45,000	46,000	177	388	577	690	796

*For the last tax year of the lease, use the dollar amount for the preceding year.

Fair Market Value of Automobile		Tax Year During Lease *				
Over	Not Over	1st	2nd	3rd	4th	5th and Later
46,000	47,000	183	401	594	713	822
47,000	48,000	189	413	613	735	847
48,000	49,000	194	426	631	757	874
49,000	50,000	200	438	650	779	899
50,000	51,000	206	450	669	801	925
51,000	52,000	211	463	687	824	950
52,000	53,000	217	475	706	846	975
53,000	54,000	223	488	724	867	1,002
54,000	55,000	228	501	742	890	1,027
55,000	56,000	234	513	761	912	1,052
56,000	57,000	240	525	780	934	1,078
57,000	58,000	245	538	798	956	1,104
58,000	59,000	251	550	817	978	1,130
59,000	60,000	257	563	835	1,000	1,155
60,000	62,000	265	581	863	1,034	1,194
62,000	64,000	277	606	900	1,078	1,245
64,000	66,000	288	631	937	1,123	1,295
66,000	68,000	299	656	974	1,167	1,347
68,000	70,000	311	681	1,011	1,211	1,398
70,000	72,000	322	706	1,048	1,255	1,450
72,000	74,000	333	731	1,085	1,300	1,500
74,000	76,000	345	756	1,121	1,345	1,551
76,000	78,000	356	781	1,158	1,389	1,603
78,000	80,000	367	806	1,195	1,434	1,654
80,000	85,000	387	849	1,261	1,510	1,744
85,000	90,000	416	911	1,353	1,622	1,871
90,000	95,000	444	974	1,445	1,733	1,999
95,000	10,000	472	1,036	1,538	1,843	2,128
100,000	110,000	515	1,130	1,676	2,010	2,319
110,000	120,000	572	1,254	1,861	2,232	2,575
120,000	130,000	629	1,379	2,046	2,453	2,831
130,000	140,000	685	1,504	2,231	2,674	3,088
140,000	150,000	742	1,628	2,416	2,896	3,344
150,000	160,000	799	1,753	2,600	3,119	3,599
160,000	170,000	856	1,877	2,786	3,340	3,855
170,000	180,000	912	2,002	2,971	3,561	4,112
180,000	190,000	969	2,127	3,155	3,783	4,368
190,000	200,000	1,026	2,251	3,340	4,006	4,623
200,000	210,000	1,083	2,376	3,525	4,227	4,879
210,000	220,000	1,140	2,500	3,710	4,449	5,135
220,000	230,000	1,196	2,625	3,895	4,670	5,392
230,000	240,000	1,253	2,749	4,081	4,892	5,647
240,000	250,000	1,310	2,874	4,265	5,114	5,903

Worksheet to Calculate "Inclusion Amount" for Leased Vehicles
Dollar Amounts for Automobiles with a Lease Term Beginning in Calendar Year 1994

Fair Market Value of Automobile		Tax Year During Lease *				
Over	Not Over	1st	2nd	3rd	4th	5th and Later
$14,600	14,900	0	1	1	2	2
14,900	15,200	2	5	6	9	11
15,200	15,500	4	9	14	17	20
15,500	15,800	6	14	21	25	30
15,800	16,100	8	19	27	34	39
16,100	16,400	10	24	34	42	49
16,400	16,700	12	28	41	51	58
16,700	17,000	14	33	48	59	68
17,000	17,500	17	39	57	70	81
17,500	18,000	21	47	68	84	97
18,000	18,500	24	55	80	97	113
18,500	19,000	28	62	92	111	129
19,000	19,500	31	70	104	124	145
19,500	20,000	35	78	115	138	161
20,000	20,500	39	85	127	152	176
20,500	21,000	42	93	138	166	193
21,000	21,500	46	101	149	180	208
21,500	22,000	49	109	161	193	225
22,000	23,000	54	121	178	214	248
23,000	24,000	62	136	201	242	280
24,000	25,000	69	151	224	270	312
25,000	26,000	76	167	247	297	344
26,000	27,000	83	182	270	325	376
27,000	28,000	90	198	293	352	408
28,000	29,000	97	213	317	379	440
29,000	30,000	104	229	339	408	471
30,000	31,000	111	244	363	435	503
31,000	32,000	118	260	385	463	535
32,000	33,000	125	276	408	490	567
33,000	34,000	132	291	431	518	599
34,000	35,000	139	307	454	545	631
35,000	36,000	146	322	478	573	662
36,000	37,000	153	338	500	601	694
37,000	38,000	161	353	523	628	726
38,000	39,000	168	368	547	656	757
39,000	40,000	175	384	569	684	790
40,000	41,000	182	399	593	711	822
41,000	42,000	189	415	615	739	854
42,000	43,000	196	431	638	766	886
43,000	44,000	203	446	661	794	918
44,000	45,000	210	462	684	821	950
45,000	46,000	217	477	708	849	981
46,000	47,000	224	493	730	877	1,013

*For the last tax year of the lease, use the dollar amount for the preceding year.

Fair Market Value of Automobile		Tax Year During Lease *				
Over	Not Over	1st	2nd	3rd	4th	5th and Later
47,000	48,000	231	508	754	904	1,045
48,000	49,000	238	524	776	932	1,077
49,000	50,000	245	539	800	959	1,109
50,000	51,000	252	555	822	987	1,141
51,000	52,000	260	570	845	1,015	1,172
52,000	53,000	267	585	869	1,042	1,204
53,000	54,000	274	601	892	1,069	1,236
54,000	55,000	281	617	914	1,097	1,268
55,000	56,000	288	632	938	1,125	1,299
56,000	57,000	295	648	960	1,153	1,331
57,000	58,000	302	663	984	1,180	1,363
58,000	59,000	309	679	1,006	1,208	1,395
59,000	60,000	316	694	1,030	1,235	1,427
60,000	62,000	327	717	1,065	1,276	1,475
62,000	64,000	341	748	1,111	1,332	1,538
64,000	66,000	355	780	1,156	1,387	1,602
66,000	68,000	369	811	1,202	1,442	1,666
68,000	70,000	383	842	1,248	1,497	1,730
70,000	72,000	397	873	1,294	1,553	1,793
72,000	74,000	412	903	1,341	1,608	1,857
74,000	76,000	428	935	1,386	1,663	1,921
76,000	78,000	440	966	1,432	1,718	1,985
78,000	80,000	454	997	1,478	1,774	2,048
80,000	85,000	479	1,051	1,559	1,870	2,160
85,000	90,000	514	1,129	1,674	2,008	2,319
90,000	95,000	550	1,206	1,789	2,146	2,478
95,000	100,000	585	1,284	1,904	2,284	2,637
100,000	110,000	638	1,400	2,077	2,491	2,876
110,000	120,000	709	1,555	2,307	2,767	3,195
120,000	130,000	779	1,710	2,537	3,043	3,514
130,000	140,000	850	1,865	2,767	3,319	3,833
140,000	150,000	921	2,020	2,997	3,595	4,151
150,000	160,000	992	2,175	3,228	3,870	4,470
160,000	170,000	1,062	2,331	3,457	4,147	4,788
170,000	180,000	1,133	2,486	3,687	4,423	5,107
180,000	190,000	1,204	2,641	3,917	4,699	5,425
190,000	200,000	1,274	2,796	4,148	4,974	5,745
200,000	210,000	1,345	2,951	4,378	5,250	6,063
210,000	220,000	1,416	3,106	4,608	5,527	6,381
220,000	230,000	1,487	3,261	4,838	5,803	6,699
230,000	240,000	1,557	3,416	5,069	6,078	7,019
240,000	250,000	1,628	3,571	5,299	6,354	7,337

Worksheet to Calculate "Inclusion Amount" for Leased Vehicles
Dollar Amounts for Automobiles with a Lease Term Beginning
in Calendar Year 1995

Fair Market Value of Automobile		Tax Year During Lease *				
Over	Not Over	1st	2nd	3rd	4th	5th and Later
$15,500	$15,800	4	8	11	13	14
15,800	16,100	7	15	21	25	28
16,100	16,400	10	22	31	37	43
16,400	16,700	13	28	42	50	56
16,700	17,000	16	35	52	62	71
17,000	17,500	20	45	65	78	89
17,500	18,000	26	56	82	98	113
18,000	18,500	31	67	99	119	136
18,500	19,000	36	79	116	139	159
19,000	19,500	41	90	133	159	184
19,500	20,000	46	102	150	179	207
20,000	20,500	52	113	167	200	230
20,500	21,000	57	124	184	220	254
21,000	21,500	62	136	201	240	277
21,500	22,000	67	147	218	261	301
22,000	23,000	75	164	244	291	336
23,000	24,000	86	187	277	332	383
24,000	25,000	96	210	311	373	429
25,000	26,000	106	233	345	413	477
26,000	27,000	117	256	378	454	524
27,000	28,000	127	279	412	495	570
28,000	29,000	138	301	447	535	617
29,000	30,000	148	324	481	575	665
30,000	31,000	159	347	514	616	711
31,000	32,000	169	370	548	657	758
32,000	33,000	179	393	582	698	804
33,000	34,000	190	416	616	738	851
34,000	35,000	200	439	650	778	899
35,000	36,000	211	461	684	819	946
36,000	37,000	221	484	718	860	992
37,000	38,000	232	507	751	901	1,039
38,000	39,000	242	530	785	942	1,086
39,000	40,000	253	552	820	982	1,133
40,000	41,000	263	576	853	1,022	1,180
41,000	42,000	273	599	887	1,063	1,227
42,000	43,000	284	621	921	1,104	1,274
43,000	44,000	294	644	955	1,145	1,320
44,000	45,000	305	667	989	1,185	1,367
45,000	46,000	315	690	1,022	1,226	1,415
46,000	47,000	326	712	1,057	1,266	1,462
47,000	48,000	336	735	1,091	1,307	1,508
48,000	49,000	346	759	1,124	1,347	1,556
49,000	50,000	357	781	1,158	1,388	1,603
50,000	51,000	367	804	1,192	1,429	1,649
51,000	52,000	378	827	1,226	1,469	1,696
52,000	53,000	388	850	1,260	1,510	1,743
53,000	54,000	399	872	1,294	1,551	1,790
54,000	55,000	409	895	1,328	1,591	1,837
55,000	56,000	419	919	1,361	1,632	1,884
56,000	57,000	430	941	1,395	1,673	1,931
57,000	58,000	440	964	1,429	1,714	1,977
58,000	59,000	451	987	1,463	1,754	2,024
59,000	60,000	461	1,010	1,497	1,794	2,072
60,000	62,000	477	1,044	1,548	1,855	2,142
62,000	64,000	498	1,089	1,616	1,937	2,235
64,000	66,000	519	1,135	1,683	2,018	2,330
66,000	68,000	539	1,181	1,751	2,100	2,423
68,000	70,000	560	1,227	1,819	2,180	2,517
70,000	72,000	581	1,272	1,887	2,262	2,611
72,000	74,000	602	1,318	1,955	2,343	2,704
74,000	76,000	623	1,364	2,022	2,424	2,799
76,000	78,000	644	1,409	2,090	2,506	2,892
78,000	80,000	665	1,455	2,158	2,586	2,986
80,000	85,000	701	1,535	2,277	2,729	3,150
85,000	90,000	753	1,650	2,445	2,932	3,385
90,000	95,000	806	1,763	2,616	3,135	3,619
95,000	100,000	858	1,878	2,784	3,339	3,853
100,000	110,000	936	2,049	3,039	3,643	4,206
110,000	120,000	1,040	2,278	3,377	4,050	4,674
120,000	130,000	1,145	2,506	3,716	4,456	5,144
130,000	140,000	1,249	2,735	4,055	4,862	5,613
140,000	150,000	1,353	2,963	4,394	5,269	6,082
150,000	160,000	1,458	3,191	4,733	5,675	6,551
160,000	170,000	1,562	3,420	5,072	6,081	7,020
170,000	180,000	1,666	3,649	5,410	6,488	7,489
180,000	190,000	1,771	3,877	5,749	6,894	7,958
190,000	200,000	1,875	4,105	6,089	7,300	8,427
200,000	210,000	1,979	4,334	6,427	7,706	8,897
210,000	220,000	2,084	4,562	6,766	8,113	9,365
220,000	230,000	2,188	4,791	7,105	8,518	9,835
230,000	240,000	2,292	5,019	7,444	8,925	10,304
240,000	250,000	2,397	5,247	7,783	9,332	10,772

*For the last tax year of the lease, use the dollar amount for the preceding year.

Worksheet to Calculate "Inclusion Amount" for Leased Vehicles
Dollar Amounts for Automobiles with a Lease Term Beginning
in Calendar Year 1996

Fair Market Value of Automobile		Tax Year During Lease *				
Over	Not Over	1st	2nd	3rd	4th	5th and Later
$15,500	$15,800	3	6	8	10	10
15,800	16,100	5	11	16	19	21
16,100	16,400	7	16	24	27	32
16,400	16,700	10	21	31	37	42
16,700	17,000	12	26	39	46	53
17,000	17,500	15	33	49	58	67
17,500	18,000	19	42	61	73	84
18,000	18,500	23	50	74	88	102
18,500	19,000	27	59	86	104	119
19,000	19,500	31	67	99	119	136
19,500	20,000	35	75	112	134	154
20,000	20,500	38	84	125	149	171
20,500	21,000	42	93	137	164	189
21,000	21,500	46	101	150	179	207
21,500	22,000	50	110	162	194	225
22,000	23,000	56	122	182	217	250
23,000	24,000	64	139	207	247	286
24,000	25,000	71	157	232	277	320
25,000	26,000	79	174	257	308	355
26,000	27,000	87	191	282	338	390
27,000	28,000	95	207	308	369	425
28,000	29,000	103	224	333	399	460
29,000	30,000	110	242	358	429	495
30,000	31,000	118	259	383	459	531
31,000	32,000	126	276	408	490	565
32,000	33,000	134	293	433	520	600
33,000	34,000	141	310	459	550	635
34,000	35,000	149	327	484	581	670
35,000	36,000	157	344	509	611	705
36,000	37,000	165	361	535	641	740
37,000	38,000	172	378	560	672	775
38,000	39,000	180	395	585	702	810
39,000	40,000	188	412	611	732	844
40,000	41,000	196	429	636	762	880
41,000	42,000	203	446	661	793	915
42,000	43,000	211	463	687	822	950
43,000	44,000	219	480	712	853	985
44,000	45,000	227	497	737	883	1,020
45,000	46,000	235	514	762	914	1,054
46,000	47,000	242	531	788	944	1,089
47,000	48,000	250	548	813	974	1,125

*For the last tax year of the lease, use the dollar amount for the preceding year.

Fair Market Value of Automobile		Tax Year During Lease *				
Over	Not Over	1st	2nd	3rd	4th	5th and Later
48,000	49,000	258	565	838	1,005	1,159
49,000	50,000	266	582	863	1,035	1,195
50,000	51,000	273	599	889	1,065	1,230
51,000	52,000	281	616	914	1,096	1,264
52,000	53,000	289	633	939	1,126	1,299
53,000	54,000	297	650	964	1,157	1,334
54,000	55,000	304	668	989	1,186	1,370
55,000	56,000	312	684	1,015	1,217	1,404
56,000	57,000	320	701	1,040	1,247	1,440
57,000	58,000	328	718	1,066	1,277	1,474
58,000	59,000	336	735	1,091	1,307	1,509
59,000	60,000	343	753	1,115	1,338	1,544
60,000	62,000	355	778	1,154	1,383	1,597
62,000	64,000	370	812	1,205	1,443	1,667
64,000	66,000	386	846	1,255	1,504	1,737
66,000	68,000	402	880	1,305	1,565	1,807
68,000	70,000	417	914	1,356	1,626	1,876
70,000	72,000	433	948	1,406	1,686	1,947
72,000	74,000	448	982	1,457	1,747	2,016
74,000	76,000	464	1,016	1,508	1,807	2,086
76,000	78,000	479	1,050	1,558	1,868	2,156
78,000	80,000	495	1,084	1,609	1,928	2,226
80,000	85,000	522	1,144	1,697	2,034	2,349
85,000	90,000	561	1,229	1,823	2,186	2,523
90,000	95,000	600	1,314	1,950	2,337	2,698
95,000	100,000	638	1,400	2,075	2,489	2,873
100,000	110,000	697	1,527	2,265	2,716	3,135
110,000	120,000	774	1,697	2,518	3,019	3,485
120,000	130,000	852	1,868	2,770	3,322	3,834
130,000	140,000	930	2,038	3,023	3,624	4,185
140,000	150,000	1,007	2,208	3,276	3,927	4,534
150,000	160,000	1,085	2,378	3,529	4,230	4,884
160,000	170,000	1,163	2,548	3,781	4,533	5,234
170,000	180,000	1,240	2,719	4,033	4,837	5,583
180,000	190,000	1,318	2,889	4,286	5.139	5,933
190,000	200,000	1,396	3,059	4,539	5,442	6,282
200,000	210,000	1,473	3,230	4,791	5,745	6,632
210,000	220,000	1,551	3,400	5,044	6,047	6,982
220,000	230,000	1,629	3,570	5,296	6,351	7,332
230,000	240,000	1,706	3,740	5,550	6,653	7,681
240,000	250,000	1,784	3,911	5,801	6,956	8,032

Worksheet to Calculate "Inclusion Amount" for Leased Vehicles
Dollar Amounts for Automobiles with a Lease Term Beginning in Calendar Year 1997

Fair Market Value of Automobile		Tax Year During Lease *				
Over	Not Over	1st	2nd	3rd	4th	5th and Later
$15,800	16,100	1	5	5	8	10
16,100	16,400	4	10	13	18	21
16,400	16,700	6	15	22	27	32
16,700	17,000	9	20	30	36	44
17,000	17,500	12	28	40	49	58
17,500	18,000	16	37	53	65	77
18,000	18,500	20	46	66	82	95
18,500	19,000	24	55	80	97	114
19,000	19,500	28	64	93	113	132
19,500	20,000	32	73	106	129	151
20,000	20,500	36	82	120	145	169
20,500	21,000	40	91	133	161	187
21,000	21,500	45	99	147	177	205
21,500	22,000	49	108	160	193	224
22,000	23,000	55	122	180	216	252
23,000	24,000	63	140	206	249	288
24,000	25,000	71	158	233	280	326
25,000	26,000	79	176	259	313	362
26,000	27,000	88	193	287	344	399
27,000	28,000	96	211	313	377	435
28,000	29,000	104	229	340	408	473
29,000	30,000	112	247	366	441	509
30,000	31,000	120	265	393	472	546
31,000	32,000	128	283	420	504	583
32,000	33,000	137	301	446	536	620
33,000	34,000	145	319	472	568	657
34,000	35,000	153	337	499	600	693
35,000	36,000	161	355	526	631	731
36,000	37,000	169	373	552	664	767
37,000	38,000	178	391	578	696	804
38,000	39,000	186	409	605	727	841
39,000	40,000	194	427	632	759	878
40,000	41,000	202	445	658	791	915
41,000	42,000	210	463	685	823	951
42,000	43,000	218	481	712	854	989
43,000	44,000	227	498	739	886	1,026
44,000	45,000	235	516	765	919	1,062
45,000	46,000	243	534	792	951	1,098
46,000	47,000	251	552	819	982	1,136
47,000	48,000	259	570	845	1,015	1,172
48,000	49,000	268	588	871	1,047	1,209

* For the last tax year of the lease, use the dollar amount for the preceding year

Fair Market Value of Automobile		Tax Year During Lease *				
Over	Not Over	1st	2nd	3rd	4th	5th and Later
49,000	50,000	276	606	898	1,078	1,246
50,000	51,000	284	624	925	1,110	1,282
51,000	52,000	292	642	951	1,142	1,320
52,000	53,000	300	660	978	1,174	1,356
53,000	54,000	308	678	1,004	1,206	1,394
54,000	55,000	317	695	1,032	1,237	1,430
55,000	56,000	325	713	1,058	1,270	1,467
56,000	57,000	333	732	1,084	1,301	1,504
57,000	58,000	341	750	1,110	1,334	1,540
58,000	59,000	349	768	1,137	1,365	1,578
59,000	60,000	358	785	1,164	1,397	1,615
60,000	62,000	370	812	1,204	1,445	1,670
62,000	64,000	386	848	1,257	1,509	1,743
64,000	66,000	403	884	1,310	1,573	1,817
66,000	68,000	419	920	1,363	1,637	1,890
68,000	70,000	435	956	1,417	1,700	1,964
70,000	72,000	452	991	1,470	1,764	2,038
72,000	74,000	468	1,027	1,524	1,827	2,112
74,000	76,000	484	1,063	1,577	1,891	2,186
76,000	78,000	501	1,099	1,630	1,955	2,259
78,000	80,000	517	1,135	1,683	2,019	2,333
80,000	85,000	546	1,198	1,776	2,130	2,462
85,000	90,000	587	1,287	1,909	2,291	2,645
90,000	95,000	627	1,377	2,042	2,450	2,830
95,000	100,000	668	1,467	2,175	2,609	3,014
100,000	110,000	730	1,601	2,375	2,848	3,290
110,000	120,000	812	1,780	2,641	3,167	3,659
120,000	130,000	893	1,960	2,907	3,486	4,027
130,000	140,000	975	2,139	3,173	3,805	4,395
140,000	150,000	1,057	2,318	3,439	4,125	4,763
150,000	160,000	1,139	2,498	3,704	4,444	5,131
160,000	170,000	1,221	2,677	3,971	4,762	5,500
170,000	180,000	1,302	2,857	4,236	5,082	5,868
180,000	190,000	1,384	3,036	4,503	5,400	6,237
190,000	200,000	1,466	3,215	4,769	5,719	6,605
200,000	210,000	1,548	3,394	5,035	6,039	6,973
210,000	220,000	1,630	3,574	5,300	6,358	7,341
220,000	230,000	1,712	3,753	5,567	6,676	7,710
230,000	240,000	1,793	3,932	5,833	6,996	8,078
240,000	250,000	1,875	4,112	6,099	7,314	8,446

Worksheet to Calculate "Inclusion Amount" for Leased Vehicles
Dollar Amounts for Automobiles with a Lease Term Beginning
in Calander Year 1998

Fair Market Value of Automobile		Tax Year During Lease *				
Over	Not Over	1st	2nd	3rd	4th	5th and Later
$15,800	16,100	1	5	8	12	14
16,100	16,400	4	10	16	22	25
16,400	16,700	6	15	25	31	36
16,700	17,000	9	20	33	41	47
17,000	17,500	12	28	43	53	62
17,500	18,000	16	37	56	70	80
18,000	18,500	20	46	70	85	99
18,500	19,000	24	55	83	101	117
19,000	19,500	28	64	96	117	136
19,500	20,000	32	73	110	133	154
20,000	20,500	36	82	123	149	173
20,500	21,000	40	91	136	165	191
21,000	21,500	45	99	150	181	209
21,500	22,000	49	108	163	197	228
22,000	23,000	55	122	183	221	255
23,000	24,000	63	140	210	252	292
24,000	25,000	71	158	236	285	329
25,000	26,000	79	176	263	316	366
26,000	27,000	88	193	290	348	403
27,000	28,000	96	211	317	380	439
28,000	29,000	104	229	343	412	477
29,000	30,000	112	247	370	444	513
30,000	31,000	120	265	396	476	550
31,000	32,000	128	283	423	508	587
32,000	33,000	137	301	449	540	624
33,000	34,000	145	319	476	571	661
34,000	35,000	153	337	502	604	697
35,000	36,000	161	355	529	635	735
36,000	37,000	169	373	556	667	771
37,000	38,000	178	391	582	699	808
38,000	39,000	186	409	608	731	845
39,000	40,000	194	427	635	763	882
40,000	41,000	202	445	662	794	919
41,000	42,000	210	463	688	827	955
42,000	43,000	218	481	715	859	992
43,000	44,000	227	498	742	891	1,028
44,000	45,000	235	516	769	922	1,066
45,000	46,000	243	534	795	955	1,102
46,000	47,000	251	552	822	986	1,140
47,000	48,000	259	570	849	1,018	1,176

*For the last tax year of the lease, use the dollar amount for the preceding year.

Fair Market Value of Automobile		Tax Year During Lease *				
Over	Not Over	1st	2nd	3rd	4th	5th and Later
49,000	50,000	276	606	901	1,082	1,250
50,000	51,000	284	624	928	1,114	1,286
51,000	52,000	292	642	955	1,145	1,324
52,000	53,000	300	660	981	1,178	1,360
53,000	54,000	308	678	1,008	1,209	1,398
54,000	55,000	317	695	1,035	1,241	1,434
55,000	56,000	325	713	1,062	1,273	1,471
56,000	57,000	333	732	1,087	1,305	1,508
57,000	58,000	341	750	1,114	1,337	1,544
58,000	59,000	349	768	1,140	1,369	1,582
59,000	60,000	358	785	1,168	1,400	1,619
60,000	62,000	370	812	1,207	1,449	1,674
62,000	64,000	386	848	1,261	1,512	1,747
64,000	66,000	403	884	1,313	1,577	1,821
66,000	68,000	419	920	1,367	1,640	1,894
68,000	70,000	435	956	1,420	1,704	1,968
70,000	72,000	452	991	1,474	1,767	2,042
72,000	74,000	468	1,027	1,527	1,832	2,115
74,000	76,000	484	1,063	1,580	1,896	2,189
76,000	78,000	501	1,099	1,633	1,959	2,263
78,000	80,000	517	1,135	1,686	2,023	2,337
80,000	85,000	546	1,198	1,779	2,134	2,466
85,000	90,000	587	1,287	1,913	2,294	2,649
90,000	95,000	627	1,377	2,046	2,453	2,834
95,000	100,000	668	1,467	2,178	2,613	3,018
100,000	110,000	730	1,601	2,378	2,852	3,294
110,000	120,000	812	1,780	2,644	3,172	3,662
120,000	130,000	893	1,960	2,910	3,490	4,031
130,000	140,000	975	2,139	3,176	3,810	4,398
140,000	150,000	1,057	2,318	3,443	4,128	4,767
150,000	160,000	1,139	2,498	3,708	4,447	5,135
160,000	170,000	1,221	2,677	3,974	4,766	5,504
170,000	180,000	1,302	2,857	4,240	5,085	5,872
180,000	190,000	1,384	3,036	4,506	5,404	6,241
190,000	200,000	1,466	3,215	4,772	5,724	6,608
200,000	210,000	1,548	3,394	5,039	6,042	6,977
210,000	220,000	1,630	3,574	5,304	6,361	7,345
220,000	230,000	1,712	3,753	5,570	6,680	7,714
230,000	240,000	1,793	3,932	5,837	6,999	8,082
240,000	250,000	1,875	4,112	6,102	7,318	8,450

Worksheet to Calculate "Inclusion Amount" for Leased Vehicles
Dollar Amounts for Electric Automobiles with a Lease Term Beginning in Calander Year 1998

Fair Market Value of Automobile		Tax Year During Lease *				
Over	Not Over	1st	2nd	3rd	4th	5th and Later
$47,000	48,000	5	11	18	21	23
48,000	49,000	13	29	45	52	60
49,000	50,000	21	47	71	85	96
50,000	51,000	29	65	98	116	134
51,000	52,000	38	83	124	148	171
52,000	53,000	46	101	151	180	207
53,000	54,000	54	119	177	212	244
54,000	55,000	62	137	204	244	281
55,000	56,000	70	155	231	275	318
56,000	57,000	79	172	258	307	355
57,000	58,000	87	190	284	340	391
58,000	59,000	95	208	311	372	428
59,000	60,000	103	226	338	403	465
60,000	62,000	115	253	378	451	520
62,000	64,000	132	289	430	515	594
64,000	66,000	148	325	484	578	668
66,000	68,000	164	361	537	643	741
68,000	70,000	181	396	591	706	815
70,000	72,000	197	432	644	770	888
72,000	74,000	214	468	697	834	962
74,000	76,000	230	504	750	898	1,035
76,000	78,000	246	540	803	962	1,109
78,000	80,000	263	576	856	1,025	1,183
80,000	85,000	291	639	949	1,137	1,312
85,000	90,000	332	728	1,083	1,296	1,496
90,000	95,000	373	818	1,215	1,456	1,681
95,000	100,000	414	908	1,348	1,615	1,865
100,000	110,000	475	1,042	1,548	1,855	2,141
110,000	120,000	557	1,221	1,814	2,174	2,509
120,000	130,000	639	1,401	2,080	2,492	2,878
130,000	140,000	721	1,580	2,346	2,812	3,245
140,000	150,000	803	1,759	2,612	3,131	3,614
150,000	160,000	884	1,939	2,878	3,450	3,982
160,000	170,000	966	2,118	3,144	3,769	4,350
170,000	180,000	1,048	2,297	3,410	4,088	4,719
180,000	190,000	1,130	2,477	3,676	4,406	5,087
190,000	200,000	1,212	2,656	3,942	4,726	5,455
200,000	210,000	1,293	2,835	4,209	5,044	5,824
210,000	220,000	1,375	3,015	4,474	5,364	6,191
220,000	230,000	1,457	3,194	4,740	5,683	6,560
230,000	240,000	1,539	3,373	5,006	6,002	6,928
240,000	250,000	1,621	3,552	5,273	6,320	7,297

*For the last tax year of the lease, use the dollar amount for the preceding year.

Comparison of Business Entities

Applicable Factor	C Corporation	S Corporation	Sole Proprietor	Partnership/Limited Liability Partnership	Limited Liability Company
I. Formation					
A. Method	Articles of Incorporation	Articles of Incorporation	None	Partnership agreement	Articles of Organization filed in state recognizing LLCs
B. Owner eligibility					
1. Number of Owners	No limit	75	One	Two or more for limited partnership; one or more general and one or more limited for general partnership	No limit
2. Type of Owners	No limitation	Individuals, estates and certain trusts	Individual	No limitation	No limitation
3. Affiliate Limits	No limitation	Can own up to 100% of the stock of a C corporation and own 100% of the stock of a qualified sub-s subsidiary.	No limitation	No limitation	No limitation
C. Capital Structure					
1. Equity	No limitations (multiple classes permitted)	Only one class of stock	No stock	No limitations (multiple classes)	No limitations
2. Debt	No specific limits on debts/equity ratio	Safe-harbor for debt	No specific limits	No specific limits	No specific limits
D. Status Determination					
1. Election by Entity	No election requirements	Required election	No election requirements	No election requirement but state law filing	No election requirement
2. Owner Consents	None required	Consent required	None required	None required	None required
E. Liability	Limited to shareholder's capital contributions	Limited to shareholder's contribution	Unlimited	General partners jointly and severally liable. Limited partners are generally limited to capital contributions.	Limited to member's capital contributions.

Applicable Factor	C Corporation	S Corporation	Sole Proprietor	Partnership/Limited Liability Partnership	Limited Liability Company
II. <u>Operational Phase</u>					
A. Tax Year	Any year permitted (limit for personal service corporation)	Generally calendar year	Calendar year	Generally calendar year	Generally calendar year
B. Tax on Income	Corporate level	Owner level except QSST, where paid by beneficiary.17	Individual level	Owner level	Member level
C. Election	Corporate level	Corporate level	Individual level	Partnership level	Corporate level
D. Allocation of Income/ Deductions	Not permitted (except through multiple equity structure)	Not permitted (except through debt/equity structure)	N/A	Permitted if substantial economic effect	Permitted if substantial economic effect
E. Character of Income/ Deductions	No flow-through to shareholders	Flow-through to shareholders	Flow-through to individual	Flow-through to partners	Flow-through to members
F. Net Operating Losses	No flow-through to shareholders	Flow-through to shareholders (limited to basis)	Flow-through to individual	Flow-through to partners (limited to basis)	Flow-through to members (limited to basis)
G. Net Capital Losses	No flow-through, but five year carryforward	Flow-through to shareholders	Flow-through to individual	Flow-through to partners	Flow-through to members
H. Effect of Statutory Limitations	Imposed at corporate level	Imposed at shareholder level	Imposed at individual level	Imposed at partner level	Imposed at member level
III. <u>Compensations Arrangements</u>					
1. Fringe Benefits	Shareholder-officers qualify for benefits	Shareholder officers qualify for benefits (medical premiums for greater than 2% shareholders treated like partnership guaranteed payments)	Generally subject to limits applicable to individuals	Limited participation for partners	Limited participation for members
2. Retirement Benefits	Shareholder-officers included in qualified plans	Certain limits on shareholder-officers	Generally subject to limits applicable to individuals	Certain limits applicable to partners	Certain limits applicable to members
3. Reasonable Compensation Limits	Applicable to shareholder-officers	Applicable to shareholder-officers	N/A	Applicable where capital is a material factor	Applicable where capital is a material factor

Applicable Factor	C Corporation	S Corporation	Sole Proprietor	Partnership/Limited Liability Partnership	Limited Liability Company
IV. <u>Transactions with Owners</u>					
A. Distributions of Cash	Dividends to extent of earnings and profits	Dividends, generally no effect until previously taxed income fully recovered (beware transition rules for former C corps)	No effect	No effect except in calculation of basis	No effect except in calculation of basis
B. Distribution of Property	Dividend treatment; gain recognition to entity	Gain recognition to entity	No effect	No gain or loss to entity	No gain or loss to entity
C. Purchase of Owner's Interest					
1. Partial Interest	Probable dividend treatment	Tax-free, but gain for proceeds in excess of basis	Treated as sale of each asset	Capital gain treatment, except ordinary income for ordinary income assets.	Capital gain treatment, except ordinary income for ordinary income assets.
2. Entire Interest	Capital gain treatment with exceptions	Capital gain treatment after basis recovered	Cannot sell entity interest; sale of business is viewed as a sale of each asset	Capital gain treatment, except ordinary income for ordinary income assets and certain § 736 payments	Capital gain treatment except ordinary income for ordinary income assets and certain § 736 payments
D. Property Sales to Entity by Owner	Possible dividend treatment or contributions to capital	Any excess value treated as distribution or contribution	N/A	Any excess value treated as distribution or contribution	Any excess value treated as distribution or contribution
E. Property Sales to Owner by Entity	Possible dividend treatment or contributions to capital	Any excess value treated as distribution or contribution	N/A	Any excess value treated as distribution or contribution	Any excess value treated as distribution or contribution
V. <u>Termination of Entity or Owner Interest</u>					
A. Sale of Interest by Owner to Third Person	Capital gain; no effect on basis of corporation's assets	Capital gain; no effect on basis of corporation's assets	Cannot sell entity interest; sale of business is viewed as a sale of each asset	Capital gain subject to § 751 ordinary income categorization	Capital gain subject to § 751 ordinary income categorization
B. Death of Owner	Estate continues as shareholder; FMV at date of death is basis for shares; no effect on basis of corporation's assets	Estate continues as shareholder; FMV at date of death is basis for shares; no effect on basis of corporation's assets	Estate takes over business	Estate as partner subject to agreement, FMV at date of death basis for interest	Estate as member subject to agreement, FMV at date of death is basis for interest

Applicable Factor	C Corporation	S Corporation	Sole Proprietor	Partnership/Limited Liability Partnership	Limited Liability Company
C. Liquidation Distributions					
1. Effect to Distributor	Gain recognition if appreciated property distributed	Gain recognition if appreciated property distributed	N/A	No gain recognition on asset distributions	No gain recognition on asset distributions
2. Effect to Recipient	Capital gain on excess value received over basis	Capital gain on excess value received over basis	N/A	Substituted basis in assets equal to basis in partnership interest	Substituted basis in assets equal to basis in LLC interest
D. Reorganizations	Tax-free to shareholders if qualifying under reorganization provisions (§ 354 and § 368)	Tax-free to shareholders if qualifying under reorganization provisions (§ 354 and § 368)	N/A	No taxability on merger of partnership	No taxability on merger of LLC
E. Carryover of Tax Attributes	Carryover of tax attributes to successor entity if tax-free reorganization	Carryover of tax attributes to successor entity if tax-free reorganization	N/A	N/A	N/A

USE OF THE S CORPORATION SHAREHOLDER BASIS SCHEDULE

The shareholder basis schedule is a tool to assist the tax practitioner in determining a shareholder's basis in his/her shares in any given year. Two versions are provided, a short version and a long version. The practitioner should select whichever best suits the situation. Please be aware that K-1 line #/descriptions are subject to change from year to year.

Basis will determine how much loss a shareholder can recognize on his or her individual return. Losses can be used to the extent of basis in capital as well as basis in loans from the shareholder to the corporation. Capital basis should be monitored when anticipating a loss pass-through to the shareholder and when distributions are planned. Generally, distributions will be nontaxable to the shareholders up to their individual capital basis unless the corporation has earnings and profits from either operating as a C corporation, operating as an S corporation prior to 1983, or from a merger with another corporation that had earnings and profits. If the capital basis and earnings and profits are exhausted, distributions become taxable as capital gain distributions.

Loan basis is important not only because of its impact on loss passthrough, but because repayments of shareholder loans can, and often do, produce taxable income to the shareholder. The IRS' position is that income from loan repayment is calculated on a ratio of loan basis to book value at the time of loan repayment. Basis in loans is rebuilt by income recognized by the shareholder. This is only for losses that reduced loan basis during taxable years beginning after December 31, 1982.

NOTE--These basis schedules assume an election has been made to decrease basis by the ordinary loss or other item of loss or deduction and depletion before decrease by nondeductible noncapital expenses. When the election is made, final regulations require nondeductible expenses and depletion in excess of basis to be carried forward and reduce basis in succeeding taxable years.

NOTE--SBJPA 1996 requires the stepped up basis in the stock in an S corporation acquired from a decedent to be reduced by the extent to which the value of the stock is attributable to items consisting of IRD. This basis rule is comparable to the present-law partnership rule. This provision applies with respect to decedents dying after August 21, 1996.

S CORPORATION SHAREHOLDER BASIS SCHEDULE
SHORT VERSION

Shareholder Name ______________________________ Year Ended ________
Corporation Name ____
Shares at Year End ______ Ownership Percentage ______

	STOCK	LOANS
Basis at beginning of year ***	________	________
PLUS		
Non-separately stated income	________	
Separately stated income items	________	
Non-taxable income, not including book/tax timing differences	________	
50% of ITC recapture	________	
New loans to S corporation		________
Additional stock/paid-in-capital investment	________	
MINUS		
Loan repayments to shareholder		(________)
Gain recognized on debt repayment in excess of basis		________
Non-dividend distributions	(________)	
PLUS		
Gain recognized for non-dividend distributions in excess of basis	________	
Basis for current year loss	________*	
MINUS		
Non-separately stated loss	(________)	(________)
Separately stated losses and deductions	(________)	(________)
Prior year(s) loss carryover utilized in current year	(________)	(________)
Non-deductible expenses, not including book/tax timing differences****	(________)	
Depletion adjustment****	(________)	
Remaining basis	________	
Net increase for the year**	________	________
Basis at end of year	________*	________

* Basis cannot be less than zero. Any unused losses and deductions should be reflected on the attached schedule of carryover losses.

** Net increase for the year represents the excess of all increases to basis because of income and net of all decreases for deductible and nondeductible losses and distributions.

*** Basis in stock is calculated on a per share/per day basis. Each block of stock must be accounted for separately. Special rules apply if one block of stock has an excess negative adjustment. See final regulations.

S CORPORATION SHAREHOLDER BASIS SCHEDULE
SHORT VERSION

**** This basis schedule assumes the shareholder made the election to decrease basis by ordinary loss or other item of loss or deduction and depletion before decrease by nondeductible,noncapital expenses. When the election is made, final regulations require nondeductible expenses and depletion in excess of basis to be carried forward and reduce basis in succeeding taxable years.

Final regulations are silent as to the carryover of nondeductible items when the election is not made, but presumably these items are not carried forward.

CARRYOVER LOSSES

	Deductible	Nondeductible	Total
Balance at beginning of year			
Additional excess losses			
Prior year(s) carryover used in current year	( )	( )	( )
Balance at end of year			

S CORPORATION SHAREHOLDER BASIS SCHEDULE
LONG VERSION

Corporation Name ____________________ ID # ____________________

Shareholder Name ____________________ SS # ____________________

Year			
# of Shares at year end			
Ownership Percentage			

STOCK BASIS
(unless otherwise noted, all line references refer to this form)

1.	Beginning of year			
2.	Addition investments			
3.	Adjustments +(-)			
4.A	Current year ordinary income (from K-1, line 1)			
4.B	Current year other income (from K-1, lines 2-6,17, 18)			
4.C	Subtotal of lines 1-4.B			
4.D	Nondividend distributions (not to exceed Line 4.C. Excess to line 28.C)			
5.	Subtotal of Lines 1 - 4.D			
6.A	Current year ordinary loss (K-1, Line 1) proratable	( )	( )	( )
6.B	Current year other deductions (from K-1, Lines 2 - 10) proratable (6.A & 6.B losses not to exceed Line 5)	( )	( )	( )
6.C	Nondeductible expenses, K-1, Line 19 (not to exceed items 5 - 6.B)	( )	( )	( )
7.	Subtotal of Lines 5 - 6C			
8.	Deductible loss carryover (Line 26.D pr. yr. not to exceed Line 7)	( )	( )	( )
9.	Nondeductible loss carryover (Line 27.D pr. yr. not to exceed Line 7 minus 8)	( )	( )	( )
10.	Net basis			
11.	Loan restoration (net increase of items 4.A - 9)	( )	( )	( )
12.	Capital basis year end (Line 10 less 11)			

S CORPORATION SHAREHOLDER BASIS SCHEDULE
LONG VERSION

LOANS FROM SHAREHOLDER

13. Beginning of year (Line 16, prior yr. schedule)			
14. Additions			
15. Payments	( )	( )	( )
16. Balance end of year			

BASIS IN LOANS FROM SHAREHOLDER

Year			
17. Beginning of year (Line 24 prior yr. schedule)			
18. Restoration of basis line (Line 11)			
19. Additions. (Line 14)			
20. Payments. (Line 15)	( )	( )	( )
21. Subtotal (Lines 17 - 20)			
22.A Excess loss from Line 6.A or 6.B (ordinary or other deductible losses)	( )	( )	( )
22.B Excess loss from Line 6.C (other nondeductible expenses)	( )	( )	( )
22.C Subtotal of 22.A & 22.B (not to exceed Line 21) (excess to Line 26.A or 27.A)			
23.A Deductible loss carryover applied to loans (not to exceed 21 less 22.C and 23.A)			
23.B Nondeductible loss carryover applied to loans (not to exceed 21 less 22.C)			
24. Loan basis end of year (line 21 - 23.B)			

25. TOTAL TAX BASIS - STOCK & LOANS (Line 12 plus Line 24)			

DEDUCTIBLE CARRYOVERS

26.A Unused loss and deductions from above			
26.B Deductible loss carryover (prior year schedule, Line 26.D)			
26.C Deductible loss used this year (Line 8 plus 23.A)	( )	( )	( )
26.D Deductible loss carryover (Line 26.A plus 26.B minus 26.C)			

NONDEDUCTIBLE CARRYOVERS

27.A Unused nondeductible loss and deductions from above			
27.B Nondeductible loss carryover (prior year schedule, Line 27D)			
27.C Nondeductible losses used this year (Line 9 plus 23.B)	( )	( )	( )
27.D Nondeductible loss carryover (Line 27.A plus 27.B minus 27.C)			

S CORPORATION SHAREHOLDER BASIS SCHEDULE
LONG VERSION

INFORMATION NOT INCLUDED IN K-1

28.A Ordinary income from loan payment			
28.B Capital gain income from loan payment			
28.C Capital gain distribution			

FOOTNOTES

Line Reference

	Basis is determined on a per share, per day basis. Each block of stock must be accounted for separately. Special rules apply if one lock of stock has an excess negative adjustment. See final regulations.
3	Other adjustments necessary to adjust basis would include among other items, a reduction in basis due to gifting some of the stock, elimination of a shareholder due to change in ownership or as a result of the death of a shareholder.
4.C	Any nondividend distribution in excess of basis in stock is considered as sale of stock and is ordinarily capital gain depending on the holding period. (Short term or long term). Report on Line 28.C.
6.C	This basis schedule assumes the shareholder made the election to decrease basis by ordinary loss or other item of loss or deduction and depletion before decrease by nondeductible, noncapital expenses. When the election is made, final regulations require nondeductible expenses and depletion in excess of basis to be carried forward and reduce basis in succeeding taxable years.
6.A & B	Total of these two lines should not exceed Line 5. If over, take excess to Line 22.A or 22.B.
11	Basis in indebtedness increases only if there is a net increase in a shareholder's basis. A net increase results if all income items of section 1367(a)(1) exceed the items described in section 1367(a)(2). These restoration rules apply only to indebtedness held by a shareholder as of the beginning of the taxable year. The indebtedness basis can not exceed the adjusted basis in the indebtedness (without reductions of 1367(b)) as of the beginning of the year.
12	Stock basis can not be less than zero.
20	If loan repayment exceeds loan basis, the gain should be shown on Line 28.A or B. Only the basis attributable to the repayment should be shown on this line.
22.A/26.A	Line 22.A should not exceed Line 21. Any excess to Line 26.A.
22.B/27.A	Line 22.B should not exceed Line 21 less Line 22.A. Any excess to Line 27.A.
24	Loan basis of shareholder should never be less than zero.

AICPA Tax Practice Guides
§ 704(b) - 1998

The following guide is segmented into three parts. The first is a narrative discussion outlining the basic steps a practitioner can follow to determine if the loss allocation is acceptable under § 704(b). The second is an example which includes a completed § 704(b) calculation. The third is a blank worksheet practitioners can use as a guide when an actual § 704(b) calculation is required.

1. Determine if the allocations of profit or loss are in accordance with § 704(b).

Note: The regulations under § 704(b) are broken down into two categories. The regs under 1.704-1 primarily cover general partnerships and limited partnerships with recourse debt. In most instances § 704(b) limitations apply to these types of partnerships only if there are special allocations (e.g., a partner gets a larger share of common depreciation than of all other components of loss), or if there are shifting or transitory allocations. The regulations under 1.704-2 apply to partnerships with nonrecourse debt. 1.704-2 can often result in reallocations even in instances where all items of profit and loss are shared equally throughout the life of the partnership. It is 1.704-2 that this outline is intended to address. Potential issues under 1.704-1 are beyond the scope of this outline. This outline also does not cover partnerships with revaluations ("bookups") since they too are beyond the scope of this outline.

Practitioners should also note that there are three sets of regulations under § 704(b) that may apply. The initial set of final regulations ("former regulations") were issued in 1986. Temporary regulations were issued in 1988, and new final regulations were issued in 1991. There are a variety of factors that could determine which regulations apply to a particular partnership. Practitioners should refer to Reg. § 1.704-2(l) for additional information about effective dates.

2. Determine if there is nonrecourse debt.
If so:
Are there deductions attributable to nonrecourse debt? Deductions attributable to nonrecourse debt occur when the partnership experiences a net increase in partnership minimum gain (as defined below) for the year. Partnership minimum gain is increased by anything that increases the remaining balance of nonrecourse debt (e.g., additional borrowing) or decreases the basis of partnership property subject to the nonrecourse debt (e.g., depreciation).

3. Determine if the allocations are in accordance with the "partner's interest in the partnership."

Note that although the § 704 regulations require allocations to have "substantial economic effect" (SEE) to be valid, deductions attributable to nonrecourse debt by definition lack SEE since no one except the lender bears the risk of loss. Therefore, deductions attributable to nonrecourse debt must be allocated in accordance with the partner's interest in the partnership in order to be considered valid. The regulations also require that nonrecourse deductions must be allocated in a manner that is reasonably consistent with the allocation of other significant items related to the property securing the nonrecourse debt (i.e., the regulations try to keep partnerships from specially allocating depreciation to one partner and have all other items be allocated commonly).

(a) Does the partnership agreement contain the following provisions that allow it to meet the "safe harbor" tests that assure that the partnership's allocations are in accordance with the partner's interest in the partnership:

(1) a requirement that capital accounts be maintained in accordance with the § 704 regulations

and (2) that distributions in liquidation of the partnership be done in accordance with the positive § 704 capital accounts

and (3) contain a qualified income offset provision (which requires that a partner who unexpectedly receives an adjustment or allocation of an item specified in the regulations which causes the partner's capital account to become impermissibly negative (i.e., more negative than their share of minimum gain), that they be allocated income as quickly as possible to eliminate this deficit) and (4) contain a minimum gain chargeback provision (which requires that if there has been a decrease in "partnership minimum gain" for the current year, each partner with an impermissibly negative capital account (as defined above) shall be allocated income sufficient to eliminate the deficit)

(b) If the partnership agreement does not contain all the provisions above allowing it to meet the safe harbor, the allocations will still be valid if they are made in accordance with the partner's interest in the partnership (which, since the partnership failed the safe harbor test, now becomes a facts and circumstances test).

4. In order for allocations to be in accordance with the partner's interest in the partnership (either through satisfaction of the safe harbor test or based on the facts and circumstances test), deductions should generally be allocated to partners whose capital accounts are not impermissibly negative (as defined above).

Because the initial set of final regulations ("former regulations") were issued in 1986 retroactive to 1976, practitioners may encounter instances where a partner has an impermissibly negative capital account at the beginning of the year. This is as a result of the partnership having incorrectly allocated deductions in prior years. The method to correct these impermissibly negative capital accounts would be to charge back gross income to eliminate the deficit. However, since the regulations do not require such a gross income allocation and arguably the allocations for 1996 would be incorrect should a gross income allocation be made, practitioners may wish to avoid this approach. Consequently, practitioners should consider the alternative economic effect test under § 1.704-1(b)(2)(ii)(d). This regulation states that current year allocations will be acceptable under the alternative economic effect test as long as the current year allocations do not cause capital accounts to become <u>more</u> impermissibly negative.

In order to determine if the partners' capital accounts are impermissibly negative:

(a) Determine if the partnership is a general partnership or if the partnership agreement or state law provides for a deficit makeup requirement (whereby upon liquidation of the partnership, all partners with negative capital accounts after sale of all assets are required to contribute cash to the partnership to eliminate the negative capital accounts).

If so, the partner's capital accounts can never be impermissibly negative and the allocations will be deemed to be in accordance with the partner's interest in the partnership.

(b) If the partnership agreement or state law do not contain the provisions in (a) above, a minimum gain calculation will be necessary to ensure the partnership allocations do not cause a partner's capital account to become impermissibly negative.

5. Minimum gain calculation

"Minimum gain" is the gain that would occur upon a constructive liquidation of the partnership's nonrecourse assets for the amount of the partnership's nonrecourse debt. It is calculated as follows:

	remaining balance of nonrecourse debt
less	<u>adjusted basis of assets subject to the nonrecourse debt</u>
equals	partnership minimum gain.

The partnership minimum gain is then generally allocated to each partner based on the profit sharing ratios. Each partner's share of the partnership minimum gain at the end of the year should be equal to or exceed that partner's end-of-year negative capital account (as determined under the § 704 regulations).

Note that a § 704(b) capital account is generally the tax basis capital reduced by any partnership syndication costs and further reduced by any step-ups in basis resulting from a § 743 basis adjustment. (§ 734 step-ups are allowed to be included in the § 704(b) capital account).

If the minimum gain at the end of the year is less than the negative capital account (and if the minimum gain was not less than the negative capital account at the beginning of the year), then:

(a) The partner cannot be allocated current year losses to the extent of the excess

or (b) If the cause of the capital account being impermissibly negative is due to a decrease in partnership minimum gain, a minimum gain chargeback (i.e., an income allocation) must be made to that partner to eliminate the impermissibly negative amount of the capital account.

The "stacking rules" in the § 704 regulations generally require that in most instances the § 704(b) rules act as a limiting test to limit loss allocations to limited partners, rather than increase their loss allocations (i.e., limited partners usually will not receive more losses allocated to them as a result of § 704(b) than they would have received but for § 704(b).)

Consequently, to the extent that a limited partner is not allowed to be allocated losses due to insufficient minimum gain, the losses are allocated to the partner who bears the economic risk of loss, which in most cases is the general partner.

6. Partner and related party loans and guarantees.

(a) When a partner or a related party to a partner makes a nonrecourse loan to a partnership or guarantees a part of the partnership's nonrecourse debt, that partner generally bears the risk of loss for the amount of the loan or guarantee.

This causes what would otherwise be nonrecourse debt to be reclassified as "partner nonrecourse debt." Partner nonrecourse debt is only available as nonrecourse debt in the minimum gain calculation to the lending or guaranteeing partner. Consequently, since this debt will not be available to the other limited partners, the partnership's minimum gain will be disproportionately allocated to the lending partner with the result being that oftentimes the lending partner will be allocated a disproportionate share of the partnership's losses (and as a result of this disproportionate allocation of losses, the lending or guaranteeing partner will also be allocated a disproportionate share of the partnership minimum gain upon a disposition of the assets).

e.g., Minimum gain calculation

	Partnership total	Partner A 20% GP	Partner B 40% LP	Partner C 40% LP
Nonrecourse Debts (Mortgage)	1,000,000	200,000	400,000	400,000
Other nonrecourse loans (from Partner A)	200,000	200,000	0	0
Nonrecourse Assets (Land & Bldg. at NTV)	<600,000>	<120,000>	<240,000>	<240,000>
Minimum Gain	600,000	280,000	160,000	160,000

(b) Related party loans or guarantees in place prior to January 30, 1989 are not considered "partner loans" for § 704(b) purposes.

(c) When preparing a minimum gain calculation, debt of superior priority receives an allocation of assets before debt of an inferior priority. In practice this often means that partner loans, since they are often repayable after the mortgage, are of an inferior priority to the mortgage. Consequently the assets are allocated to the mortgage first and then to the partner loans. This results in partner loans being allocated the first piece of minimum gain incurred by the partnership for the year. As a result, the lending partner can receive an allocation of losses equal to the current year increase in partner loans "off the top" before other partners receive any losses.

(d) Recoveries of Partner Loans

When a partner loans funds to a partnership, or guarantees a partnership's nonrecourse debt, the minimum gain provisions often cause the lending partner or guaranteeing partner to receive additional losses in the year of the loan or guarantee.

When that loan is repaid or guarantee eliminated, the partner no longer is at risk for those funds, so the minimum gain provisions should result in a corresponding allocation of income to the partner whose loans were repaid. (Note however, that depending upon which set of regulations apply to the partnership, an allocation of income may not be required when partner guarantees are eliminated.)

7. Attribute Reallocation

Although the regulations are silent on the potential reallocation of tax attributes (e.g., tax preference), since the regulations do require depreciation deductions to be the first deduction that gets reallocated due to insufficient minimum gain, it would seem appropriate to reallocate the attributes that are related to depreciation in a similar manner.

Example

The Sorry partnership has four partners:

		Profit & Loss %	Initial Capital Contribution
Partner A	GP	5	5,000
Partner B	LP	5	5,000
Partner C	LP	40	40,000
Partner D	LP	50	50,000
			100,000

The partnership bought an apartment building on January 1, 1992 for $1 million paying $100,000 in cash and assuming a nonrecourse mortgage of $900,000.

In years 1 and 2, the partnership had break-even operations, and incurred total depreciation expense of $67,649. Since all partners had positive capital accounts at the end of years 1 and 2, the loss was allocated in accordance with the loss sharing ratios which was acceptable under § 704(b).

The Balance sheet at the end of year 2 was as follows:

Assets			
Tenant Security Deposits			3,000
Land			50,000
Building			
Cost	950,000		
Accumulated Depreciation		(67,649)	
Net Tax Value			882,351
Total Assets			935,351

Liabilities and Capital	
Tenant Security Deposits	3,000
Mortgage	900,000
Partner's Capital	32,351
Total Liabilities and Capital	935,351

In year 3, the apartment building suffered from a rise in vacancies and increased operating expenses resulting in a $50,000 deficit in operations, which was funded by a nonrecourse loan by general partner *A* which was secured by the real estate. GP *A* also funded the principal curtailment on the mortgage. The partnership also had depreciation expense of $34,542.

1994 Profit & Loss:

Regular Operations, net	(50,000)
Depreciation	(34,542)
Net Loss	(84,542)

The loss without 704(b) would be allocated as follows:

Partner A	5%	(4,227)
Partner B	5%	(4,227)
Partner C	40%	(33,817)
Partner D	50%	(42,271)
		(84,542)

The Balance Sheet at the end of year 3 is as follows:

Assets		
Tenant Security Deposits		3,000
Land		50,000
Building		
Cost	950,000	
Accumulated Depreciation	(102,191)	
Net Tax Value		847,809
Total Assets		900,809

Liabilities and Capital	
Tenant Security Deposits	3,000
Due to Partner *A*	55,000
Mortgage	895,000
Partner's Capital	(52,191)
Total Liabilities and Capital	900,809

The § 704(b) calculation for 1994 would be as follows:

§ 704 (b) Worksheet

Beginning-of-Year Balance	A Partner #1 % Interest 5	B Partner #2 % Interest 5	C Partner #3 % Interest 40	D Partner #4 %Interest 50	Total 100
Nonrecourse Debt					
(1) Mortgage	45,000	45,000	360,000	450,000	900,000
(1) Accrued Interest on Mortgage					
(2) Partner Loans					
(3) Pre 1/30/89 Partner Affiliate Loans					
(4) Post 1/29/89 Partner Affiliate Loans					
Total Nonrecourse Debt	45,000	45,000	360,000	450,000	900,000
Nonrecourse Assets					
(5) Land	2,500	2,500	20,000	25,000	50,000
(5) Building and Personal Property at NTV	44,118	44,118	352,940	441,176	882,351
(6) 734 Step-ups (including 708 step-ups)					
(6) Construction Period Interest and Taxes					
(5) Other assets that the mortgagee could acquire upon foreclosure (e.g. debt service escrows)					
Total Nonrecourse Assets	46,618	46,618	372,940	466,176	932,351
Beginning-0f-Year Minimum Gain	0	0	0	0	0

(1) If none of the partners is the mortgagee or guarantees any of the mortgage, generally allocate in accordance with profit sharing ratios

(2) Allocate to lending partner

(3) If none has been guaranteed by any partner, generally allocate in accordance with profit sharing ratios

(4) Allocate to affiliated partner

(5) Allocate pro-rata

(6) Allocate to appropriate partner only

§ 704 (b) Worksheet

End-of-Year Balance	A Partner #1 % Interest 5	B Partner #2 % Interest 5	C Partner #3 % Interest 40	D Partner #4 %Interest 50	Total 100
Nonrecourse Debt					
(1) Mortgage	44,750	44,750	358,000	447,500	895,000
(1) Accrued Interest on Mortgage					
(2) Partner Loans	55,000				55,000
(3) Pre 1/30/89 Partner Affiliate Loans					
(4) Post 1/29/89 Partner Affiliate Loans					
Total Nonrecourse Debt	99,750	44,750	358,000	447,500	950,000
Nonrecourse Assets					
(5) Land	2,500	2,500	20,000	25,000	50,000
(5) Building and Personal Property at NTV	42,390	42,390	339,124	423,905	847,809
(6) 734 Step-ups (including 708 step-ups)					
(6) Construction Period Interest and Taxes					
(5) Other assets that the mortgagee could acquire upon foreclosure (e.g. debt service escrows)					
Total Nonrecourse Assets	44,890	44,890	359,124	448,905	897,809
End-0f-Year Minimum Gain	52,191	0	0	0	52,191
Change in Minimum Gain	52,191				52,191

(1) If none of the partners is the mortgagee or guarantees any of the mortgage, generally allocate in accordance with profit sharing ratios

(2) Allocate to lending partner

(3) If none has been guaranteed by any partner, generally allocate in accordance with profit sharing ratios

(4) Allocate to affiliated partner

(5) Allocate pro-rata

(6) Allocate to appropriate partner only

	A	B	C	D	
	Partner #1	Partner #2	Partner #3	Partner #4	Total
	% Interest 5	% Interest 5	% Interest 40	%Interest 50	100
Beginning-of-Year Tax Capital Account	1,618	1,618	12,940	16,175	32,351
Less: Syndication Costs	0	0	0	0	0
Less: NTV of 743 Step-ups	0	0	0	0	0
Beginning-of-Year 704(b) Capital Account	1,618	1,618	12,940	16,175	32,351
Plus: Capital Contributed	0	0	0	0	0
Less: Distributions	0	0	0	0	0
Less: Loss Allocation before impact of 704(b) (excluding step-up depreciation on 743 step-up)	(4,227)	(4,227)	(33,817)	(42,271)	(84,542)
Tentative End-of-year 704(b) Capital Account	(2,609)	(2,609)	(20,877)	(26,096)	(52,191)
Reallocation	(49,582)	2,609	20,877	26,096	0
Final End-of-Year Capital Account	(52,191)	0	0	0	(52,191)

	A Partner #1 % Interest 5	B Partner #2 % Interest 5	C Partner #3 % Interest 40	D Partner #4 %Interest 50	Total 100
End-of-Year Minimum Gain	52,191	0	0	0	52,191
Tentative End-of-Year 704(b) Capital Accounts	(2,609)	(2,609)	(20,877)	(26,096)	(52,191)
704(b) Reallocation	49,582	(2,609)	(20,877)	(26,096)	0

If a partner's end-of-year § 704(b) capital account is more negative than the partner's share of minimum gain, a reallocation will be needed away from that partner. This reallocation will generally be allocated to the general partner(s) who have minimum gain in excess of their negative capital account. If no general partner has such an excess, the loss is allocated to the general partners in accordance with their loss sharing ratios. Reallocations toward limited partners usually only occur when there are partner loan recoveries, or removal of partner guarantees.

	A Partner #1 % Interest 5	B Partner #2 % Interest 5	C Partner #3 % Interest 40	D Partner #4 %Interest 50	Total 100
End-of-Year Minimum Gain	52,191	0	0	0	52,191
Final End-of-Year 704(b) Capital Accounts	(52,191)	0	0	0	(52,191)

The impact of § 704(b) would be as follows:

	Loss without § 704(b)	Reallocation under § 704(b)	Loss After § 704(b)
Partner A	(4,227)	(49,582)	(53,809)
Partner B	(4,227)	2,609	(1,618)
Partner C	(33,817)	20,877	(12,940)
Partner D	(42,271)	26,096	(16,175)
	(84,542)	0	(84,542)

The End-of-Year Capital Accounts by Partner would be:

Partner A	(52,191)
Partner B	0
Partner C	0
Partner D	0

Note that the following worksheet assumes all loans are of equal priority. Should practitioners encounter instances where loans are of unequal priority, it is possible several minimum gain calculations could be required, because the nonrecourse assets are allocated first to debt of superior priority, then to debt of inferior priority.

Due to the complexity of § 704(b) there are numerous variables that could cause the following worksheet to allocate losses in a manner not intended under § 704(b). Consequently, it is imperative that the practitioner closely review the allocation this worksheet produces for reasonableness and consistency with § 704(b).

§ 704 (b) Worksheet

Beginning-of-Year Balance	Partner #1 % Interest ___	Partner #2 % Interest ___	Partner #3 % Interest ___	Partner #4 %Interest ___	Total
Nonrecourse Debt					
(1) Mortgage					
(1) Accrued Interest on Mortgage					
(2) Partner Loans					
(3) Pre 1/30/89 Partner Affiliate Loans					
(4) Post 1/29/89 Partner Affiliate Loans					
Total Nonrecourse Debt					
Nonrecourse Assets					
(5) Land					
(5) Building and Personal Property at NTV					
(6) 734 Step-ups (including 708 step-ups)					
(6) Construction Period Interest and Taxes					
(5) Other assets that the mortgagee could acquire upon foreclosure (e.g. debt service escrows)					
Total Nonrecourse Assets					
Beginning-Of-Year Minimum Gain					

(1) If none of the partners is the mortgagee or guarantees any of the mortgage, generally allocate in accordance with profit sharing ratios

(2) Allocate to lending partner

(3) If none has been guaranteed by any partner, generally allocate in accordance with profit sharing ratios

(4) Allocate to affiliated partner

(5) Allocate pro-rata

(6) Allocate to appropriate partner only

§ 704 (b) Worksheet

End-of-Year Balance	Partner #1 % Interest ___	Partner #2 % Interest ___	Partner #3 % Interest ___	Partner #4 %Interest ___	Total
Nonrecourse Debt					
(1) Mortgage					
(1) Accrued Interest on Mortgage					
(2) Partner Loans					
(3) Pre 1/30/89 Partner Affiliate Loans					
(4) Post 1/29/89 Partner Affiliate Loans					
Total Nonrecourse Debt					
Nonrecourse Assets					
(5) Land					
(5) Building and Personal Property at NTV					
(6) 734 Step-ups (including 708 step-ups)					
(6) Construction Period Interest and Taxes					
(5) Other assets that the mortgagee could acquire upon foreclosure (e.g. debt service escrows)					
Total Nonrecourse Assets					
End-Of-Year Minimum Gain					
Change in Minimum Gain					

(1) If none of the partners is the mortgagee or guarantees any of the mortgage, generally allocate in accordance with profit sharing ratios

(2) Allocate to lending partner

(3) If none has been guaranteed by any partner, generally allocate in accordance with profit sharing ratios

(4) Allocate to affiliated partner

(5) Allocate pro-rata

(6) Allocate to appropriate partner only

	Partner #1 % Interest ___	Partner #2 % Interest ___	Partner #3 % Interest ___	Partner #4 %Interest ___	Total
Beginning-of-Year Tax Capital Account					
Less: Syndication Costs					
Less: NTV of 743 Step-ups					
Beginning-of-Year 704(b) Capital Account					
Plus: Capital Contributed					
Less: Distributions					
Less: Loss Allocation before input of 704(b) (excluding step-up depreciation on 743 step-up)					
Tentative End-of-year 704(b) Capital Account					
Reallocation					
Final End-of-Year 704(b) Capital Account					

	Partner #1 % Interest ___	Partner #2 % Interest ___	Partner #3 % Interest ___	Partner #4 %Interest ___	Total
End-of-Year Minimum Gain					
Tentative End-of-Year 704(b) Capital Accounts					
704(b) Reallocation					

If a partner's end-of-year § 704(b) capital account is more negative than the partner's share of minimum gain, a reallocation will be needed away from that partner. This reallocation will generally be allocated to the general partner(s) who have minimum gain in excess of their negative capital account. If no general partner has such an excess, the loss is allocated to the general partners in accordance with their loss sharing ratios. Reallocations toward limited partners usually only occur when there are partner loan recoveries, or removal of partner guarantees.

	Partner #1 % Interest ___	Partner #2 % Interest ___	Partner #3 % Interest ___	Partner #4 %Interest ___	Total
End-of-Year Minimum Gain					
Final End-of-Year 704(b) Capital Accounts					

PASSIVE ACTIVITY CHECKLIST
1998

Client Name and Number: ______________________________

Prepared by: ____________ Date: ________ Reviewed by: ____________ Date: ________

Individuals, trusts (other than grantor trusts), estates, personal service corporations, and closely held corporations are subject to passive activity rules. Limitations on losses or credits from activities operated by partnerships and S corporations are applied at the level of the partners and shareholders.

			DONE	N/A	COMMENTS OR EXPLANATION
100) ACTIVITIES					
	101)	Account for all activities.	_____	_____	_____________
	102)	Determine that all activities are grouped according to appropriate economic unit based on facts and circumstances:			
		.1) Similarities and differences in types of business.	_____	_____	_____________
		.2) Extent of common control.	_____	_____	_____________
		.3) Extent of common ownership.	_____	_____	_____________
		.4) Geographic location.	_____	_____	_____________
		.5) Interdependencies between activities.	_____	_____	_____________
	103)	For rental activities consider that:			
		.1) A rental activity may not be grouped with a trade or business activity unless one activity is insubstantial in relation to the other. Note "same proportionate ownership" exception (Reg. § 1.469-4 (d)(1)).	_____	_____	_____________
		.2) An activity involving the rental of real property and an activity involving the rental of personal property (other than personal property provided in connection with the real property) cannot be treated as a single activity.	_____	_____	_____________
	104)	Consider the six exceptions to the definition of "rental activity" (Reg. § 1.469-1T(e)(3)(ii)).	_____	_____	_____________
	105)	Consider the exception for taxpayers who materially participate in real property trade or businesses (§ 469(c)(7)).	_____	_____	_____________
		.1) Determine if the taxpayer satisfies the tests in Reg. § 1.469-9(c).	_____	_____	_____________

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		DONE	N/A	COMMENTS OR EXPLANATION
	.2) Determine the taxpayer's real property trade or businesses.	____	____	____________
	.3) Determine whether rental real estate should be treated as a single activity or separately (Reg. § 1.469-9(g)).	____	____	____________
106)	Consider that aggregation elections made under Reg. § 1.469-4T(k)(3) may no longer be applicable/binding/appropriate.	____	____	____________
107)	Consider whether the grouping of activities is consistent with prior year unless the original grouping was clearly inappropriate, subject to the § 469(c)(7) rules, or there has been a material change in facts and circumstances. Reg. § 1.469-4(e).	____	____	____________
108)	Consider that taxpayers who are limited partners in activities described in § 465(c)(1) may not group that activity with any other activity except as provided in Reg. § 1.469-4(d)(3).	____	____	____________
109)	Consider that partnerships and S Corps must group their activities in accordance with the Reg. §§ 1.469-4(d) and 1.469-9(h).	____	____	____________
110)	Consider that partners and S Corp shareholders must group activities from various flow-through entities and directly conducted activities in accordance with the rules of Reg. §§ 1.469-4(d)(5) and 1.469-9(h).	____	____	____________
111)	Determine if any activity is specifically excluded from the definition of "passive activity" (e.g., trading in personal property, or a working interest in oil and gas property owned directly or through an entity that does not limit taxpayer's liability).	____	____	____________
112)	Consider whether an activity involving rental of the taxpayer's residence during the taxable year should be excluded from the passive loss rules.	____	____	____________
113)	Determine if an activity is subject to the "publicly traded partnership" rules, and report separately.	____	____	____________
114)	Determine if Form 8582 is required.	____	____	____________
200)	PORTFOLIO INCOME			
201)	Separate portfolio income from passive income or loss.	____	____	____________
202)	Separately state expenses that are clearly and directly allocable to portfolio income.	____	____	____________

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	DONE	N/A	COMMENTS OR EXPLANATION
203) Review for self-charged interest. If self-charged interest is present:			
.1) Consider whether the taxpayer's interest income should be recharacterized as passive activity income.	_____	____	______________
.2) Determine if the pass-through entity generating the self-charged interest elected out of the self-charged interest rules.	_____	____	______________
300) SPECIAL RULES FOR C CORPORATIONS			
301) If taxpayer is a C corporation, determine if it is a closely-held corporation or a personal service corporation subject to the passive loss limitations.	_____	____	______________
302) If taxpayer is a closely held C corporation, calculate its net active business income.	_____	____	______________
303) If taxpayer is a corporation which is a member of an affiliated group of corporations filing a consolidated return, determine:			
.1) The status (personal service, closely held) and participation in passive activities for the group as if it were a single taxpayer; and	_____	____	______________
.2) Net passive income or loss is calculated on a consolidated basis, if applicable.	_____	____	______________
400) MATERIAL PARTICIPATION (OTHER THAN A RENTAL ACTIVITY)			
401) Determine if the taxpayer satisfied any of the seven tests for material participation contained in Reg. § 1.469-5T(a).	_____	____	______________
402) If taxpayer is a limited partner, consider applying the exceptions to qualify for material participation.	_____	____	______________
403) Determine that the material participation tests for a partner or S corporation shareholder are applied at the ultimate taxpayer level, using the taxable year of the passthrough entity.	_____	____	______________
404) Determine that participation of spouses (eligible to file a joint return) are combined for the above tests.	_____	____	______________
405) If taxpayer is a closely held C corporation or personal service corporation, determine if shareholders owning more than 50% of			

	DONE	N/A	COMMENTS OR EXPLANATION
its stock in the aggregate each materially participated in the activity.	____	____	____
406) If taxpayer is a closely held C corporation, consider the alternative test for material participation based on employees and business expenses (§ 469(h)(4)(B)).	____	____	____
500) ACTIVE PARTICIPATION BY AN INDIVIDUAL IN RENTAL REAL ESTATE ACTIVITY			
501) Consider the $25,000 special allowance for rental real estate losses and credits.	____	____	____
502) Determine that, under the $25,000 special allowance rule, the taxpayer actively participated both in the year the loss arose and the year in which the loss is allowed.	____	____	____
503) Consider the special allowance for the rehabilitation credit and the low income housing credit from rental real estate activities—note that active participation is not required for these credits.	____	____	____
600) DISPOSITIONS			
601) Determine if the taxpayer disposed of, in a fully taxable transaction, his entire interest in a passive activity to an unrelated party at arm's length, or as a full abandonment of the entire interest. If so:	____	____	____
.1) Consider the rules for the disposition of an interest in a passthrough entity.	____	____	____
.2) After considering ordering rules, deduct in full any loss allocable to such activity including suspended losses from prior years.	____	____	____
.3) Consider the suspended loss utilization rules for the installment sale of an entire interest.	____	____	____
602) Consider Reg. § 1.469-4(g) regarding a disposition of substantially all of an activity. Determine with reasonable certainty:	____	____	____
.1) The amount of prior deductions and credits disallowed under passive rules allocable to the disposed activity; and	____	____	____

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	DONE	N/A	COMMENTS OR EXPLANATION
.2) The amount of gross income and deductions allocable to the disposed activity.	___	___	___
603) Consider the treatment of suspended losses in dispositions characterized as nontaxable exchanges.	___	___	___
604) At death of taxpayer, deduct suspended losses to the extent such losses exceed the amount by which the activity's basis is increased pursuant to § 1014.	___	___	___
605) Determine that the donee's basis of a passive activity interest has been increased by the amount of any related suspended losses, limited to fair market value. Note that the donor may not claim the suspended losses.	___	___	___
606) For pre-1987 installment sales, consider whether post-1986 gain recognized is eligible to be treated as passive income.	___	___	___
607) Determine ability to deduct passive credits. Note that although credits are not "freed-up" on disposition, the taxpayer may make an election to increase basis (§ 469(j)(9)).	___	___	___
700) SPECIAL CHARACTERIZATION OF INCOME RULES			
701) Determine if gain from the disposition of an interest in an activity is passive in the year of disposition (12 month rule). Note special rules for dealers.	___	___	___
702) Determine the character of gain on the disposition of substantially appreciated property formerly used in a nonpassive activity.	___	___	___
703) Determine if net income from property rented for use in a trade or business activity in which the taxpayer materially participated (including partnership, S corporation, and C corporation) for the taxable year is treated as nonpassive income. Note exception for leases prior to February 19, 1988.	___	___	___
704) Consider whether net income from the rental of substantially non-depreciable property (less than 30% of basis is subject to depreciation) must be recharacterized as not from a passive activity.	___	___	___
705) If the activity is a significant participation activity with net income, but not a material participation activity, determine whether a ratable portion of the activity's net income must be recharacterized as not from a passive activity.	___	___	___

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PASSIVE ACTIVITY CHECKLIST
1998

		DONE	N/A	COMMENTS OR EXPLANATION
706)	If the activity involves the lending of money, consider the "equity-financed lending activity" rule (Reg. § 1.469-2T(f)(4)).	____	____	____________
707)	Determine if net royalty income from intangible property held by a passthrough entity should be treated as nonpassive royalty income (Reg. § 1.469-2T(f)(7)).	____	____	____________
708)	Determine if the "developer rule" requires the gain on the sale of rental property to be recharacterized as nonpassive income.	____	____	____________
709)	Determine if distributions in excess of basis from partnerships and S corporations can be characterized as income from a passive activity (Rev. Rul. 95-5).	____	____	____________
710)	Determine if discharge of indebtedness income can be characterized as income from a passive activity (Rev. Rul. 92-92).	____	____	____________
711)	Determine if the taxpayer has carryforward losses from a former passive activity that can offset active income from the same activity.	____	____	____________

800) OTHER PASSIVE ACTIVITY RULES

		DONE	N/A	COMMENTS OR EXPLANATION
801)	Determine that other provisions limiting the deductibility of items, such as § 465 at risk provisions, § 704(d) and § 1366(d) basis limitations, have been considered before applying the passive loss rules.	____	____	____________
802)	For each passive activity, combine the passive income and passive losses for that activity to determine net passive income or loss for the activity.	____	____	____________
803)	Consider the passive loss limitations for purposes of the alternative minimum tax.	____	____	____________
804)	Determine if there are carryovers of passive losses or credits per activity for both regular tax and AMT purposes.	____	____	____________
805)	Consider that suspended pre-1987 losses as a result of at risk or basis limitations that may be claimed are not subject to § 469 limitations.	____	____	____________
806)	If a casualty or theft loss was incurred, determine if it is subject to a § 469 limitation.	____	____	____________

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		DONE	N/A	COMMENTS OR EXPLANATION
807)	Subject credits from passive activities to the applicable limitations for such credits; generally such credits may not offset taxes other than taxes related to net passive income.	_____	_____	_____
808)	Allocate disallowed passive loss ratably among the taxpayer's passive activities having net losses for the taxable year and prepare a carryforward schedule.	_____	_____	_____
809)	Consider special passive activity rules for estates and trusts.	_____	_____	_____

COMMENTS OR EXPLANATIONS

_____

_____

_____

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ESTATE TAX WORK PAPER PROCEDURES AND ORGANIZATION

To facilitate the preparation, checking and review of estate tax returns, the following procedures should be observed, where applicable.

1. Originals of items to be attached to the return should be kept in a separate folder until the return is processed.

2. An estate tax checklist and organizer should be completed for every return.

3. The items in the return should be cross-referenced from final draft to workpapers.

4. The following system should be used to index the estate tax return workpapers:

Index	Description
Section A - Return, legal documents, general information, etc.	
1	Proof copy
2	Final draft
3	Elections and supporting calculations
4	Extension calculations
5	Estate tax checklist
6	Death certificate
7	Will, letters testamentary
8	Trust agreement
9	Probate inventory
10	Tax research
11	Postmortem planning
Section B - Schedule reconciliation workpapers	
A	Real estate
A-1	Section 2032A Valuation
B	Stocks and bonds
C	Mortgages, notes and cash
D	Life insurance on decedent's life
E	Jointly owned property
F	Miscellaneous property
G	Transfers during decedent's life
H	Powers of appointment
I	Annuities and retirement benefits
J	Funeral and administration expenses
K	Debts of decedent, mortgages and liens
L	Net losses during administration
M	Bequests to surviving spouse
N	Qualified ESOP sales
O	Charitable bequests
P	Credit for foreign death taxes
Q	Credit for tax on prior transfers
R	Generation-skipping transfers
S	Increased estate tax on excess retirement accumulations (tax repealed form decedents dying after 1997)

5. Separate files should be used for correspondence, tax returns, client accounting, payroll and probate matters. A complete copy of the estate tax return with all attachments should be retained in the file.

6. Generally, formal books and/or balancing workpapers should be maintained to facilitate the accounting for basis, income, deductions and distributions.

UNITED STATES ESTATE (AND GENERATION-SKIPPING TRANSFER) TAX RETURN PREPARATION AND REVIEW CHECKLIST
FORM 706 As Revised April 1997
For Decedents Dying after October 8, 1990

Decedent's Name and Client Number: ______________________________

Personal Representative: ______________________ Date of Death: ______________

Prepared by: ______________ Date: ________ Reviewed by: ______________ Date: ________

100) GENERAL INFORMATION	DONE	N/A	COMMENTS OR EXPLANATION
101) Obtain and review the following documents, if applicable:			
.1) Will and other governing documents to ascertain the various provisions for distributions, payment of taxes, debts and administrative expenses.	____	____	____________
.2) Any trust(s) instruments and Forms 1041 to determine if the decedent was a grantor or trustee of any trusts, or held any interest or power in any trusts, to determine whether any of the trust assets are includible in the gross estate.	____	____	____________
.3) Gift tax returns:			
.a) Determine whether gift tax adjustments or examinations have been made or are being conducted by the IRS.	____	____	____________
.b) If no gift tax returns have been filed, consider whether such returns should be filed. Note that the date of Form 709 is the earlier of the due date of the Form 706 or April 15th of the year following the year the gifts were made.	____	____	____________
.c) Determine whether the statute of limitations has passed (TRA 1997).	____	____	____________
.4) Prior income tax returns, gift tax returns, memos, workpapers and correspondence files.	____	____	____________
102) Consider obtaining a written engagement letter outlining:			
.1) Scope of services and description of work.	____	____	____________
.2) Responsibilities undertaken by the CPA.	____	____	____________
.3) Responsibilities the client is expected to assume.	____	____	____________
.4) Fee arrangements.	____	____	____________

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	DONE	N/A	COMMENTS OR EXPLANATION
.5) Arrangements for update and extension of services.	____	____	____________
103) Obtain the following:			
.1) List of executor(s)/personal representative(s) names, addresses and social security (or employer ID) numbers.	____	____	____________
.2) Certified copy of the death certificate.	____	____	____________
.3) Copy of any inventory of the decedent's assets.	____	____	____________
.4) A list of the following beneficiary information:			
.a) Full name and address.	____	____	____________
.b) Relationship to the decedent.	____	____	____________
.c) Social security number.	____	____	____________
.d) Date of birth.	____	____	____________
.e) Citizenship - USA or other.	____	____	____________
104) Determine the location of, and the persons with, access to any safety deposit box to which the decedent had access.	____	____	____________
105) For a decedent owning property in a community property state, ascertain the separate, joint or community character of the property.	____	____	____________
106) File federal Form 56 regarding fiduciary relationship on behalf of:			
.1) CPA.	____	____	____________
.2) Attorney.	____	____	____________
.3) Executor/personal representative.	____	____	____________
107) Determine the need to hire an appraiser(s):			
.1) Appraisals may be required if the estate includes articles of artistic or collectible value in excess of $3,000 or any collections whose artistic or collectible value combined at date of death exceeds $10,000.	____	____	____________
.2) Appraisals involving real estate should consider the potential applicability of discounts for fractional interests (including costs of partition) and for potential environmental law exposure.	____	____	____________

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	DONE	N/A	COMMENTS OR EXPLANATION
.3) Appraisals involving businesses should consider the potential applicability of discounts for minority interests, blockage, and contractual or statutory restrictions on transferability.	____	____	____________
200) ELECTIONS			
201) Consider the following:			
.1) Alternate valuation election. Note that alternate valuation is not available unless both the gross estate and the estate tax liability are reduced as a result of the election.	____	____	____________
.2) Special use valuation for real property (checklist section #400.)	____	____	____________
.3) For decedents dying after 1997, excluding up to 40% of the value of any land subject to a qualified conservation easement under § 2031(c) (TRA 1997).	____	____	____________
.4) For decedents dying after 1997, electing § 2057 special estate tax treatment excluding up to 1.3 million for "qualified family-owned business interests" (TRA 1997) Internal Revenue Service Restructuring and Reform Act of 1998 (RRA 98).	____	____	____________
5.) Electing an alternate interest rate for valuation of annuities, etc. § 7520(a).	____	____	____________
.6) Deducting unpaid medical expenses on Form 706 or on the decedent's final Form 1040 (if such expenses are paid within one year after death).	____	____	____________
.7) Using qualified disclaimer within nine months of decedent's death (§ 2518 and applicable state law).	____	____	____________
202) Marital deduction elections.			
.1) Qualified Terminable Interest Property (QTIP):			
.a) If a QTIP election is an available option under the will or other governing instrument, consider whether that election should be made.	____	____	____________
.b) Consider extending the time for filing Form 706 to permit a more informed decision about making a QTIP election.	____	____	____________
.2) Consider electing Qualified Domestic Trust (QDOT) status for transfers to a non-U.S. citizen's spouse.	____	____	____________

	DONE	N/A	COMMENTS OR EXPLANATION
203) Generation-Skipping Transfer (GST) Tax.			
.1) Consider allocating the GST tax exemption (§§ 2631 & 2632).	____	____	________
.2) Consider allocating the GST tax exemption based on the transferred property's value as of the first day of the month (Reg. § 26.2642-2(a)(2)).	____	____	________
.3) Consider the reverse QTIP election (checklist item #2006).	____	____	________
204) Qualified Family Owned Business (QFOB) Deduction New Code Section 2057 (TRA 1997) (RRA 98)			
.1) Consider if estate qualifies based on the following:			
.a) 50% liquidity test.	____	____	________
.b) Citizenship test.	____	____	________
.c) Qualified heirs.	____	____	________
.d) Participation in business (Pre-death 5 of 8 years)	____	____	________
.e) Participation in business (Post death 5 of any 8 of 10 years)	____	____	________
.2) Determine maximum deduction for QFOB tied to applicable exclusion amount (1998 Limits: $625,000 exclusion - $675,000 QFOB).	____	____	________
.3) Consider ownership requirement, i.e. 50% one family; 70% two families; 90% three families-and-if held by more than one family, 30% owned by decedent's family.	____	____	________
.4) Consider business requirements: domiciled in USA; not publicly traded within 3 years; less than 35% from personal holding company income.	____	____	________
.5) Consider limitations on passive assets (i.e., Bardahl formula).	____	____	________
.6) Consider recapture schedule. (Discuss with client the likelihood of any early disposition, possibility of decline in value or closure of business.)	____	____	________

	DONE	N/A	COMMENTS OR EXPLANATION
205) Consider deferring payment of the estate tax:			
.1) Election to pay tax in installments for closely held business per § 6166:			
.a) Apply attribution rules in determining whether gross estate includes 20% or more of a business interest per § 6166 (b)(7).	____	____	____________
.b) Consider election to treat holding company stock as stock in a closely held business per § 6166(b)(8).	____	____	____________
.c) Interest rate lowered 2% on estate tax due to 1,000,000 of a closely held business (TRA 1997 effective for deaths after 12/31/97). However, transitional rule allows same reduction for estates of decedents dying before 1998 who had already elected 4% rules. Election must be made before 1/1/99.	____	____	____________
.2) Election to defer estate tax attributable to reversionary or remainder interest under § 6163.	____	____	____________
.3) Request to defer estate tax for reasonable cause under § 6161.	____	____	____________
300) SCHEDULE A—REAL ESTATE			
301) If there is joint ownership, determine whether to report on Schedule E (checklist item #801).	____	____	____________
302) Ascertain if decedent's interest is a split interest, e.g., life interest, remainder interest or term of years. If so, refer to appropriate actuarial tables.	____	____	____________
303) If split interest is owned with family member(s), refer to § 2702 and note effective date.	____	____	____________
304) Ascertain whether contract price or appraised values should be used as fair market value in case of sale pending at death.	____	____	____________
305) Exclude cemetery lots for decedent and decedent's family from gross estate. Include in the gross estate additional cemetery lots that have market value.	____	____	____________
306) If property is security for a debt, show the debt separately on Schedule K, unless the debt is nonrecourse.	____	____	____________

	DONE	N/A	COMMENTS OR EXPLANATION
400) SCHEDULE A-1—SPECIAL USE VALUATION			
401) Ascertain whether the election is available for farm or other closely-held business real property. (Note the opportunity period to correct certain failures under 2032A--TRA 1997.)	____	____	____________
402) Review all required documents for the election.	____	____	____________
403) Consider availability of cash rents leasing to another member of lineal decendent's family (TRA 1997) § 2032A(c)(7)(E).	____	____	____________
404) If the election is available, determine the names, addresses, and tax identification numbers of the qualified heirs and other interested parties and their relationship to the decedent.	____	____	____________
405) Determine who will act as agent for the qualified heirs and other interested parties in dealings with the IRS on special use valuation matters.	____	____	____________
406) Consider making a woodlands election under § 2032A(e)(13).	____	____	____________
500) SCHEDULE B—STOCKS AND BONDS			
501) If there is joint ownership, determine whether to report on Schedule E (checklist item #801).	____	____	____________
502) Ascertain issuer name, number of shares and par value, and description of security (including CUSIP number).	____	____	____________
.1) For listed stocks or bonds, indicate stock exchange.	____	____	____________
.2) For bonds, indicate interest rate and maturity date.	____	____	____________
.3) For stocks trading "ex-dividend" on the date of death, add the dividend amount to the ex-dividend quotation to determine the taxable value of the stock. (Dividends that have been declared but not paid prior to the date of death are not separately includible for estate tax purposes in cases where the ex-dividend date is after the date of death.)	____	____	____________
.4) Accrued interest on bonds should be shown separately, but as a part of the same item number, immediately following the value of the bond to which it relates.	____	____	____________
.5) Review valuation of securities in accordance with the regulations under § 2031. Note specific rules when valuation date is not a trading date.	____	____	____________

	DONE	N/A	COMMENTS OR EXPLANATION
503) Ascertain whether "flower bonds" are includible in the gross estate. See Rev. Rul. 69-489 for valuation rules.	____	____	____________
504) Determine that Series H and HH bonds are included at face value.	____	____	____________
505) For Series E and EE savings bonds, value in accordance with the tables promulgated by the Treasury Department (available in most major tax services). Consider reporting deferred E/EE interest on final 1040 vs. passing out to beneficiaries with bonds or reporting on 1041 if assets stay in trust.	____	____	____________
506) Inquire whether there is closely-held stock.	____	____	____________
.1) Review Reg. § 20.2031-2 and Rev. Ruls. 59-60 and 68-609 for valuation guidance.	____	____	____________
.2) Ascertain whether there have been sales of shares of stock or other company securities within a reasonable time period prior to or subsequent to death, and if so, determine the sales price and other information.	____	____	____________
.3) Consider the availability of marketability, minority and other valuation discounts.	____	____	____________
.4) Ascertain whether a restricted transfer agreement (or other provision restricting transferability of the security) or a buy-sell agreement exists, and if so, whether its provisions affect estate tax value.	____	____	____________
.5) Determine whether there is an estate freeze transaction in effect. If so, determine and document the likely impact of various reporting positions on the return.	____	____	____________
.6) Consider hiring an appraiser and review his/her valuation methodology.	____	____	____________
600) SCHEDULE C—MORTGAGES, NOTES AND CASH			
601) For joint accounts, determine amount includible in gross estate. Determine whether to report on Schedule E (checklist item #801.)	____	____	____________
602) Calculate accrued interest to date of death on interest-bearing instruments.	____	____	____________
603) Determine value of mortgages and notes receivable (presumed to be face amount unless discount factors present). Calculate accrued interest to date of death.	____	____	____________

	DONE	N/A	COMMENTS OR EXPLANATION
604) If any outstanding checks are for gifts made by the decedent, determine whether these funds may be excluded from the gross estate.	_____	_____	_______________
605) Inquire about any self-canceling installment sale notes. Such notes may be excludable from the decedent's gross estate.	_____	_____	_______________
606) Convert foreign accounts or currency into U.S. equivalent as of the date of death or alternate valuation date, whichever is applicable.	_____	_____	_______________
607) Ascertain the amount of cash on hand and/or undeposited checks at death.	_____	_____	_______________
700) SCHEDULE D—LIFE INSURANCE ON DECEDENT'S LIFE			
701) Procure Form 712 for each life insurance policy on the decedent's life.	_____	_____	_______________
702) With respect to life insurance on the decedent's life other than insurance payable to the decedent's estate, determine what, if any, incidents of ownership the decedent possessed at the time of death.	_____	_____	_______________
703) If life insurance is held in trust, determine whether death proceeds are includible in the estate under § 2035 through § 2042.	_____	_____	_______________
704) Inquire whether life insurance is owned by a closely-held corporation in which the decedent held more than 50% of the voting power and determine whether it is includible in the gross estate as a separate item, or whether it should be reflected in the valuation of the corporation.	_____	_____	_______________
705) Determine whether split-dollar insurance is includible in the estate. (If decedent is controlling shareholder, review Rev. Rul. 78-420.)	_____	_____	_______________
706) Inquire whether there is group term life insurance and ascertain whether it is includible.	_____	_____	_______________
707) If decedent paid premiums on assigned life insurance policies, determine the effect, if any, on includibility in the estate.	_____	_____	_______________
708) If decedent transferred a life insurance policy on his or her life within three years of death, determine whether the proceeds are included in the gross estate. The transfer could involve one or more incidents of ownership.	_____	_____	_______________
800) SCHEDULE E—JOINTLY OWNED PROPERTY			

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	DONE	N/A	COMMENTS OR EXPLANATION
801) For property owned as community property, or as tenants in common, determine that appropriate interests are included on the applicable schedules other than Schedule E.			
802) Determine correct description of property and type of joint interest.			
803) Ascertain source of funds for acquisition of jointly-owned property (unless spouse is the only other joint owner) and document. (Presumption is that 100% of consideration is attributable to decedent.)			
804) Ascertain source of funds for acquisition of jointly owned property with spouse for joint interest created prior to 1977.			
900) SCHEDULE F—MISCELLANEOUS PROPERTY			
901) Determine whether the decedent had any rights(s) to payments for services performed prior to death, such as rights to accrued salary, accrued vacation pay, and nonqualified deferred compensation. Note that payments receivable at time of death may be eligible for the income tax deduction for estate tax attributable to income in respect of a decedent under § 691.			
902) Include appropriate value of life insurance on the life of another (obtain Form 712).			
903) Review personal property insurance policies to identify includible items.			
904) Determine whether other miscellaneous items are includible, such as:			
.1) Decedent's share of federal, state, local or foreign income tax overpayment. (See Reg. § 20.2053-6(f).)			
.2) Prepaid items.			
.3) Decedent's after-tax contributions to qualified plans.			
.4) Vehicles, boats, and other similar property.			
.5) Personal belongings.			
.6) Rent, royalty, interest (other than bond interest), and trust income accrued but unpaid at death.			
.7) Non-mineral royalties and leaseholds.			

	DONE	N/A	COMMENTS OR EXPLANATION
.8) Undistributed contributions and earnings in a qualified state tuition program (SBJPA 1996).	____	____	____________
.9) If decedent died an accidental death, determine if any recovery by the estate for damages are includable in the estate (Rev. Rul. 75-127).	____	____	____________
905) Inquire whether the decedent held an interest in a sole proprietorship, partnership, or joint venture. Review Reg. § 20.2031-3 for guidance.	____	____	____________
.1) Ascertain whether there have been sales of an interest in the partnership in which the decedent had an interest within a reasonable period prior to or subsequent to death. If so, determine the sale price and other relevant information.	____	____	____________
.2) Consider the availability of marketability, minority and other valuation discounts.	____	____	____________
.3) Ascertain whether any restricted transfer agreement (or other provision restricting transferability of the security) or a buy-sell agreement exists, and if so, whether its provisions affect the estate tax value.	____	____	____________
.4) Inquire as to whether there is an estate freeze transaction in effect. If so, determine the likely impact of various reporting positions on the return, and document.	____	____	____________
906) Include decedent's interest in qualified terminable interest property (for which a valid QTIP election was made earlier at spouse's death.)	____	____	____________
.1) Obtain spouse's 706.	____	____	____________
.2) Check for partial QTIP election.	____	____	____________
.3) Include accrued and undistributed income, if governing instrument requires distribution to decedent's estate.	____	____	____________
907) Review will or other documents (e.g., revocable trust) for transfers of specific assets and determine whether identified property was owned at death.	____	____	____________
1000) SCHEDULE G—TRANSFERS DURING LIFE			
1001) Determine if gift tax was paid on gifts made within three years before death. The gift tax is includible if the decedent paid the gift tax, even if the decedent's spouse was the actual donor. (See PLR 9642001.)	____	____	____________

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	DONE	N/A	COMMENTS OR EXPLANATION
1002) Note lifetime transfers (other than outright transfers not in trust and bona fide sales) of decedent in Schedule G, whether or not includible in the gross estate. Attach copies of applicable documents.	____	____	____________
1003) Review trusts for power of grantor to change trustee. If trustee is not bound to ascertainable standard for distributions, the trust assets could be includible (Rev. Rul. 79-353).	____	____	____________
1004) Notify donee of basis of includible gifts made within three years of death § 2035(d)(2).	____	____	____________
1005) Inquire about gifts with retained interests made by decedent. Value at date of death, even if not owned by donee.	____	____	____________
1006) Review rules for inclusion of gifts for which gift splitting was elected.	____	____	____________
1100) SCHEDULE H—POWERS OF APPOINTMENT			
1101) Review rules on valuation of property over which the decedent held a general power, including any partial interest (Reg. § 20.2041-3).	____	____	____________
1102) Check for "5 and 5 powers" (see § 2041(b)(2)) which existed for the entire year of death and caused the property subject to the power to be included in the gross estate as a result of the power not having lapsed at death.	____	____	____________
1200) SCHEDULE I—ANNUITIES AND RETIREMENT BENEFITS			
1201) Determine whether any annuities can be excluded under the transitional rules of TEFRA and the Revenue Act of 1984.	____	____	____________
1202) Verify amount of benefit includible. Include amounts attributable to employer contributions to retirement plans. Amounts attributable to employee after-tax contributions should be listed on Schedule F (checklist item # 904.3.)	____	____	____________
1300) SCHEDULE J—ADMINISTRATION EXPENSES			
1301) Inquire as to funeral expenses advanced to the estate by others.	____	____	____________
1302) Ascertain whether funeral expenses are to be reduced for VA benefits and for social security death benefits payable to other than decedent's spouse.	____	____	____________
1303) Inquire as to whether attorney, accountant and/or executor fees will be paid, agreed to, or estimated.	____	____	____________

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	DONE	N/A	COMMENTS OR EXPLANATION
1304) Consult will or other governing instruments and applicable state law for provisions regarding executor fees and other professional fees.	____	____	____________
1305) If there are co-executors, determine whether each will receive an executor fee and determine the amount.	____	____	____________
1306) Consider deduction of § 6166 interest on installment payment of estate taxes. Note Rev. Proc. 81-27 for guidance on filing of supplemental returns. (Note deduction is eliminated for deaths after 12/31/97 - TRA 1997).	____	____	____________
1307) Determine whether to deduct administrative expenses (e.g., professional fees, property taxes, interest expense) on Form 706 or the estate's Form 1041.	____	____	____________
1308) Determine that all expenses included on Schedule J are reasonable, taking into account applicable state law.	____	____	____________
1309) Deduct interest paid on funds borrowed to pay death taxes and post-death interest on Federal and State income tax deficiencies if incurred with respect to contesting tax liabilities.	____	____	____________
1310) Consider deducting the cost of maintaining or storing estate property.	____	____	____________
1400) SCHEDULE K—DEBTS OF DECEDENT, MORTGAGES AND LIENS			
1401) Reference real property indebtedness to the Schedule A, E, F, G, or H asset to which it relates.	____	____	____________
1402) Review items which may also be deducted for federal income tax purposes (deductions in respect of decedent).	____	____	____________
1403) Determine if gift or income tax was payable at death. See Reg. § 20.2053-6(f), for allocation of income tax liability of the decedent and surviving spouse for joint return for the year of death.	____	____	____________
1404) Consider the support or alimony obligation of decedent under divorce decree or settlement.	____	____	____________
1405) Consider listing on Schedule K amounts relating to contingent liabilities, such as pending or threatened litigation.	____	____	____________
1406) Compile outstanding checks which may represent debts of estate.	____	____	____________

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	DONE	N/A	COMMENTS OR EXPLANATION
1500) SCHEDULE L—NET LOSSES DURING ADMINISTRATION AND EXPENSES INCURRED IN ADMINISTERING PROPERTY NOT SUBJECT TO CLAIMS			
1501) Include casualty losses not taken on the federal income tax return for the estate. Include at value used for federal estate tax return purposes.	____	____	____________
1502) Include expenses for settlement of title or collection of assets not included in decedent's probate estate. (Do not include expenses incurred on behalf of beneficiaries; see Reg. § 20.2053-8.)	____	____	____________
1503) Determine details of payments and maintain documentation. Note that the time limit on deductible payment is the applicable period of limitations on assessment of estate tax per § 6501.	____	____	____________
1600) SCHEDULE M—BEQUESTS TO SURVIVING SPOUSE			
1601) Identify and document all probate property passing to the surviving spouse.	____	____	____________
1602) Identify and document all non-probate property which passes to the surviving spouse (e.g., life insurance, employee plan death benefits and certain jointly-owned property).	____	____	____________
1603) Determine and document whether the marital property bears any part of the taxes, debts or administrative expenses of the estate under the terms of the decedent's will or other governing document.	____	____	____________
1604) For decedents dying after August 5, 1997, consider TRA 1997 requirements waiving right of recovery of estate tax attributable to the inclusion of QTIP property and/or property includible under § 2036.	____	____	____________
1605) Consider using a qualified disclaimer to expand or reduce the marital deduction of the estate. Review § 2518 and applicable state law.	____	____	____________
1606) Determine whether the will creates a limited marital deduction under a "maximum marital deduction" formula clause in light of the transitional rule of ERTA '81, § 403(e).	____	____	____________
1607) If a QTIP election is to be made:			
.1) Determine values and document.	____	____	____________
.2) Consider election of only a fractional or percentage share. Reg. § 20.2056(b)-7(b)(2).	____	____	____________

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	DONE	N/A	COMMENTS OR EXPLANATION
.3) Insure proper treatment on Schedule M.			
1608) If the surviving spouse is not a U.S. citizen, then additional requirements must be met before a marital deduction is available. See Qualified Domestic Trust (QDOT) rules of § 2056A. (Note review TRA 1997 modified trust rules.)			
1700) SCHEDULE O—CHARITABLE PUBLIC AND SIMILAR GIFTS AND BEQUESTS			
1701) Identify and document items passing under the will or other governing instrument to qualified charities.			
1702) Review the will or other governing instruments giving rise to charitable deductions involving charitable split-interest trusts or bequests.			
1703) Determine whether charitable gifts or bequests bear any of the estate's taxes, debts, or administrative expenses.			
1704) Consider using a qualified disclaimer to expand or reduce the charitable deduction of the estate. Review § 2518 and applicable state law.			
1705) Determine whether charitable split-interest trust requires reformation in order to obtain estate tax charitable deduction.			
1706) Obtain certified copies of all recorded documents for all lifetime transfers to be listed. If document of transfer was not recorded, obtain verified copies.			
1800) SCHEDULE P—CREDIT FOR FOREIGN DEATH TAXES			
1801) Obtain and complete Form(s) 706CE for foreign death tax credit claim. (Note: a U.S. possession is treated as a foreign country.)			
1802) Consider whether to claim credit or deduction as administration expense.			
1803) Consult applicable treaty for possible additional credit available.			
1804) Calculate credit under each available alternative to determine best result.			
1900) SCHEDULE Q—CREDIT FOR PRIOR TRANSFERS			
1901) Determine if decedent acquired property within the ten year period ending with death or received property from a transferor who died			

	DONE	N/A	COMMENTS OR EXPLANATION
within two years after decedent's death. If so, obtain a copy of the transferor's estate tax return in order to calculate the credit.	____	____	____________
1902) Review the definition of "property" under § 2013(e) received by the decedent for purposes of claiming the credit.	____	____	____________
1903) Determine if credit is available if the transferee (decedent) was the transferor's spouse and the marital deduction was allowed to the transferor's estate for the property.	____	____	____________
1904) Determine if transferor's estate elected special use valuation and became subject to the additional estate tax of § 2032A(c) as a result of its disposition or cessation of qualified use at any time up to two years after the death.	____	____	____________
1905) Review § 2056(d)(3) for specific rules allowing a credit for certain transfers to a spouse who was not a U.S. citizen when the property passed outright to the spouse, or to a QDOT.	____	____	____________
1906) If property was acquired from more than one transferor, calculate allowable credit separately with respect to each transferor.	____	____	____________
2000) SCHEDULES R AND R-1—GENERATION-SKIPPING TRANSFER (GST) TAX			
2001) Review copies of trusts (and related tax returns), life insurance policies or other lifetime arrangements which decedent created for generation-skipping provisions.	____	____	____________
2002) Review lifetime transfers and determine if the GST tax implications have been properly reflected on gift tax returns filed by the decedent (and the decedent's spouse and/or former spouses), considering the allocation of the decedent's one-time $2 million per grandchild exclusion (for certain transfers made before January 1, 1990) and the $1 million lifetime exemption under § 2631.	____	____	____________
.1) If a deemed allocation under § 2632(b) occurred with respect to certain transfers (made before January 1, 1990) not reported on gift tax returns, determine the impact on the $2 million exclusion.	____	____	____________
.2) If allocation of the $1 million lifetime exemption was not made on a timely filed gift tax return or deemed made under § 2632 (b)(1), determine that values at the time of allocation are calculated and that a filing is made to allocate such amount per § 2642(b)(3).	____	____	____________

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	DONE	N/A	COMMENTS OR EXPLANATION
2003) If decedent was incompetent at death, inquire when the decedent became incompetent. Review the transitional rules which exempt from tax certain transfers occurring at death where the decedent was incompetent on October 22, 1986 and continually thereafter until death.	_____	____	______________
2004) If decedent created an irrevocable trust before September 26, 1985, determine whether additions to the trust (actual or constructive) were made after September 25, 1985.	_____	____	______________
2005) Review trusts created after September 25, 1985 which have received property from trusts created before that date through the exercise of a special power of appointment. Grandfathering of an exemption from tax liability may arise under Reg. § 26.2601-1(b)(4) and Reg. § 26.2601-1(b)(1)(v)(B).	_____	____	______________
2006) Determine whether a "reverse qualified terminable interest property election" under § 2652(a)(3) should be made to treat the decedent as a transferor for GST tax purposes for marital transfers for which a QTIP election was made under § 2056(b)(7). Review formulas for reverse QTIP elections and separate marital trusts created thereby. (Note election is made by listing the qualifying property on line 9 of Part I of Schedule R.)	_____	____	______________
2007) Determine whether a "reverse qualified terminable interest property election" was made by decedent's predeceased spouse, and an allocation of the GST tax exemption made on such spouse's estate tax return.	_____	____	______________
.1) Determine whether estate tax payment from a source outside the decedent's estate (e.g., insurance trust) is a constructive addition to this otherwise exempt amount.	_____	____	______________
.2) If no such election was made for QTIP property in which the decedent had a qualifying income interest for life, consider whether the decedent's GST tax exemption under § 2631 should be allocated to the trust.	_____	____	______________
2008) Consider impact on the tax calculation of use of alternate valuation election under § 2032.	_____	____	______________
2009) Consider impact on the tax calculation of the use of the special use valuation election under § 2032A.	_____	____	______________
2010) Determine if there was consideration paid by the donee in a generation-skipping transfer which would reduce the amount subject to GST tax.	_____	____	______________

UNITED STATES ESTATE (AND GENERATION-SKIPPING TRANSFER) TAX RETURN PREPARATION AND REVIEW CHECKLIST FORM 706 As Revised April 1997

For Decedents Dying after October 8, 1990

	DONE	N/A	COMMENTS OR EXPLANATION
2011) Review life insurance trusts and other trusts created after March 31, 1988 to determine whether trust's use of "Crummey powers" to create nontaxable gifts for gift tax purposes will also be eligible for the annual exclusion for GST tax purposes under § 2642(c).	____	____	____________
2012) Determine the amount of GST tax exemption used in the payment of insurance premiums.	____	____	____________
2013) Review charitable lead annuity trusts created after September 25, 1985 for GST tax impact on the computation of the exclusion ratio, and consider the impact on the inclusion ratio of property transferred to the trust after October 13, 1987 under § 2642(e).	____	____	____________
2014) Review transfers to persons unrelated to the decedent who are more than 37½ years younger to determine whether allocation of the GST tax exemption under § 2631 should be made per § 2651(d).	____	____	____________
2015) Review the consequences of qualified disclaimer(s) on potential GST tax transfers. Consider the use of a qualified disclaimer to maximize the decedent's GST tax exemption. Review § 2518 and applicable state law.	____	____	____________
2016) Determine whether transferred property (which would otherwise be a generation skipping transfer) was not previously subject to gift tax. Under certain circumstances, such transfers are not GST tax transfers under § 2611(b).	____	____	____________
2017) Determine whether the GST tax allocation is appropriate for a grantor retained interest trust where the grantor died during the term of the trust.	____	____	____________
2018) Consider use of the GST tax exemption for a credit shelter trust or a charitable remainder trust, whichever is applicable, as well as a general review of the proper allocation of any remaining exemption.	____	____	____________
2019) If a pecuniary formula marital deduction bequest is made, consider applicability of the GST tax where the decedent's estate appreciated between the date of death and the date of funding. Funding under these circumstances is to occur using date of death values.	____	____	____________
2020) If there are no living lineal heirs and beneficiaries include collateral heirs, review TRA 1997 for GST exception for deceased parent rule expanded to include collateral heirs per § 2651(e).	____	____	____________
2021) Consider availability of GST indexing after 1998. Note late allocation of indexed amount permitted to trust (RRA 98).	____	____	____________

	DONE	N/A	COMMENTS OR EXPLANATION
2100) SCHEDULE S—INCREASED ESTATE TAX ON EXCESS RETIREMENT ACCUMULATIONS - TRA 1997 Repealed for decedents dying after 1996. (Currently, Schedule S still reflected on Form 706).			
2200) MISCELLANEOUS			
2201) Verify that all executors or other personal representatives have signed the return.	____	____	____________
2202) Consider notifying all interested parties, such as partnerships and beneficiaries, of estate tax values.	____	____	____________
2203) Consider drafting transmittal letter to IRS and/or state(s). Note proper IRS and state processing centers.	____	____	____________
2204) Consider § 2204 election to limit exposure to federal estate tax by personal representative.	____	____	____________
2205) Consider new expatriation provisions in §§ 2107(a), 2107(b)(2), 2107(c)(2) and (c)(3) and 2501(a)(3) (HIPAA 1996).	____	____	____________

2300) AUDIT TRIGGER REMINDERS

- Substantial real estate holdings.
- Closely held stock.
- Life insurance excluded from the estate.
- Jointly held (other than with spouse) property excluded, in whole or part, from the estate.
- Miscellaneous personal property.
- Transfers within three years of death.
- Alternate valuation.
- Special use valuation.
- Family limited partnerships.
- Valuation discounts of business interests.
- Discounts for potential environmental cleanup costs.

COMMENTS OR PLANNING SUGGESTIONS

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U.S. GIFT (AND GENERATION-SKIPPING TRANSFER) TAX RETURN CHECKLIST
FORM 709 As Revised December 1996
For Gifts Made After December 31, 1991

Client Name and Number: ____________________

Prepared by: ____________ Date: ________ Reviewed by: ____________ Date: ________

	DONE	N/A	COMMENTS OR EXPLANATION
100) GENERAL INFORMATION			
101) Determine if the taxpayer (donor) is required to file a gift tax return for transfers such as:	____	____	____________
.1) Gift to donee of a present interest in property with a value in excess of $10,000 except:	____	____	____________
.a) Transfers to political organizations.	____	____	____________
.b) Tuition at a qualified educational institution and medical expenses paid directly by the donor.	____	____	____________
.c) Gifts to charities after August 5, 1997. Note exception does not apply to charitable gifts of partial interest (TRA 1997).	____	____	____________
.2) Gift of future interest of any amount.	____	____	____________
.3) Gift of <u>any</u> amount for which a gift splitting election is made.	____	____	____________
.4) Gift to non-US citizen spouse in excess of $100,000.	____	____	____________
.5) Gift to non-US citizen spouse of a terminable interest (regardless of amount). Note exception for certain life estates with a power of appointment.	____	____	____________
.6) Gift of qualified terminable interest property (QTIP) of any amount.	____	____	____________
.7) Gift by nonresident, non-US citizen, of tangible US situs property in excess of limitations previously described. Note special rule that taxes gifts of intangible property in certain cases.	____	____	____________
.8) Gift of intangible property by nonresident who terminated U.S. citizenship or residency within the 10 year period ending on the date of transfer (HIPAA 1996).	____	____	____________
102) If the return is being prepared for deceased donor, ascertain proper due date if donor died prior to July 15 of the gift year.	____	____	____________

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	DONE	N/A	COMMENTS OR EXPLANATION
103) If donor is married:			
.1) Determine if gifts are to be treated as "split" with donor's spouse. (Note that spouse's consent is required.)	_____	_____	_____________
.2) If the election is to be made, determine if a separate Form 709 is required.	_____	_____	_____________
104) Determine if taxpayer is eligible to file Form 709-A.	_____	_____	_____________
105) Attach Form 4868 or other extension request, if applicable.	_____	_____	_____________
106) Determine the need to hire an appraiser(s). Appraisals involving real estate should consider the potential applicability of discounts for fractional interests (including costs of partition) and for potential environmental law exposure. Appraisals involving businesses should consider the potential applicability of discounts for minority interests, blockage, and contractual or statutory restrictions on transferability.	_____	_____	_____________
107) "Check the box" and attach computation and related support for any gifts where a valuation discount is taken.	_____	_____	_____________
108) Consider the potential gift tax implications of the following:			
.1) Lapse or release of a general power of appointment.	_____	_____	_____________
.2) Formation or recapitalization of a closely-held corporation or a partnership.	_____	_____	_____________
.3) Creation or transfer of below market interests in light of § 7520.	_____	_____	_____________
109) Consider having the donee execute a qualified disclaimer of the gifted property to remove the property from his or her gross estate.	_____	_____	_____________
110) If applicable, obtain copies of the crummey letters to insure that any gifts will be treated as present interest.	_____	_____	_____________
200) SCHEDULE A—COMPUTATION OF TAXABLE GIFTS			
201) Determine if transfers were made to grandchildren or other "skip" persons.	_____	_____	_____________
202) If transfers were made to a trust:			

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U.S. GIFT (AND GENERATION-SKIPPING TRANSFER) TAX RETURN CHECKLIST
FORM 709 As Revised December 1996
For Gifts Made After December 31, 1991

	DONE	N/A	COMMENTS OR EXPLANATION
.1) Attach a copy of the trust document to Form 709.	_____	_____	__________
.2) Obtain trust's TIN and required information about trust's beneficiaries.	_____	_____	__________
203) For real estate, attach a copy of the appraisal, deed, and the legal description for each parcel.	_____	_____	__________
204) For an interest in a closely-held business, attach the required financial data and an appraisal or calculation of the per share value.	_____	_____	__________
205) Consider the special valuation rules and elections pursuant to § 2701 for transfers of certain interests in corporations and partnerships.	_____	_____	__________
206) Consider the special valuation rules of § 2702 for transfers in trust.	_____	_____	__________
207) For publicly traded stock, include number of shares, common or preferred and CUSIP number, if available.	_____	_____	__________
208) For notes, include name of maker, maturity date, principal amount, unpaid principal, interest rate, compounding (yes or no) and date to which interest has been paid.	_____	_____	__________
209) For life insurance policies, include insurer, policy number and a completed Form 712—Life Insurance Statement.	_____	_____	__________
210) Consider the availability of marketability, minority and other valuation discounts (checklist item #107).	_____	_____	__________
211) If gift taxes are payable, determine if any of the gift tax will be paid by donee (Rev. Rul. 75-72).	_____	_____	__________
300) SCHEDULE B—GIFTS FROM PRIOR PERIODS			
301) Obtain and review prior gift tax returns.	_____	_____	__________
302) Inquire as to the existence of prior unreported gifts. Consider the need to file delinquent returns.	_____	_____	__________
303) If prior taxable gifts were unreported, recalculate the amount of unified credit claimed.	_____	_____	__________
400) SCHEDULE C—GENERATION SKIPPING TRANSFER (GST) TAX			
401) Determine if the gift tax exclusion is allowable. (Gifts to trust may not qualify for GST exemption although the transfer qualifies for an exclusion for gift tax purposes.)	_____	_____	__________

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		DONE	N/A	COMMENTS OR EXPLANATION
402)	Review returns after 1985 for use of the GST tax exemption (one million dollars).	_____	_____	____________
403)	Consider confirming with client, preferably in writing, whether the GST tax exemption should be allocated to current gifts. Note that the GST tax exemption is automatically allocated to inter vivos direct skips unless the donor elects to the contrary. To elect out, Form 709 must be filed with the appropriate election attached.	_____	_____	____________
404)	Consider making late GST exemption allocations to previously unreported gifts. Note the distinction between life insurance and other assets.	_____	_____	____________
500)	OTHER REQUIREMENTS			
501)	Consider disclosure of all gifts subject to valuation in order to start the statute of limitations with respect to such gifts. Consider filing return for gifts under $10,000 Internal Revenue Service Restructuring and Reform Act of 1998 (RRA 98).	_____	_____	____________
502)	Consider state gift tax return filing requirements.	_____	_____	____________
503)	Consider need to file information return for gifts after 8/20/96 received by U.S. persons from foreign donors under § 6039F (HIPAA 1996).	_____	_____	____________
504)	Consider availability of GST indexing after 1998. Note late allocation of indexed amount is permitted to trust (RRA 98).	_____	_____	____________

COMMENTS OR PLANNING SUGGESTIONS:

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TAX-EXEMPT ORGANIZATION CHECKLIST

The checklists developed by the Committee are contained on the following pages. They are intended to highlight certain items critical to the preparation of the return without reiterating the detailed instructions provided by the I.R.S.

The Committee has also prepared an Organizer for Tax Exempt Organizations which is a good source for more detailed information necessary to prepare Form 990. The Organizer can be used to gather the necessary information from the client as well as to assist the preparer in completion of the return.

The organizer is located in the Practice Guides section of the materials.

MINI-CHECKLIST
RETURN OF ORGANIZATION EXEMPT FROM INCOME TAX
1998 - FORM 990

Client Name and Number: ______________________

Prepared by: ____________ Date: ________ Reviewed by: ____________ Date: ________

GENERAL INFORMATION	Done	N/A
1. Review prior year returns, workpapers, correspondence, planning suggestions and audit results.	☐	☐
2. Review IRS determination letter.	☐	☐
3. Review activities for exempt qualification.	☐	☐
4. Consider engagement letter.	☐	☐
5. Consider filing 990-EZ.	☐	☐
6. Consider $25,000 gross receipts test.	☐	☐
7. Determine if a private foundation required to file 990-PF.	☐	☐
8. Determine if there are related organizations.	☐	☐
9. Consider any change in activities.	☐	☐
10. Consider filing a group return.	☐	☐
11. Determine if state return or registration is required.	☐	☐
REVENUE/EXPENSES		
1. List all officers, directors, advisors, consultants and compensation, if any.	☐	☐
2. List program services rendered and revenue therefrom.	☐	☐
3. Ensure that cash method of accounting is used in Schedule A, Part IV.	☐	☐
4. Determine if donated services and facilities are excluded from Parts I and II.	☐	☐
5. Verify that the contribution portion of receipts from fundraising is reported on line 1a.	☐	☐
6. Break out expenses for line 9b that have been netted in the financial statements.	☐	☐
7. Complete Part IV A & B if the organization has adopted SFAS 116 and 117.	☐	☐
8. Update permanent file schedule of cost for investments that are carried at market.	☐	☐
BALANCE SHEET		
1. Attach schedule reconciling opening balance sheet if changes made for SFAS 117.	☐	☐
2. Cross reference net assets to page 1.	☐	☐
UBIT GENERAL INFORMATION		
1. Determine if there is an unrelated trade or business.	☐	☐
2. Determine if a partnership or S Corporation (SBJPA 1996) interest is owned.	☐	☐
3. Determine if there is debt financed property.	☐	☐
4. Review royalty agreements.	☐	☐
5. Complete Form 990-T Checklist if any of the above exist.	☐	☐
MISCELLANEOUS		
1. Verify that statements in Parts III & VIII correspond.	☐	☐
2. Inquire if required information returns were filed.	☐	☐
3. Inquire if employment taxes paid/timely deposited.	☐	☐
4. Review independent contractor arrangements.	☐	☐
5. Consider a 501(h) election for lobbying expenditures.	☐	☐
6. For lobbying expenses, inquire whether the organization has elected to pay the proxy tax or report the unallowable portion to members.	☐	☐
7. Determine if Form 8282 is required for sales of donated property.	☐	☐
8. Determine, and disclose taxes paid, relative to excess benefit transactions, excess expenditures to influence legislation, disqualifying lobbying or excess political expenditures. (TBR 1996)	☐	☐
9. Inquire if organization wants to establish a 401(k) plan.	☐	☐
10. Determine if a series 5500 form is required.	☐	☐
11. Inquire if required contemporaneous substantiations were provided on donations of $250 or more.	☐	☐
12. Inquire if required statement was provided to donor for *quid pro quo* contribution over $75 received.	☐	☐
13. Update permanent file schedule of cumulative contributions by donor.	☐	☐
14. Advise client to make annual information returns available for public inspection for 3 years from from filing date. (TBR 1996)	☐	☐
15. Report the number of employees on the payroll as of March 12th.	☐	☐
16. Attach extension requests.	☐	☐
17. Prepare filing instructions/transmittal (Note all returns now filed in Ogden).	☐	☐
18. Note tax planning suggestions.	☐	☐

Page 1 of 1
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RETURN OF ORGANIZATION EXEMPT FROM INCOME TAX CHECKLIST
1998 - FORM 990

Client Name and Number: ______________________________

Prepared by: ____________ Date: ______ Reviewed by: ____________ Date: ______

	DONE	N/A	COMMENTS OR EXPLANATION
100) GENERAL INFORMATION			
101) Review for correctness and changes in the organization's name, address, fiscal year, identification number, type of organization, and IRS and state processing center. Note changes.	____	____	____________
102) Review prior year returns, memos, workpapers and correspondence, planning suggestions and audit results.	____	____	____________
103) Review permanent file and IRS determination letter.	____	____	____________
104) Consider obtaining a signed engagement letter.	____	____	____________
105) Determine if accounting methods used are comparable to the preceding year unless changes are approved or required. (If SFAS 116 and 117 has been adopted by the client review Notice 96-30.)	____	____	____________
106) Inquire whether the organization has made or received any below-market-rate loans. If so, determine imputed interest consequences.	____	____	____________
107) If the organization has been examined by the Internal Revenue Service or state taxing authorities:			
.1) Obtain copies of the revenue agent's reports.	____	____	____________
.2) Determine if the agent's adjustments affect returns for years other than those audited.	____	____	____________
200) DETERMINE THE APPROPRIATE FORMS TO FILE			
201) If the organization is exempt from tax under § 501(a), review the IRS list of organizations excepted from filing annual returns.	____	____	____________
202) Determine if the organization meets the $25,000 gross receipts filing requirement test.	____	____	____________
203) Determine whether the organization is eligible to file Form 990-EZ.	____	____	____________
204) Determine whether the organization is a private foundation required to file Form 990-PF.	____	____	____________
205) If the organization is a nonexempt charitable trust (described in § 4947(a)(1)), determine if:			

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	DONE	N/A	COMMENTS OR EXPLANATION
.1) The organization is treated as a private foundation, required to file Form 990-PF.			
.2) Form 1041 is required.			
206) Consider filing a group return.			
207) Determine if a state return or registration statement is required. (Note that fundraising in some states may result in a state filing requirement.)			
208) For § 501(c)(3) organizations, complete Schedule A.			
209) For § 501(c)(7) organizations, determine whether the organization satisfies the gross receipts test required for maintaining its exemption.			
210) For § 501(c)(12) organizations, determine whether the organization satisfies the gross income test necessary for exempt status.			
300) REVENUE			
301) Contributions:			
.1) Determine that grants received as payment for services are reported as program service revenue and not as contributions.			
.2) Inquire about contributions received in a form other than cash.			
(a) Determine that donated services, materials, or facilities are excluded in Parts I & II.			
(b) For any noncash contribution that is subject to an outstanding debt, determine that the asset has been recorded at its full market value and that the debt has been recorded as a liability.			
(c) For other noncash contributions, determine that the contributions have been reported at their market value as of the date of the contribution.			
.3) When classifying contributions for reporting purposes, determine that:			
(a) Membership dues and assessments representing contributions rather than payments for benefits received are reported as direct public support.			

	DONE	N/A	COMMENTS OR EXPLANATION
(b) The contribution portion of receipts from fundraising activities is reported as direct public support.			
(c) Contributions received from other closely associated organizations are reported as indirect public support.			
(d) Contributions received from federated fundraising agencies (such as the United Way) through general solicitation campaigns are reported as indirect public support.			
.4) For organizations that received $5,000 or more from one contributor, attach schedule showing required details.			
.5) Determine list of contributors is labeled "Not Open for Public Inspection."			
.6) For a *quid pro quo* contribution in excess of $75 received by a charitable organization, ascertain that a written statement to the donor was provided that:			
(a) informs the donor that the amount of the contribution that is deductible is limited to the excess of the amount contributed by the donor over the value of the goods or services provided, and			
(b) includes a good faith estimate of the value of goods or services received.			
.7) For contributions of $250 or more received by a charitable organization, inquire if contemporaneous substantiation was provided to the donor.			
.8) Ensure that the cash method of accounting is used in determining the support test, Schedule A, Part IV.			
.9) Update permanent file schedule of cumulative contributions by donor.			
302) Program Service Revenue			
.1) Ascertain the organization's sources of exempt function income and determine that these sources are properly reported.			
.2) Determine that income from program-related investments is properly reported as program service revenue.			

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	DONE	N/A	COMMENTS OR EXPLANATION
.3) If the organization had sales of inventory items and the organization is not a hospital, university, or college, determine that these sales are NOT reported as program service revenue.			
.4) Determine that payments received by § 501(c)(9), (17) or (18) organizations for premium equivalents have been classified as program service revenue.			
303) Determine that amounts received from members and affiliates that are not considered contributions are reported as membership dues and assessments.			
304) Determine that income from associates dues which are for the sale of, or provision of access to, goods or services are reported as unrelated trade or business income.			
305) Determine that investment income from debt and equity securities is reported separately from investment income from savings and temporary cash investments.			
306) Determine that any capital gain dividends are properly reported as gains from investment securities.			
307) Update permanent file schedule of cost for investments that are carried at market and determine if investment income includes mark-to-market adjustments.			
308) Determine that income or loss of an S corporation is reported as UBTI regardless of the source or nature of such income. (SBJPA 1996)			
309) Determine that income and expense are reported at the gross amounts for items such as:			
.1) Rental of investment property.			
.2) Sales of securities.			
.3) Sales of other types of investments and all other non inventory assets.			
310) Fundraising events and activities:			
.1) Inquire about amounts received from fundraising activities that are characterized as revenue (i.e., not contributions).			
.2) Allocate professional fund raising fees between the catagories of program service, management, and fundraising.			

	DONE	N/A	COMMENTS OR EXPLANATION
.3) Break out expenses that have been netted for financial reporting.	_____	____	______________
.4) If the organization had revenue from fundraising activities, consider the need to attach a schedule of detailed information.	_____	____	______________
.5) Inquire whether the organization has retained samples of its fundraising materials, including advertising copy and transcripts of on air solicitations.	_____	____	______________
400) EXPENSES			
401) For § 4947(a)(1) charitable trusts and § 501(c)(3) and (4) organizations, determine that expense classifications have been segregated into the required functional expense categories.	_____	____	______________
402) Determine that scholarship, fellowship, and research grants awarded by the organization are properly reported.	_____	____	______________
403) Determine that salaries and wages have been properly classified between compensation paid to officers, directors, and key employees and all other compensation.	_____	____	______________
404) Consider various depreciation methods and lives that may be used.	_____	____	______________
405) Consider the need to attach a schedule detailing the computation of depreciation. Determine if Form 4562 is required.	_____	____	______________
406) If the organization included in program service expenses any joint costs from a combined educational campaign and fundraising solicitation, consider the need to disclose additional information.	_____	____	______________
407) Determine that a detailed description of the organization's four largest program services is provided along with a schedule listing the organization's other program services. The reporting of expense totals is required only for organizations required to report expenses on a functional basis.	_____	____	______________
500) BALANCE SHEET			
501) Determine that non-interest-bearing cash accounts are segregated from interest-bearing cash and investment accounts on the balance sheet.	_____	____	______________
502) Regarding receivables, inquire whether there are:			
.1) Pledges receivable.	_____	____	______________

Page Completed ☐

	DONE	N/A	COMMENTS OR EXPLANATION
.2) Grant receivables from governmental units, foundations, or other organizations.	____	____	____________
.3) Receivables from officers, directors, trustees, or key employees.	____	____	____________
.4) Other notes or loans receivable.	____	____	____________
(a) If so, determine that notes acquired as investments are separately identified and reported from notes that are program-related investments.	____	____	____________
(b) Consider the need to attach a detail schedule.	____	____	____________
503) Inquire whether there are:			
.1) Program-related investments.	____	____	____________
.2) Land, buildings, or equipment held for investment.	____	____	____________
504) If the organization has notes, mortgages, and loans payable obtain details of:			
.1) Amounts payable to officers, directors, trustees, or key employees.	____	____	____________
.2) Mortgages payable.	____	____	____________
.3) Other outstanding notes payable.	____	____	____________
505) Fund balances or net assets:			
.1) Determine that all funds without donor imposed restrictions have been shown as unrestricted.	____	____	____________
.2) Determine that funds with temporary donor restrictions are so classified.	____	____	____________
.3) Determine that the fund balances for permanent endowment funds and term endowment funds are reported as permanently restricted funds.	____	____	____________
.4) Verify that mark-to-market adjustments are reported as a part of other changes in net assets on page 1.	____	____	____________
.5) Determine if the basis in purchased S corporation stock should be reduced by dividends received. (SBJPA 1996)	____	____	____________

Page Completed ☐

	DONE	N/A	COMMENTS OR EXPLANATION
.6) Cross reference total to page 1 of Form 990.			
600) LIST OF OFFICERS, DIRECTORS, TRUSTEES, AND KEY EMPLOYEES			
601) Review definition of key employee and determine whether the organization employs personnel satisfying this definition.			
602) Obtain a list of all officers, directors, trustees, and key employees, including their names and addresses.			
603) Inquire about the total compensation package of the organization's officers, directors, and key employees. Report items such as:			
.1) Salary, fee, bonuses, and severance payments.			
.2) Deferred compensation arrangements (whether or not funded; whether or not vested; whether or not the plan is a qualified plan under § 401(a)).			
.3) Expense allowances or reimbursements.			
.4) The value of the personal use of housing, automobiles, or other assets provided by the organization.			
.5) Other taxable and nontaxable fringe benefits (i.e., health and life insurance).			
604) If an officer, director, trustee, or key employee received compensation from related organizations, consider need to attach detail statement.			
605) Consider reasonableness of compensation.			
700) OTHER INFORMATION			
701) Inquire whether the organization has had significant changes in the kind of activities conducted to further its exempt purpose. Consider need to attach detail explanation.			
702) Determine that no part of the earnings of a § 501(c)(3) or § 501(c)(4) organization inure to the benefit of a private shareholder or individual. (TBR 1996)			
703) Inquire whether the organization has revised its governing documents. Consider need to attach conformed copy of changes.			

Page Completed ☐

	DONE	N/A	COMMENTS OR EXPLANATION
704) Complete Form 990-T Checklist if:			
.1) There is an unrelated trade or business.	____	____	____________
.2) There is debt financed property.	____	____	____________
.3) A partnership or S corporation, or any other entity interest is owned.	____	____	____________
.4) Income is received from a royalty agreement.	____	____	____________
705) Determine if the organization owned a 50% or greater interest in any taxable corporation or partnership during the year. If so, properly report:			
.1) Name, address, and identification number of taxable subsidiary.	____	____	____________
.2) Percentage of ownership interest.	____	____	____________
.3) Nature of the subsidiary's business activities.	____	____	____________
.4) Total income and end-of-year assets of the subsidiary.	____	____	____________
706) Determine effect of look-through rule for interest, annuities, royalties and rents derived by subsidiaries of tax-exempt organizations. (TRA 1997)	____	____	____________
707) Inquire if there has been a sale or other disposition of exempt organization's assets.	____	____	____________
708) Determine if there was a liquidation, dissolution, termination, or substantial contraction.	____	____	____________
709) Determine if the organization is related to other organizations.	____	____	____________
710) Determine if Form 1120-POL is required.	____	____	____________
711) Determine if the organization has properly reported solicited contributions that are not tax deductible.	____	____	____________
712) Determine if there is an issue relative to an excess benefit transaction wherein a disqualified person engaged in a non-fair market value transaction with a § 501(c)(3) or (4) organization or received unreasonable compensation. (TBR 1996)	____	____	____________
713) If there were any excess benefit transactions (TBR 1996):			
.1) Attach a schedule describing the transactions.	____	____	____________

	DONE	N/A	COMMENTS OR EXPLANATION
.2) Indicate if corrections were made.			
714) Determine if a statement describing lobbying activities needs to be attached for organizations that have not elected § 501(h).			
715) Determine if organization has excess lobbying expenditures or excess political expenditures. (TBR 1996)			
716) Disclose taxes paid during year for the following (by the organization, or any disqualified persons): (TBR 1996)			
1.) excess benefit transactions			
2.) excess expenditures to influence legislation			
3.) excess political expenditures			
4.) disqualifying lobbying expenditures			
717) Determine and report the number of employees on the payroll as of March 12th.			
718) Determine that all questions have been answered or marked N/A.			
800) ANALYSIS OF INCOME-PRODUCING ACTIVITIES			
801) Complete analysis of income-producing activities and correlate related income with program service detail at 302.			
802) For income related to the organization's exempt purpose, provide required explanations of the relationship of activities to the accomplishment of exempt purposes.			
803) Determine there is a proper correlation between the information in Parts III and VIII.			
804) For other income, review the list of exclusion codes to identify revenue excludable from unrelated business taxable income.			
805) Compare amounts reported in Part VII to amounts reported in Part I.			
900) MISCELLANEOUS			
901) Reconcile income and expense per books with return.			
.1) For organizations that conform to SFAS 116 and 117 complete part IV A and B.			

		DONE	N/A	COMMENTS OR EXPLANATION
	.2) For other organizations, prepare schedule for files.			
902)	Review instructions and determine that all appropriate attachments have been prepared.			
903)	Determine if Form 8282 is required for sales of donated property.			
904)	Inquire if employment taxes paid.			
905)	Determine that taxes were timely deposited.			
906)	Determine if electronic deposits of taxes are required.			
907)	Determine if a series 5500 form is required for qualified plans.			
908)	Determine if a series 5500 form is required for § 501(c)(9) and § 501 (c)(17) organizations.			
909)	Determine if § 403(b) salary reduction agreements have been modified: (SBJPA 1996)			
	.1) To allow participants to enter into more than 1 salary reduction agreement in any taxable year.			
	.2) Identifying compensation to which salary reduction agreement applies.			
	.3) Clarifying the revocability of the agreement.			
910)	Consider recommending the establishment of a 401(k) plan. (SBJPA 1996)			
911)	Inquire whether the organization has filed all required information returns (1098 and 1099 series).			
912)	Determine whether the personal use portion of employer property, expense reimbursements under "unaccountable plans," and deferred compensation information has been included in employees' W-2s.			
913)	Review all independent contractor arrangements to ascertain if there are any improperly classified service providers.			
914)	Determine that the organization used Form W-9 to obtain ID #s for recipients of prizes or awards.			
915)	Advise exempt organizations (§§ 501(c)(4), (5), & (6)) that they have the following options available for lobbying expenditures:			

	DONE	N/A	COMMENTS OR EXPLANATION
.1) Pay 35% proxy tax on lobbying expenditures. Member dues would be deducted in full.	_____	____	______________
.2) Provide notice to members setting forth the estimated percentage of dues attributed to lobbying for the forthcoming year. That percentage of member dues would be nondeductible.	_____	____	______________
a) Prepare required disclosure.	_____	____	______________
b) Prepare election on treatment of expenditures in excess of percentage reported to members.	_____	____	______________
916) Advise § 501(c)(3) organizations that a donor can't claim a deduction for contributions in cases where the charity engages in lobbying activities that pertain directly to the donor's business.	_____	____	______________
917) Consider § 501(h) lobbying expenditure election for qualified § 501 (c)(3) organizations.	_____	____	______________
918) Determine that client makes its annual information returns available for public inspection for 3 years from the filing date. (See Proposed Regulation § 301.6104(e) - 0 for guidance) (TBR 1996)	_____	____	______________
919) Determine that client has its exemption application and related documents available for public inspection. (TBR 1996)	_____	____	______________
920) Advise client that it must furnish a copy of its exemption application and/or information returns for the last three years to anyone who requests so in writing. (See Proposed Regulation cited above if the organization felt it was subjected to a harrassment campaign). (TBR 1996	_____	____	______________
921) Advise client that the information returns which are available for public inspection must be properly signed. (TBR 1996)	_____	____	______________
922) Verify that all return attachments contain the taxpayer's name, ID # and tax year.	_____	____	______________
923) Attach extension requests.	_____	____	______________
924) Prepare filing instructions and transmittal letter. (Note all returns now filed in Ogden).	_____	____	______________
925) Tell client to obtain written proof of mailing if it chooses to use a private mailing service.	_____	____	______________
926) Advise client to file Form 8822 if it changes its address during the year.	_____	____	______________

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	DONE	N/A	COMMENTS OR EXPLANATION
927) Note planning suggestions.	_____	____	______________

COMMENTS OR EXPLANATIONS

EXEMPT ORGANIZATION BUSINESS INCOME TAX RETURN CHECKLIST
1998-FORM 990-T

Client Name and Number: ______________________________

Prepared by: ____________ Date: ________ Reviewed by: ____________ Date: ________

	DONE	N/A	COMMENTS OR EXPLANATION
100) GENERAL INFORMATION			
101) Determine if the organization is required to file a business income tax return:			
.1) Determine if the organization has unrelated business income.	_____	_____	_____________
.a) Determine if the income:			
(i) Is from a trade or business that is regularly carried on; and	_____	_____	_____________
(ii) Is not substantially related to the exempt purposes for which the organization was formed.	_____	_____	_____________
.b) Review the special rules for:			
(i) Debt-financed property.	_____	_____	_____________
(ii) Foreign organizations.	_____	_____	_____________
(iii) Social clubs.	_____	_____	_____________
(iv) Voluntary employee benefit organizations.	_____	_____	_____________
(v) Supplemental unemployment compensation trusts.	_____	_____	_____________
(vi) Organizations whose exclusive function is to form part of a qualified group legal services plan.	_____	_____	_____________
(vii) Veterans organizations.	_____	_____	_____________
.2) Determine if the unrelated gross business income equals or exceeds $1,000.	_____	_____	_____________
.3) Determine if the organization is subject to the proxy tax for lobbying activities under § 6033(e).	_____	_____	_____________
102) Review prior years returns and workpapers.	_____	_____	_____________
103) Obtain copies of prior years IRS audit reports.	_____	_____	_____________
200) EXCLUSIONS			

Page Completed ☐

	DONE	N/A	COMMENTS OR EXPLANATION
201) Exclude income for a trade or business:			
.1) Where substantially all the work in carrying on such trade or business is performed for the organization without compensation; or	_____	____	______________
.2) Which is carried on, in the case of an organization described in § 501(c)(3) or in the case of a college or university described in § 511(a)(2)(B), by the organization primarily for the convenience of its members, students, patients, officers, or employees; or	_____	____	______________
.3) Where substantially all of the merchandise sold has been received by the organization as gifts or contributions.	_____	____	______________
202) If the organization is described in § 501(c)(3), (4) or (5) exclude income from a qualified public entertainment activity.	_____	____	______________
203) If the organization is described in § 501(c)(3), (4), (5) or (6) exclude income from a qualified convention or trade show activity.	_____	____	______________
204) For a hospital described in § 170(b)(1)(A)(iii) exclude income from furnishing one or more of the services described in § 501(e)(1)(A) to one or more hospitals described in § 170(b)(1)(A)(iii) if:			
.1) Such services are furnished solely to hospitals which have facilities to serve not more than 100 inpatients;	_____	____	______________
.2) Such services, if performed on its own behalf by the recipient hospital, would constitute activities in exercising or performing the purpose or function constituting the basis for its exemption; and	_____	____	______________
.3) Such services are provided at a fee or cost which does not exceed the actual cost of providing such services, such cost including straight line depreciation and a reasonable amount for return on capital goods used to provide such services.	_____	____	______________
205) Exclude income from conducting qualified bingo games.	_____	____	______________
206) For an organization to which contributions are deductible under § 170(c)(2) or (3), exclude income from:			
.1) the distribution of low cost articles if the distribution of such articles is incidental to the solicitation of charitable contributions, or	_____	____	______________
.2) any trade or business which consists of:			

Page Completed ☐

	DONE	N/A	COMMENTS OR EXPLANATION
.a) exchanging with another such organization, names and addresses of donors, or	____	____	____________
.b) renting names or addresses to another such organization.	____	____	____________
207) Exclude income from research for the United States, or its agencies or instrumentalities, or any state or political subdivision.	____	____	____________
208) For a college, university, or hospital exclude income from research performed for any person.	____	____	____________
209) For an organization operated primarily for purposes of carrying on fundamental research, exclude income if the results are freely available to the general public.	____	____	____________
210) For a religious order, or educational organization maintained by the religious order, exclude income for services provided under federal license.	____	____	____________
211) Exclude qualified sponsorship payments from UBI. (Applies to payments received after 12/31/97 - TRA 1997)	____	____	____________
300) INCOME			
301) Determine that advance payments are reported per Reg. § 1.451-5.	____	____	____________
302) Determine that service revenue deemed uncollectible is not accrued.	____	____	____________
303) Report the appropriate amount of gain or loss from the sale, exchange, or other disposition of unrelated debt-financed property.	____	____	____________
304) Report income from the sale of stock in trade or other property of a kind which would properly be includible in inventory if on hand at the close of the taxable year.	____	____	____________
305) Report income from the sale of property held primarily for sale to customers in the ordinary course of the trade or business, unless the property meets the exception in § 512 (b)(16)(A).	____	____	____________
306) If the organization maintains inventory, determine if § 263A rules apply.	____	____	____________
307) If the organization is a member of a partnership or S corporation (SBJPA 1997) that carries on an unrelated trade or business:			
.1) Determine that its allocable share of gross income and deductions have been included in UBTI.	____	____	____________

Page Completed ☐

	DONE	N/A	COMMENTS OR EXPLANATION
.2) Determine if the at-risk or passive activity rules apply.	____	____	____________
308) Determine if the organization has included its share of rents from:			
.1) Personal property leased with real property, if the rents from the personal property are more than 10% of the total rents received or accrued, or	____	____	____________
.2) Real and personal property if:			
.a) More than 50% of the rents are for the personal property, or	____	____	____________
.b) The amount of rent depends on the income or profits derived by any person from the property leased.	____	____	____________
309) Determine that income from occupying space when personal services are provided (e.g., hotel) is reported as unrelated business income unless it meets another exemption.	____	____	____________
310) Determine that the organization has included income (e.g., dividends, interest, annuities, royalties, and rents) attributable to property held to produce income and with respect to which there is an acquisition indebtedness, except for:			
.1) Income from property substantially all the use of which contributes importantly (aside from the need for funds) to the organization's performance of its exempt functions;	____	____	____________
.2) Income which has already been subject to tax under the unrelated business tax;	____	____	____________
.3) Income from property which is used as part of a research activity which is exempted;	____	____	____________
.4) Income from property which is used in a trade or business activity that qualifies for the convenience, volunteer labor, or thrift shop exceptions;	____	____	____________
.5) Income from real property that is to be used by the exempt organization within 10 years and is within the "neighborhood" (See special rule for churches.); or	____	____	____________
.6) Income from real property investments of educational institutions (as described in § 170(b)(1)(A)(ii)), qualified § 401 trust, and § 501 (c)(25) title holding companies are excluded.	____	____	____________

Page Completed ☐

	DONE	N/A	COMMENTS OR EXPLANATION
311) If the organization received income (e.g., interest, annuities, royalties, and rents) from a 50% (80% for years beginning prior to 8/15/97 - TRA 1997) controlled organization:			
.1) Include 100% of the payments from a taxable subsidiary.			
.2) Determine the inclusion ratio for payments from an exempt subsidiary.			
.3) Determine effect of look-through rule for interest, annuities, royalties and rents received from taxable subsidiaries and second tier subsidiaries.			
312) Determine if the organization has included income from the commercial exploitation of its name, goodwill or other intangible assets created by its exempt activities (e.g., endorsements made by a research organization, rentals of mailing lists, affinity card programs).			
313) Determine if the organization has included income from the sale of advertising in a periodical.			
400) DEDUCTIONS			
401) Determine that direct expenses have a "proximate and primary relationship" to carrying on the business. (Where personnel, facilities, etc., are used both for exempt activities and unrelated activities, such costs are allocated on a "reasonable and consistent basis.")			
402) Determine that general and administrative expenses are allocated using a method that shows a direct link between the cost and the unrelated activity.			
403) Consider the limitations on allocating costs to exploited exempt activity income.			
404) Consider the limitations on allocating costs to advertising income.			
405) Determine that all cost and expense allocations are documented in the workpapers.			
406) Consider the limitation on the deductibility of capital losses.			
407) Consider the limitaions on the use of net operating losses. (Note the carryback and carryforward provisions have changed. (TRA 1997))			
408) Update schedule of net operating loss and capital loss carryovers.			

Page Completed ☐

	DONE	N/A	COMMENTS OR EXPLANATION
409) Consider charitable contribution rules and limitations.			
410) Consider limitations on deductions between related parties.			
411) Inquire whether the organization can substantiate by adequate records expenses claimed for entertainment, gifts, travel and conventions.			
412) Limit deductions for meals and entertainment to allowable percentage.			
413) Determine that retirement plan contributions are within allowable limits and are made timely.			
414) Consider all depreciation requirements and options including:			
.1) Section 179 election.			
.2) Methods and lives.			
.3) Requirements relating to listed property.			
415) Determine the amount of the specific deduction.			
500) TAX COMPUTATIONS AND CREDITS			
501) Compute alternative minimum tax.			
502) Consider application of environmental tax.			
503) Consider application of proxy tax.			
504) Consider tax credits.			
505) Confirm current year estimated tax payments, prior year overpayments applied and extension payments.			
506) Determine if electronic deposit of taxes is required.			
507) Consider underpayment penalties.			
508) Determine need for subsequent period estimated tax payments.			
509) Determine need to file business income tax returns with state or local authorities.			

		COMMENTS OR
DONE	N/A	EXPLANATION

COMMENTS OR EXPLANATIONS

Page Completed ☐

RETURN OF PRIVATE FOUNDATION CHECKLIST
1998 - FORM 990-PF

Client Name and Number: ____________________

Prepared by: ____________ Date: ________ Reviewed by: ____________ Date: ________

	DONE	N/A	COMMENTS OR EXPLANATION
100) GENERAL INFORMATION			
101) Review prior year returns, workpapers, correspondence, planning suggestions and audit results.	____	____	____________
102) Review IRS determination letter.	____	____	____________
103) Determine if prior year returns have been examined by the IRS or the state and if so, obtain copies of the agents' reports and determine if the foundation is in compliance with any recommended changes.	____	____	____________
104) Consider obtaining a signed engagement letter.	____	____	____________
105) Update pro forma information.	____	____	____________
106) Determine if there are related organizations.	____	____	____________
107) Consider any change in activities.	____	____	____________
108) Determine if state return is required.	____	____	____________
200) REVENUE/EXPENSES			
201) List all officers, directors, advisors, consultants and their compensation, if any, including health and welfare benefits and pension contributions.	____	____	____________
202) Determine that the above list is current and documented in the board minutes.	____	____	____________
203) For expenses that relate to both an investment and a charitable activity, determine that a reasonable and consistent allocation of such expenses (including depreciation) has been made and that the organization maintains documentation to support the allocation methods used.	____	____	____________
204) List grants paid, purpose of each grant, and verify public status of all recipients.	____	____	____________
205) Determine if any grants require expenditure responsibility, and, if so, obtain appropriate documentation and disclose in the return.	____	____	____________
206) Determine that grant application criteria is documented and current.	____	____	____________

Page Completed ☐

	DONE	N/A	COMMENTS OR EXPLANATION
207) Verify that amounts reported as expenses attributable to charitable activities do not exceed the income from those activities that is reported in adjusted net income.	_____	____	______________
208) Ensure that charitable disbursements are included in Part I using the cash method of accounting.	_____	____	______________
209) Determine that donated services and facilities are excluded from Parts I and II.	_____	____	______________
210) Reconcile revenues and expenses to amounts shown on the books.	_____	____	______________
211) Obtain a list of all current grantors, including names and addresses.	_____	____	______________
212) Update permanent file schedule of cumulative contributions received by donor.	_____	____	______________
213) Update permanent file schedule of cost for investments that are carried at market value.	_____	____	______________
214) For sales of assets determine the proper tax basis including assets with a December 31, 1969 substituted basis.	_____	____	______________
300) UNRELATED BUSINESS INCOME TAX			
301) Determine if there is an unrelated trade or business.	_____	____	______________
302) Determine if a partnership or S corporation (SBJPA 1996) interest is owned.	_____	____	______________
303) Determine if there is debt-financed property.	_____	____	______________
304) Review royalty agreements.	_____	____	______________
305) Complete Form 990-T Checklist if any of the above exist.	_____	____	______________
400) MINIMUM INVESTMENT RETURN			
401) Calculate the average monthly fair market value for publicly traded securities.	_____	____	______________
402) When calculating minimum investment return:			
.1) Identify and exclude exempt purpose assets.	_____	____	______________

	DONE	N/A	COMMENTS OR EXPLANATION
.2) Determine reasonable allocation for properties used for both investment and charitable activities.			
.3) Determine that appraisals of real property have been updated within five years.			
500) EXCISE TAXES			
501) Determine if the organization has done any of the following:			
.1) Engaged in acts of self-dealing.			
.2) Failed to make required distributions, after applying any carryovers.			
.3) Failed to dispose of any excess business holdings within the proper time period.			
.4) Made investments that jeopardize the foundation's charitable purpose.			
.5) Made taxable or political expenditures.			
502) If it has been determined that the organizations engaged in any of the above activities:			
.1) File Form 4720 (Return of Certain Excise Taxes on Charities and Other Persons Under Chapters 41 and 42 of the Internal Revenue Code).			
.2) Verify that the organization has taken steps to correct the act within the proper time period.			
503) Determine if election is needed to distribute prior years undistributed income.			
600) MISCELLANEOUS			
601) Consider whether estimated payments have been made on a timely basis and review requirements for subsequent year's estimated taxes. (Note the first quarter estimate is now due the 15th day of the fifth month for tax years beginning after 8/5/97 - TRA 1997.)			
602) Complete Form 2220 (Underpayment of Estimated Tax by Corporation) and attach it to return if required.			

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	DONE	N/A	COMMENTS OR EXPLANATION
603) Obtain copy of notice regarding public inspection of exemption application and annual returns that was published in a newspaper with general circulation in the county in which the foundation's principal office is located. Attach this notice to the return.			
604) Determine if copies of Form 990-PF should be sent to the state attorney general's office and/or other state officials.			
605) Inquire if required information returns were filed.			
606) Inquire if employment taxes paid/timely deposited.			
607) Review independent contractor arrangements.			
608) Determine if Form 8282 is required for sales of donated property.			
609) Determine if a series 5500 form is required.			
610) Inquire if required contemporaneous substantiations were provided on donations of $250 or more.			
611) Inquire if required statements were provided to donors for *quid pro quo* contributions over $75.			
612) Verify that return attachments contain the taxpayer's name, ID# and tax year.			
613) Attach extension requests.			
614) Prepare filing instructions/transmittal. (Note all returns now filed in Ogden).			
615) Determine if electronic deposits of taxes are required.			
700) OTHER CONSIDERATIONS			
701) Consider the possibility of changing the organization tax status to a public charity or private operating foundation.			
702) Consider increasing qualifying distributions so the organization can qualify for the 1% reduced rate of tax on net investment income.			
703) Consider distributing appreciated securities to grantees to avoid excise tax in capital gains.			

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	DONE	N/A	COMMENTS OR EXPLANATION
704) Determine that property distributions were reported at fair market value as opposed to cost.	_____	____	______________
705) Consider obtaining advance approval from the IRS if the organization is planning any projects that qualify for a set-aside under the suitability test.	_____	____	______________
706 Determine if there was a liquidation, dissolution, determination or substantial contraction.	_____	____	______________
707 If the organization uses five-year appraisal intervals to value real estate:			
.1) Consider obtaining a new appraisal for real estate that has depreciated in value.	_____	____	______________
.2) Determine if any new appraisals are required before the end of the current year.	_____	____	______________

COMMENTS OR EXPLANATIONS

____

____

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MINI-CHECKLIST
INDIVIDUAL INCOME TAX RETURN
1998 - FORM 1040

Client Name and Number: ______________________________

Prepared by: ____________ Date: ________ Reviewed by: ____________ Date: ________

GENERAL INFORMATION

	Done	N/A
1. Confirm taxpayer information, filing status and dependents.	☐	☐
2. Review prior year returns, workpapers, correspondence, and audit results.	☐	☐
3. Consider signed engagement letter.	☐	☐
4. Check for carryovers and update schedules including effect of prior period tax audits.	☐	☐
5. Consider below-market-rate loan rules.	☐	☐
6. Review accounting methods.	☐	☐
7. Properly report adjustments for accounting method changes.	☐	☐
8. Review pro forma/organizer for accuracy.	☐	☐
9. Consider filing power of attorney.	☐	☐

INCOME

	Done	N/A
1. For sales or other disposition of property consider:		
Recapture	☐	☐
Installment sales and related interest charge on deferred tax	☐	☐
Taxable/deferred/excluded gain on sale of residence or other property (SBJPA 1996) (TRA 1997) Internal Revenue Service Restructuring and Reform Act of 1998 (RRA 98)	☐	☐
Holding period/basis (TRA 1997)	☐	☐
Related party transactions	☐	☐
Like-kind exchanges	☐	☐
2. Consider the following:		
Ordinary income on market discount bonds and deferral of related interest expense	☐	☐
Annuities (SBJPA 1996), retirement plans, IRAs	☐	☐
Limitations due to at-risk and basis	☐	☐
Passive loss limitations and election	☐	☐
Alimony	☐	☐
Taxability of dividends, interest and capital gain distributions	☐	☐
Salaries and fringe benefits	☐	☐
Rents	☐	☐
Tax benefit rules	☐	☐
Discharge of indebtedness	☐	☐
Worthless stock/bad debt	☐	☐
Punitive damages (SBJPA 1996)	☐	☐
Exclusion of employer-provided educational assistance (SBJPA 1996) (TRA 1997)	☐	☐

DEDUCTIONS

	Done	N/A
1. Consider the following:		
Home office. Form 8829. (SBJPA 1996)	☐	☐
IRA, SEP, SIMPLE, Keogh and MSA contribution.	☐	☐
Roth IRA and Education IRA non-deductible contributions. (TRA 1997)	☐	☐
Moving expense	☐	☐
Casualty losses	☐	☐
Allocation and limitation of interest	☐	☐
Alimony	☐	☐
2. Limit on meals and entertainment	☐	☐
3. Consider Form 8283 for noncash donations	☐	☐
4. Consider limitations on deductibility of dues and lobbying expenses	☐	☐

DEPRECIATION/AMORTIZATION

	Done	N/A
1. Consider the following:		
§ 179 election	☐	☐
Methods and lives	☐	☐
Listed property	☐	☐
Capitalization of leased property	☐	☐
Amortization of goodwill and other intangibles	☐	☐
2. Compute AMT depreciation	☐	☐

TAX COMPUTATION AND CREDITS

	Done	N/A
1. Compute alternative minimum tax	☐	☐
2. Compute self-employment tax and deduction (SBJPA 1996)	☐	☐
3. Compute all credits, carryovers, recaptures. (SBJPA 1996 & TRA 1997)	☐	☐
4. Compute tax on premature distributions	☐	☐
5. Claim credit for excess FICA, other withholding/payments	☐	☐
6. Compute underpayment penalties (TRA 1997)	☐	☐
7. Prepare estimate vouchers	☐	☐

OTHER

	Done	N/A
1. Consider risk of accuracy-related penalty. (§ 6662)	☐	☐
2. Compare taxable income to projections	☐	☐
3. Report tax shelters. Form 8271	☐	☐
4. Consider election to forego NOL carryback	☐	☐
5. Consider inclusion of child's taxable income	☐	☐
6. Prepare state and local returns	☐	☐
7. Consider other returns (e.g., gift, qualified plans)	☐	☐
8. Include/attach extension request(s)	☐	☐
9. Note planning /additional service suggestions	☐	☐

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SHORT VERSION
INDIVIDUAL INCOME TAX RETURN CHECKLIST
1998 - FORM 1040

Client Name and Number: ____________________

Prepared by: ____________ Date: ________ Reviewed by: ____________ Date: ________

	DONE	N/A	COMMENTS OR EXPLANATION
100) GENERAL INFORMATION			
101) Review and update basic taxpayer information (address, dependents, etc.), IRS and other tax processing centers, prior returns, and workpapers. (SBJPA 1996)	____	____	________
102) Consider signed engagement letter.	____	____	________
103) Obtain information concerning IRS or state tax adjustments.	____	____	________
104) Determine that accounting methods used are comparable to the preceding year unless changes are approved or required.	____	____	________
105) If accrual method of accounting, note recurring item exception.	____	____	________
106) Check for carryover items and update carryforward schedules.	____	____	________
107) Review for adequate interest on new or modified debt instrument.	____	____	________
108) Review computer-generated pro forma/organizer for accuracy.	____	____	________
109) Determine if taxpayer has reporting requirements for household employees.	____	____	________
110) Consider filing power of attorney.	____	____	________
200) INCOME			
201) Determine tax treatment of interest, dividends, and capital gain distributions and amounts subject to AMT. Report capital gain distributions on Schedule D.	____	____	________
202) Determine if alimony paid or received.	____	____	________
203) Sale or other disposition of property:			
.1) Check for recapture items. Note unrecaptured § 1250 gain. (TRA 1997)	____	____	________
.2) Determine that installment sales are properly reported, including related interest charge on deferred tax.	____	____	________

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	DONE	N/A	COMMENTS OR EXPLANATION
.3) Consider exclusion from gains for sales of personal residence after May 6, 1997. (TRA 1997) Internal Revenue Service Restructuring and Reform Act of 1998 (RRA 98)	______	____	______________
.4) Determine holding period and tax basis of property sold.	______	____	______________
.5) Consider rules for like-kind and related party exchanges (Form 8824) Note restrictions on US/foreign exchanges. (TRA 1997)	______	____	______________
.6) Consider new rules for involuntary conversions of post-1994 Presidentially-declared disasters. (SBJPA 1996)	______	____	______________
.7) Report recognition of gain on constructive sales under TRA 1997.	______	____	______________
204) Consider ordinary income on market discount bonds and deferral of related interest expense.	______	____	______________
205) Determine proper reporting of all annuities and qualified retirement plan and IRA distributions, considering the various options for taxing lump-sum distributions from qualified retirement plans. See SBJPA 1996 change for annuities with starting dates after November 18, 1996.	______	____	______________
206) Consider spread of income over four years on Roth IRA conversion noting election not to spread income. (TRA 1997) (RRA 98)	______	____	______________
207) Consider regular and AMT passive activity loss limitations, carryovers and election. (See Passive Activity Checklist)	______	____	______________
208) Determine that all K-1s have been received and that all items have been properly reported.	______	____	______________
209) Consider limitations of § 704(d), § 465 at risk, and/or § 1366(d) basis rules.	______	____	______________
210) Consider at risk limitation (Form 6198) and hobby loss rules on sole proprietor Schedule C.	______	____	______________
211) Inquire about other possible sources of income such as salaries, rents, taxable fringe benefits, discharge of indebtedness income, gambling and lottery.	______	____	______________
212) Consider mark to market rules for "dealers in securities."	______	____	______________
213) Consider appropriate income inclusion amount for leased vehicles and property. (See Vehicle Related Guides)	______	____	______________

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	DONE	N/A	COMMENTS OR EXPLANATION
214) If the taxpayer recovered amounts previously deducted, consider tax benefit rules.			
215) Consider exclusion from income of certain employer-provided educational assistance. (SBJPA 1996 and TRA 1997)			
216) Consider exclusion from income of accelerated death benefits.			
217) Consider inclusion requirements for punitive damages received after August 20, 1996. (SBJPA 1996)			
218) Consider exclusion from income of proceeds of long-term care insurance (HIPAA 1996)			
219) Consider whether overseas taxpayer qualifies for automatic two-month extension, for foreign earned income exclusion, housing exclusion or housing deduction.			
300) DEDUCTIONS			
301) Consider home office deduction, limitations and carryovers. (SBJPA 1996)			
302) Determine if the taxpayer is entitled to deduction for contribution to IRA, SIMPLE, Keogh, SEP and/or MSA, noting increase in allowed non-working spouse IRA contribution (SBJPA 1996) and new rules when spouse is covered by a retirement plan. (TRA 1997)			
303) Consider non-deductible Roth IRA and/or Education IRA.			
304) Determine the proper allocation of and limitations on deductions for interest and other deductions relating to:			
.1) Investment expenditures. Consider election to treat long-term capital gain as investment income.			
.2) Qualified residence interest.			
.3) Trade or business expenditures.			
.4) Passive activity expenditures.			
.5) Tax-exempt investments.			
.6) Capitalization of interest during construction.			
.7) Interest on qualified plan loans.			

Page Completed ☐

	DONE	N/A	COMMENTS OR EXPLANATION
.8) Meals and entertainment expenses.			
.9) Club dues.			
.10) Lobbying expenses.			
.11) Self-employed health insurance.			
.12) Charitable contributions.			
.13) Student loan interest.			
305) Consider requirement to file Form 8283 for charitable contributions other than cash.			
306) Inquire about other possible deductions such as medical expense, taxes, moving expenses, employee business expense, worthless securities, § 1244 stock, casualty losses, vacation homes, etc.			
400) DEPRECIATION			
401) Consider all depreciation requirements and options including:			
.1) § 179 election. Note new allowable amounts under SBJPA 1996.			
.2) Methods and lives.			
.3) Requirements relating to listed property.			
.4) Determine if leased property should be capitalized.			
.5) Consider 36-month depreciation rules for software.			
402) Consider AMT depreciation.			
403) Determine that amortizable items, including goodwill, are written off over the correct periods.			
500) TAX COMPUTATION AND CREDITS			
501) Compute tax, including alternative minimum tax. (TRA 1997)			
502) Compute self-employment tax and related deduction. See SBJPA 1996 for exclusion of minister retirement benefits.			

Page Completed ☐

	DONE	N/A	COMMENTS OR EXPLANATION
503) Compute all applicable credits including carryovers. Note adoption credit (SBJPA 1996 and TRA 1997), child tax credit and education credits. (TRA 1997)	_____	_____	_____
504) Compute credit recapture.	_____	_____	_____
505) Compute tax on premature distributions from retirement accounts and annuities.	_____	_____	_____
506) Claim excess FICA, other withholding, estimated and extension tax payments.	_____	_____	_____
507) Prepare estimated tax vouchers.	_____	_____	_____
600) OTHER REQUIREMENTS			
601) Compare taxable income to projections.	_____	_____	_____
602) Determine if Form 8271 is required for tax shelters.	_____	_____	_____
603) Consider capitalization of carrying charges on non-productive property.	_____	_____	_____
604) Consider election to forego net operating loss carryback.	_____	_____	_____
605) Consider need to report taxable income information on dependent's returns.	_____	_____	_____
606) If parent elects to report child's interest and dividends, prepare Form 8814.	_____	_____	_____
607) Inquire if the taxpayer has required records for travel, entertainment, gift and listed property deductions.	_____	_____	_____
608) Consider risk of accuracy-related penalty. (§ 6662)	_____	_____	_____
609) Prepare state and local tax returns and consider state and local credits.	_____	_____	_____
610) Inquire whether taxpayer has completed all information returns (W-2s, 1099 series, Form 8300).	_____	_____	_____
611) Inquire if employment taxes were timely deposited.	_____	_____	_____
612) Advise taxpayers with employee benefit plans of return filing requirements.	_____	_____	_____
613) Inquire if gift tax return is required.	_____	_____	_____

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	DONE	N/A	COMMENTS OR EXPLANATION
614) Include Form 1040V.			
615) Include/attach extension request(s).			
616) Note tax planning/additional service suggestions.			

COMMENTS OR EXPLANATIONS

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INDIVIDUAL INCOME TAX RETURN CHECKLIST
1998 - FORM 1040

Client Name and Number: ______________________________

Prepared by: ____________ Date: ________ Reviewed by: ____________ Date: ________

	DONE	N/A	COMMENTS OR EXPLANATION
100) GENERAL INFORMATION			
101) Review the taxpayer's name, age, social security number, address, occupation, filing status, number of exemptions and other dependents, and IRS and other tax processing centers. Obtain social security numbers for dependents. See SBJPA 1996 for new TIN requirements for dependents. Note changes.	____	____	____________
102) Review prior year returns, memos, workpapers and correspondence files.	____	____	____________
103) Consider signed engagement letter.	____	____	____________
104) If the taxpayer has been examined by the Internal Revenue Service or state or local taxing authorities:			
.1) Obtain copies of the revenue agent's reports.	____	____	____________
.2) Determine that the agent's adjustments have been entered in the taxpayer's records and appropriate carryforward workpapers.	____	____	____________
.3) If the agent's adjustments affect income tax returns of years other than those examined, or the corresponding federal or state returns for the same year, consider filing amended returns.	____	____	____________
105) Obtain correspondence with IRS or state taxing authorities. Consider impact.	____	____	____________
106) Determine if accounting methods used are comparable to the preceding year unless changes are approved or required.	____	____	____________
107) Consider economic performance requirement and recurring item exceptions.	____	____	____________
108) Review and update schedules for federal and state carryover items (regular and AMT) such as:			
.1) Net operating loss.	____	____	____________
.2) Capital loss.	____	____	____________
.3) Investment credit.	____	____	____________
.4) Alternative minimum tax credit.	____	____	____________

Page Completed ☐

		DONE	N/A	COMMENTS OR EXPLANATION
.5)	Other credits. (Foreign tax, etc.)	____	____	____
.6)	Charitable contributions.	____	____	____
.7)	Installment sales. Consider applicable tax rates for components of gain.	____	____	____
.8)	Retirement plan contribution.	____	____	____
.9)	Passive activity losses and credits.	____	____	____
.10)	Suspended losses/credits due to at risk limitations.	____	____	____
.11)	S corporation, LLC and partnership basis.	____	____	____
.12)	"Publicly traded partnership" losses.	____	____	____
.13)	Change of accounting adjustments (§ 481).	____	____	____
.14)	Home office deductions.	____	____	____
.15)	§ 179.	____	____	____
.16)	Investment interest expense.	____	____	____
.17)	Home mortgage points for amortization.	____	____	____
.18)	Nontaxable or reinvested dividends and original issue discounts.	____	____	____
.19)	Deadline for replacing personal residence sold prior to May 7, 1997 (TRA 1997) or involuntarily converted residence.	____	____	____
.20)	Percentage depletion.	____	____	____
.21)	Prior year overpayment(s) credited to subsequent year estimate.	____	____	____
109)	Inquire whether the taxpayer has made or received any below-market-rate loans. If so, determine imputed interest consequences and existence of properly executed notes.	____	____	____
110)	Review for adequate stated interest on debt instruments:			
.1)	Determine whether OID or the unstated interest rules require restatement of note interest and principal.	____	____	____
.2)	Consider election for purchase discount under § 1278.	____	____	____

	DONE	N/A	COMMENTS OR EXPLANATION
111) Review for proper reporting of interest recognition in accordance with Reg. §§ 1.483-4 and 1.1274-5 for debt instruments providing contingent payments.	____	____	____________
112) Review computer-generated pro forma/organizer for accuracy.	____	____	____________
113) Review financial statements and footnotes for relevant information.	____	____	____________
114) Determine if taxpayer had household employees:	____	____	____________
.1) Obtain federal employer identification number.	____	____	____________
.2) Obtain state reporting number.	____	____	____________
.3) Complete Schedule H.	____	____	____________
.4) Obtain copy of W-2 form(s).	____	____	____________
.5) Obtain copy of state unemployment return(s).	____	____	____________
115) Regarding reporting related to foreign trusts (§ 6048) (SBJPA 1996), determine if U.S. person:	____	____	____________
.1) Created a foreign trust.			
.2) Transferred propertry to a foreign trust.	____	____	____________
.3) Received distributions, directly or indirectly, from a foreign trust.	____	____	____________
.4) Received loans, unless with arms-length terms, from a foreign trust.	____	____	____________
.5) Is a beneficiary of a foreign trust and transferred property to a foreign grantor of the trust.	____	____	____________
116) Consider filing power of attorney.	____	____	____________
200) INCOME			
201) Review taxpayer's Form W-2:			
.1) Inquire whether all income and all taxable employee benefits are included on Form W-2.	____	____	____________
.2) If dependent care expense reimbursements appear on Form W-2, include Form 2441.	____	____	____________

		DONE	N/A	COMMENTS OR EXPLANATION
	.3) Determine whether reimbursed employee business expenses were included in wages.			
	.4) Note any differences between federal, state and local taxable income.			
	.5) Inquire whether qualifying employer-provided assistance has been excluded. (SBJPA 1996 and TRA 1997)			
202)	Determine if overseas taxpayer qualifies for the automatic two month extension, the foreign earned income exclusion, the housing exclusion or housing deduction.			
203)	Inquire if taxpayer had investment income from foreign sources and if tax was withheld at the source.			
204)	Disclose exempt interest on state and municipal bonds and exempt bond fund dividends.			
205)	Determine if any exempt interest is subject to alternative minimum tax.			
206)	Consider excluding interest from United States securities and U.S. Treasury mutual funds from the state return.			
207)	Consider whether municipal bond interest excluded on federal should be added back to state return.			
208)	Compare sources of dividend and interest income with prior year items. Identity of payor and amount should agree with 1099. Include TIN and address of payor of interest received from seller provided financing.			
209)	If a 1099-OID is received, compute the includible amount.			
210)	If interest is received, determine if:			
	.1) Any portion of the interest received is excludible as accrued interest purchased.			
	.2) There are penalties for early withdrawals.			
	.3) Determine if U.S. savings bond redemption was used for higher education and qualifies to be excluded from income.			
211)	Review dividends to segregate taxable, non-taxable and capital gain portions. Consider whether stock dividends are included.			
212)	If the taxpayer is divorced or separated:			

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	DONE	N/A	COMMENTS OR EXPLANATION
.1) Inquire if the taxpayer received alimony or separate maintenance payments.			
.2) Determine that child support payments are not reported as income.			
.3) Include the recipient's name and social security number for alimony or separate maintenance payments paid.			
.4) For post-1986 divorces, review amount received/paid to determine non-taxable/deductible/recapture portion.			
213) Determine that installment sales are reported properly:			
.1) Consider related party rules.			
.2) Determine that the full amount of depreciation recapture is reported in the year of sale whether or not payment was received in that year.			
.3) Review for adequate stated interest on debt instruments received in connection with the sale. Determine whether original issue discount or unstated interest rules require restatement of note interest and principal.			
.4) Determine if the taxpayer is a "dealer" with respect to the related property. If so:			
.a) Determine that the installment method is <u>not</u> used to report post-1987 sales of dealer property. (Exceptions: farm property, certain timeshare rights, and residential lots if proper election is made.)			
.b) Determine that the interest owed as a result of an election .a) above is properly reported.			
.c) Consider that manufacturers of tangible property will not be eligible to use the installment method for sales to dealers after August 5, 1998. (TRA 1997)			
.5) Consider special rules for installment reporting by certain non-dealers of real (post-1986 sales) or personal property (post-1988 sales) where the sales price exceeds $150,000. (§ 453A) (Does not apply to certain farm property and certain individual use property.)			

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	DONE	N/A	COMMENTS OR EXPLANATION
.a) Compute the interest charge imposed on outstanding tax deferred installment obligations if the face amount of these obligations that arose during, and are still outstanding at the close of, the tax year exceeds $5 million.	_____	____	______________
.b) Determine that the proper amount is treated as a collection on any pledged installment obligation.	_____	____	______________
.6) Consider election out of installment method.	_____	____	______________
.7) Determine if an event has occurred requiring accelerated recognition of the remaining unreported gain (e.g., resale rule for related parties, cancellation of the installment obligation, disposition of the installment obligation).	_____	____	______________
214) If a residence or other property was sold, exchanged, or involuntarily converted during the year:			
.1) Consider $500,000 (MFJ) or $250,000 exclusion from gain on the sale of principal residence for sales occurring after May 6, 1997. Note ownership and use requirements and ability to have a partial gain exclusion. (TRA 1997) Internal Revenue Service Restructuring and Reform Act of 1998 (RRA98)	_____	____	______________
.2) Consider possible recognition of gain on home office portion of principal residence. (TRA 1997)	_____	____	______________
.3) Consider non-recognition of gain or loss and related elections. (See SBJPA 1996 for post-1994 Presidentially-declared disasters).	_____	____	______________
.4) Consider that the replacement period for property involuntarily converted is determined by the type of property.	_____	____	______________
.5) Obtain closing statements, loan disbursement statements, capital improvements or other basis adjustments and most recent Form 2119. Determine the amount of any property tax reimbursement.	_____	____	______________
.6) Consider recapture of depreciation and/or tax credits (home office and related equipment). Note § 1245 and § 1250 applications. (TRA 1997)	_____	____	______________
.7) Consider rules for like-kind and related party exchanges. (Form 8824). Note restrictions on exchange of U.S. property for foreign property. (TRA 1997)	_____	____	______________

	DONE	N/A	COMMENTS OR EXPLANATION
215) Consider ordinary income treatment for gain on sale of market discount bonds:			
.1) Taxable bonds issued after July 18, 1984, or issued before July 19, 1984 and purchased after April 30, 1993.	_____	____	______________
.2) Tax exempt bonds acquired after April 30, 1993.	_____	____	______________
216) Review application of the wash sale rules.	_____	____	______________
217) Review application of straddle rules and available elections under § 1092.	_____	____	______________
218) Determine that sales of securities settled after year end, with a trade date within current year, are reported this year. Note special rules for short sales in § 1233.	_____	____	______________
219) Consider allowable methods of calculating basis on the sale of mutual fund shares.	_____	____	______________
220) Report capital gain distributions on Schedule D.	_____	____	______________
221) Consider rollover of gain on the sale or exchange of small business stock after August 5, 1997 held for more than six months if other qualified small business stock is bought within 60 days of the sale. (TRA 1997)	_____	____	______________
222) Inquire if the taxpayer has any worthless securities. Note that substantial worthlessness of short sale property is a gain recognition event. (TRA 1997)	_____	____	______________
223) If there are § 1231 gains, determine the amount subject to ordinary income treatment as a result of five-year recapture rule for prior net § 1231 losses.	_____	____	______________
224) Consider that forced sales of breeding, draft or dairy livestock due to floods or other weather conditions are treated as involuntary conversions. (TRA 1997)	_____	____	______________
225) Consider that cash basis farmers may elect to defer gain from forced sales of livestock due to floods or other weather related conditions. (TRA 1997)	_____	____	______________
226) Report gains on constructive sales of appreciated financial positions. (TRA 1997)	_____	____	______________
227) Determine holding period, applicable tax rates, state and AMT tax bases of assets sold. (TRA 1997) (RRA 98)	_____	____	______________

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	DONE	N/A	COMMENTS OR EXPLANATION
228) If the taxpayer recovered amounts previously deducted (such as state income taxes and medical expenses), consider tax benefit rules.			
229) Consider all options for lump-sum distributions from qualified retirement plans:			
.1) The one-time election for five-year averaging available only after age 59½.			
.2) Election to treat capital gains portion as ordinary income.			
.3) Taxpayers reaching 50 before 1986 have a one-time election.			
230) For IRA, pension or annuity distributions, consider:			
.1) Nontaxable portions (federal and state).			
.2) Applicability of early withdrawal penalty. Note exceptions including exception for IRA distributions for catastrophic medical expense and health insurance premiums during periods of unemployment (HIPAA 1996) and the new exception for qualified higher education expenses and the purchase of a home by a first time buyer. (TRA 1997)			
.3) A qualified rollover within 60 days of distribution.			
.4) Whether taxpayer has met 70½ minimum withdrawal requirements. Consider continued employment exemption for qualified plans. (SBJPA 1996)			
.5) The SBJPA's simplified method of determining basis for annuities.			
.6) Consider spread of income over four years on Roth IRA conversion noting election not to spread income. (TRA 1997) (RRA 98)			
231) Consider limitations of § 704(d), § 465 at risk, and/or § 1366(d) basis rules.			
232) For prior year losses limited by at risk rules, determine if additional basis has been generated in the current year to deduct all or a portion of the losses.			
233) Consider at risk limitation (Form 6198) and hobby loss rules on sole proprietor Schedule C.			

Page Completed ☐

INDIVIDUAL INCOME TAX RETURN CHECKLIST
1998 - FORM 1040

	DONE	N/A	COMMENTS OR EXPLANATION
234) If the taxpayer is an S corporation shareholder facing a potential basis limitation, consider election to reduce basis for items of loss or deduction before reducing basis for noncapital, nondeductible expenses and certain oil and gas depletion deductions (Reg. § 1.1367-1(f)).	_____	____	____________
235) If the taxpayer is an S corporation shareholder receiving distributions in a loss year, adjust basis for distributions before loss. (SBJPA 1996)	_____	____	____________
236) Calculate possible gain on an S corporation shareholder's receipt of income where the loan basis has previously been reduced by losses.	_____	____	____________
237) Compare sources of K-1s with prior year. Review current K-1s to determine that all items have been properly reported.	_____	____	____________
238) If a distribution or technical termination has occurred in a partnership, consider both the new allocation of basis rules under § 732(c) (TRA 1997) (and Prop. Reg. 1.732-1(c)) and making a § 732(d) election. Note exception for post May 9, 1997 technical terminations. (Reg. § 1.708-1)	_____	____	____________
239) Determine if there are passive activities (see Passive Activity Checklist). Note that the activities must be grouped in accordance with the proposed regulation.			
.1) Consider the $25,000 special allowance for rental real estate.	_____	____	____________
.2) Consider the exception for taxpayers who materially participate in real property trades or businesses (§ 469(c)(7)).	_____	____	____________
.3) Determine if any passthrough entity in which the taxpayer has an interest has separately reported activities.	_____	____	____________
.4) Review whether a disposition or recharacterization of a prior passive activity has occurred.	_____	____	____________
.5) Determine whether personal usage of rental rules apply.	_____	____	____________
240) Designate and include income subject to self-employment tax (Schedule C, partnership and other income). Consider self-employment proposed regulations relating to members of an LLC and new rules for retired ministers. (SBJPA 1996)	_____	____	____________
241) Determine taxability of scholarships, fellowships, social security benefits or disability income received.	_____	____	____________
242) Determine if there is discharge of indebtedness income.	_____	____	____________

	DONE	N/A	COMMENTS OR EXPLANATION
.1) Consider exclusion and elections under § 108. (See new amendments to proposed amendment to Reg. section 1.1017-1.)			
.2) Consider Form 982.			
.3) Consider exclusion from income for cancellation of student loans under certain circumstances. Note the exclusion was expanded, effective August 5, 1997, to cover the cancellation of loans under nongovernmental sponsored programs. (TRA 1997)			
243) Determine other sources of income, e.g., gambling winnings, lotteries, jury duty.			
244) Consider the reporting of income and deductions in respect of decedent.			
245) Consider appropriate income inclusion amount for leased vehicles and property. (See Vehicle Related Guides).			
246) Inquire if the taxpayer engaged in bartering transactions.			
247) Consider the mark to market rules for "dealers in securities" under § 475 and the related § 481 adjustment.			
248) Consider exclusion for subsidized campus housing of employees. (SBJPA 1996)			
249) Consider inclusion requirements for punitive damages received after August 20, 1996. (SBJPA 1996)			
250) Consider the exclusion from income of accelerated death benefits paid under a life insurance contract. (HIPAA 1996) (Form 8853)			
251) Consider exclusion from income of proceeds of long-term care insurance. (HIPAA 1996) (Form 8853)			
252) Consider exclusion from income of cash or rent space reduction received from lessor under a short-term lease of retail space utilized to construct leasehold improvements which will revert to the lessor at termination of the lease. (TRA 1997)			
300) DEDUCTIONS			
301) For all businesses of the taxpayer reported on Form 1040 Schedule C or F:			

	DONE	N/A	COMMENTS OR EXPLANATION
.1) Review the taxpayer's vacation pay policy to determine if a deduction is allowable on the accrual basis (vested at year-end and paid within 2½ months after year-end).			
.2) Consider the applicability of uniform capitalization rule to resellers with annual gross receipts in excess of $10 million and all producers of property. Note final regulations related to general rules (§ 1.263A-1), producers (§ 1.263A-2) and resellers (§ 1.263A-3).	____	____	____
.a) Determine that all costs are included.	____	____	____
.b) Consider interest capitalization rules for debt incurred to produce property.	____	____	____
.c) If the beginning inventory is revalued:			
(i) Ascertain the amount of adjustment required for the beginning inventory due to the change in method of accounting. (§ 481)	____	____	____
(ii) Ascertain § 481 forward spread period (not to exceed four years).	____	____	____
(iii) Determine that Form 3115 is attached to the tax return for the year of change.	____	____	____
(iv) Consider electing "simplified" methods.	____	____	____
.d) For farmers and ranchers consider:			
(i) One-time election out of uniform capitalization rules if election was not required in a prior year.	____	____	____
(ii) The exemption for expenses incurred in the production of animals.	____	____	____
.e) Review the definition of "produce."	____	____	____
.3) Long-Term Contracts			
.a) Determine if the taxpayer is subject to the long-term contract reporting rules requiring that the percentage of completion method, instead of the completed contract method, be used to determine taxable income. Note exceptions for certain qualifying construction contracts and most contracts for the manufacture of property.	____	____	____

	DONE	N/A	COMMENTS OR EXPLANATION
.b) In determining whether contracts of the taxpayer are subject to the percentage of completion method of reporting, consider:			
(i) Related party rules.	____	____	____________
(ii) Contract aggregation rules.	____	____	____________
.c) Determine that the percentage of completion is calculated based on costs incurred, not work performed.	____	____	____________
.d) Determine that all required costs have been allocated to the contracts. Note the expanded requirement to capitalize costs similar to the uniform capitalization rules.	____	____	____________
.e) Consider electing the simplified method of allocating costs, whereby fewer costs are taken into account, to determine the degree of contract completion.	____	____	____________
.f) Consider electing the modified percentage of completion method, whereby the recognition of income and accounting for costs is deferred until the first tax year in which at least 10% of the estimated total contract costs have been incurred as of the end of that year. Note this election is not available if the simplified method above has been elected.	____	____	____________
.g) Upon completion of a contract, determine that the "look-back rule" has been applied to compare actual contract price and costs to previously used estimates and pay/claim interest on the related changes in prior years taxes on Form 8697. Note certain small contracts are not subject to the "look-back rule." See TRA 1997 for changes in interest calculations and election to not apply look-back method.	____	____	____________
302) For home office deduction consider rules for storage of inventory and product samples. (SBJPA 1996)	____	____	____________
303) If employer included 100% of value of use of employer provided auto, etc., on W-2 inquire:			
.1) If client has evidence to support deduction for a portion of the included amount as business use.	____	____	____________
.2) If such evidence is written.	____	____	____________

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	DONE	N/A	COMMENTS OR EXPLANATION
304) Determine the applicability of a moving expense deduction and whether any associated reimbursement is properly reported.			
305) Determine if the taxpayer is entitled to a deduction for contributions to an IRA, a Keogh, a SEP, and or SIMPLE. Review possible alternatives with taxpayer before the return due date:			
.1) Determine that IRA contributions have been or will be made no later than April 15, 1999. Keogh/SEP/SIMPLE plan contributions must be made by the due date of the return, including extensions. Note earnings limit.			
.2) Alimony income qualifies for IRA contributions.			
.3) Consider increase in IRA contribution amount allowed for nonworking spouse. (SBJPA 1996).			
.4) Consider new rules on IRA contributions when spouse is covered by a retirement plan. (TRA 1997)			
.5) Prepare Form 8606 for non-deductible IRA contributions.			
.6) Consider informing client about a possible need to file Form 5500 series.			
.7) Determine that Keogh plan was adopted prior to year end.			
306) Consider advising taxpayer to contribute to nondeductible "Education IRAs" and/or Roth IRAs.			
307) Consider advising client to convert from traditional IRA to Roth IRA.			
308) For medical deductions consider:			
.1) Medical travel deductions.			
.2) Deduction of Medicare premiums.			
.3) Self-employed health insurance premiums including more than 2% S corporations shareholders. Note new allowable percentage. Note eligibility to take an above-the-line deduction for long-term health care premiums is considered separately from eligibility to take a deduction for health care premiums. (TRA 1997)			
.4) Contributions to a medical savings account (MSA) (HIPAA 1996) (Form 8853)			

	DONE	N/A	COMMENTS OR EXPLANATION
.5) Deduction of qualifying long-term care services and certain long-term care insurance premiums. (HIPAA 1996)	____	____	____________
309) Allocation of interest expense:			
.1) Determine that the proper allocations have been made by type (trade or business, investment, passive activity, tax-exempt expenditures, etc.).	____	____	____________
.2) For interest on debts allocated to more than one expenditure, determine that the proper ordering of loan repayments has been considered.	____	____	____________
.3) Determine that the interest has been properly reallocated when either:			
.a) The subject of the first expenditure has been disposed of and the proceeds are used for another expenditure, or	____	____	____________
.b) The character of the expenditure has changed.	____	____	____________
310) Investment interest:			
.1) Limit the taxpayer's deduction for investment interest to net investment income.	____	____	____________
.2) In computing net investment income, deduct investment expenses after application of the 2% AGI floor.	____	____	____________
.3) Consider the election to treat net long-term capital gain as investment income subject to ordinary income tax rates.	____	____	____________
311) Determine that personal interest was not deducted.	____	____	____________
312) Qualified residence interest:			
.1) Determine that qualified residence interest is limited to the principal residence of the taxpayer and one other qualified residence of the taxpayer; that all such debts are secured by such residences and "perfected" and the deduction is limited to:			
.a) Interest paid on acquisition indebtedness.	____	____	____________
.b) Home equity indebtedness.	____	____	____________
.c) Consider limitations on mortgages taken out after October 13, 1987.	____	____	____________

	DONE	N/A	COMMENTS OR EXPLANATION
.2) Consider election out of qualified residence interest for appropriate debt (interest on excess debt may be classified as investment interest, etc.)			
.3) Provide complete information for interest deductions on seller provided financing.			
.4) Determine if points were paid at closing for acquisition indebtedness or amortizable points paid on refinancing.			
.5) Consider write-off of unamortized points on a refinance.			
313) Determine if interest deduction limitations apply to interest incurred to purchase or carry market discount bonds or short-term debt obligations.			
314) Consider adjustment to income for student loan interest. (TRA 1997)			
315) Other interest issues:			
.1) Treat amortizable bond premium (for bonds acquired after 1987) as an offset to interest income.			
.2) Consider the capitalization of interest rules when the taxpayer is constructing or producing certain real or tangible personal property.			
.3) Eliminate interest expense on debts with respect to life insurance policies (purchased after June 20, 1986) on current or former beneficial owners and key employees to the extent that the total of such loans exceeds \$50,000. Note phase-in rules under HIPAA 1996 and additional limitations for new or materially changed contracts issued after June 8, 1997. (TRA 1997)			
.4) Determine that interest is not claimed for a loan made or renewed after 1986 from a qualified retirement plan to a key employee or if such loan is guaranteed by § 401(k) deferrals.			
.5) Consider treatment of interest on debt used to acquire an interest in a pass-through entity, and the self-charged interest provisions.			
.6) Consider treatment of interest on debt financed distributions from pass-through entities.			
316) For charitable contributions consider:			
.1) If contributions are to qualified charitable organizations.			

	DONE	N/A	COMMENTS OR EXPLANATION
.2) Charitable contribution limitations.	_____	____	____________
.3) Reduction of contribution deduction due to value of college athletic tickets or token benefits.	_____	____	____________
.4) Charitable travel deduction.	_____	____	____________
.5) Non-cash contributions in excess of $500 require Form 8283 and possibly an appraisal.	_____	____	____________
.6) If adequate contemporaneous documentation was obtained for contributions of $250 or more (and quid pro quo contributions in excess of $75).	_____	____	____________
.7) The exception allowing the deduction of the fair market value of qualified appreciated stock donated to a private foundation through June 30, 1998. (TRA 1997)	_____	____	____________
317) Review all personal casualty gains and losses for proper reporting. Consider option to deduct current year qualifying losses on preceding year tax return by filing an amended return.	_____	____	____________
318) Consider vacation home deduction limitations.	_____	____	____________
319) Inquire if the taxpayer can substantiate by adequate records, as required under § 274, expenses claimed for entertainment, gifts, travel, conventions, and listed property. Consider optional per diem method. Note limitations on deductibility of certain non-employee travel expenses.	_____	____	____________
320) Limit meals and entertainment deduction to the allowable percentage. Consider exceptions.	_____	____	____________
321) If expense reimbursements under "unaccountable plans" are included in income, consider an itemized deduction.	_____	____	____________
322) Consider deduction of unused loss carryovers and excess deductions on termination from estates and trusts.	_____	____	____________
323) Inquire whether taxpayer has bad debts or § 1244 stock transactions to be reflected in the current year return.	_____	____	____________
324) Review partially worthless debt for write-off under Reg. § 1.166-3.	_____	____	____________
325) Consider limitations on deducting expenses related to federally tax-exempt income. Note these expenses may be deductible at the state level if the related income is state taxable.	_____	____	____________

	DONE	N/A	COMMENTS OR EXPLANATION
326) Consider that otherwise allowable deductions, other than medical costs, casualty and theft losses, and investment interest, are reduced by 3% of the taxpayer's adjusted gross income in excess of the threshold amount.	____	____	____________
327) If this is the first year that the taxpayer has incurred real property taxes, determine if a § 461(c) election to accrue ratably is more beneficial than adopting the recurring item exception (Rev. Proc. 92-28).	____	____	____________
328) Determine the deductibility of club dues (§ 274(a)(3)).	____	____	____________
329) Inquire if trade association dues include nondeductible lobbying expenses.	____	____	____________
330) Determine that certain lobbying expenses are not deducted. Note exceptions.	____	____	____________
400) DEPRECIATION			
401) For assets placed in service during the current year:			
.1) Consider § 179 election to expense qualifying assets. Note new allowable amounts. (SBJPA 1996)	____	____	____________
.2) Consider § 179A election to expense qualifying clean-fuel vehicles and related refueling property placed in service after June 30, 1993.	____	____	____________
.3) Determine the depreciable basis of each asset.	____	____	____________
.4) Determine the property class, recovery period and depreciation method for each asset. Note new limitations on property qualifying for income forecast method and designated lives of rent-to-own property. (TRA 1997)	____	____	____________
.5) Determine the applicable convention (half-year, mid-quarter or mid-month).	____	____	____________
.6) Determine that the cost of leasehold improvements is being recovered over the applicable recovery period, regardless of the lease period.	____	____	____________
.7) Consider 36-month depreciation rules for software.	____	____	____________
.8) Consider reduced depreciable lives for real estate improvements and special use structure.	____	____	____________

Page Completed ☐

	DONE	N/A	COMMENTS OR EXPLANATION
.9) Consider electing the Alternative Depreciation System (straight line over an ADS recovery period) for qualifying General Depreciation System property.	_____	_____	_____
.10) For farming, determine that MACRS is applied using 150% DB. Note ADS required if elected out of § 263A.	_____	_____	_____
.11) If property is leased to a tax-exempt entity, consider the possible need to use the ADS.	_____	_____	_____
.12) Consider depreciation limitations for IDB financed property, and certified historic structures for which a tax credit was taken.	_____	_____	_____
.13) If a short year, determine that Rev. Proc. 89-15 is followed.	_____	_____	_____
.14) If there has been a purchase price adjustment, see Prop. Reg. § 1.168-2 (d)(3).	_____	_____	_____
.15) Determine if interest is payable under look-back method where income forecast method is used (SBJPA 1996). Note interest calculation change. (TRA 1997)	_____	_____	_____
.16) Consider accelerated depreciation for qualifying property located on Indian reservations.	_____	_____	_____
402) Determine that amortizable items, including goodwill, are written off over the correct periods.	_____	_____	_____
403) Consider the provisions of Rev. Proc. 96-31 to rectify prior year claims of less than allowable depreciation or amortization.	_____	_____	_____
404) Determine if leased property/equipment should be capitalized.	_____	_____	_____
405) Consider anti-churning rules.	_____	_____	_____
406) For listed property (e.g., cellular phones, autos, computers, airplanes, boats):			
.1) For autos, consider the maximum allowable under the luxury auto rules. Note TRA 1997 exceptions for clean burning and electric vehicles.	_____	_____	_____
.2) For autos, determine limitation if the business usage is 50% or less.	_____	_____	_____
.3) Determine limitations for all other mixed-use property, if the business usage is 50% or less.	_____	_____	_____

Page Completed ☐

	DONE	N/A	COMMENTS OR EXPLANATION
.4) Inquire if the individual has kept the required records indicating the business and personal use of property. Note certain travel between home and temporary work locations is considered business.			
.5) Determine recapture if the business usage is 50% or less.			
407) Form 4562 if required:			
.1) Reconcile depreciation expense to supporting schedules.			
.2) Complete all questions regarding personal use of listed property. Also applies to standard mileage rate autos unless Form 2106 or Schedule C Part IV is used.			
.3) If costs were incurred during the current year, determine that all amortizable items are separately stated and the proper Code section cited.			
408) Consider state depreciation, if different.			
409) Consider federal and state AMT depreciation. Note depreciable lives of tangible personal property placed in service after 1997 are the same for regular and AMT purposes. (TRA 1997)			
410) Make adjustments for depreciable assets which are demolished, obsolete, abandoned and/or out of service. Consider credit recapture.			
411) Report depreciation recapture and related investment credit recapture if taxpayer converted depreciable business assets to non-business personal assets.			
500) TAX COMPUTATIONS AND CREDITS			
501) Compute regular tax.			
.1) Consider phase-out of personal exemptions.			
.2) Consider capital gains tax computation, noting various rates depending on type of asset and holding period. (TRA 1997)			
.3) Consider income averaging for farmers. (TRA 1997)			
502) Alternative minimum tax must be computed by making adjustments such as:			
.1) Personal exemptions allowed in computing regular tax liability.			

Page Completed ☐

	DONE	N/A	COMMENTS OR EXPLANATION
.2) Depreciation on property placed in service after 1986 (or July 31, 1986, if election was made) must be recomputed using the alternative depreciation system (Rev. Proc. 87-57).			
.3) Mining, exploration research and experimental costs must be capitalized and amortized over a ten-year period.			
.4) Income from long-term contracts entered into after February 28, 1986 must be computed using the percentage-of-completion method of accounting. Note exception for "home construction contracts."			
.5) Income from post-February 28, 1986, dispositions of real or personal property held for sale in the ordinary course of business shall be determined without regard to the installment method, except in cases where an election is made to pay interest on the tax deferred by the qualified installment sale.			
.6) Use AMT net operating loss (NOL) deduction in place of the regular NOL deduction. Post-1986 AMT NOL is available only to the extent of 90% of pre-NOL AMTI.			
.7) Compute gains/losses on sales and exchanges using the AMT adjusted basis.			
.8) The spread between the fair market value at the time of exercise and the purchase price of incentive stock options. Consider exception for early disposition.			
.9) Adjust itemized deductions for the following AMT rules:			
.a) No deduction is allowed for miscellaneous itemized deductions or most taxes.			
.b) Medical expenses are subject to a 10% floor.			
.c) Qualified housing interest expense is restricted.			
.d) State tax refunds are excluded from AMTI.			
.e) Overall itemized deduction limitation (3% rule) amount is added back.			
.10) The following preference items must be added:			
.a) Excess intangible drilling costs. Consider election to amortize over 60 months and the § 57(a)(2)(E) exclusion.			

Page Completed ☐

	DONE	N/A	COMMENTS OR EXPLANATION
.b) Tax-exempt interest on private activity bonds issued after August 7, 1986.	_____	____	______________
.c) Accelerated depreciation on real and leased personal property placed in service before January 1, 1987.	_____	____	______________
.11) Consider special rules denying certain losses for AMT purposes:			
.a) Net passive activity losses as adjusted for tax preferences. (Form 8582)	_____	____	______________
.b) Certain farm losses.	_____	____	______________
.c) Insolvent taxpayers.	_____	____	______________
.12) Consider AMT foreign tax credit.	_____	____	______________
503) Consider tax credits such as:			
.1) Child and dependent care credit. (Form 2441)	_____	____	______________
.2) Credit for the elderly or disabled. (Schedule R)	_____	____	______________
.3) Child tax credit. (TRA 1997)	_____	____	______________
.4) Education credits (Hope and Lifetime Learning). (TRA 1997) (Form 8863)	_____	____	______________
.5) Adoption credit. Note the adoption credit may be allowed for adoption expenses paid or incurred in a tax year after the year in which the adoption become final. (TRA 1997) Note higher credit for special needs child. Obtain FTIN if necessary. (Form 8839)	_____	____	______________
.6) Credit for interest paid on Mortgage Credit Certificates. (Form 8396)	_____	____	______________
.7) Foreign tax credit. (Form 1116)	_____	____	______________
.8) Enhanced oil recovery credit. (Form 8830)	_____	____	______________
.9) Credit for providing fuel from non-conventional sources.	_____	____	______________
.10) Earned income credit. (Schedule EIC)(PRWORA 1996) (RRA 98)	_____	____	______________
.11) General business credit. (Form 3800)	_____	____	______________

		DONE	N/A	COMMENTS OR EXPLANATION
.12)	Research and Experimentation Credit. (Form 6765) See TRA 1997 for extension through June 30, 1998.	_____	____	______________
.13)	Low income housing credit. (Form 8586)	_____	____	______________
.14)	Disabled access credit. (Form 8826)	_____	____	______________
.15)	Rehabilitation credit.	_____	____	______________
.16)	Minimum tax credit. (Form 8801)	_____	____	______________
.17)	Credit for employer-paid social security taxes on employee cash tips. (SBJPA) (Form 8846)	_____	____	______________
.18)	Empowerment zone employment credit. (Form 8844)	_____	____	______________
.19)	Credit for purchase of diesel-powered vehicles.	_____	____	______________
.20)	Credit for qualified electric vehicles. (Form 8834)	_____	____	______________
.21)	Credit for qualified clinical testing expenses (Orphan Drug Credit and associated carrybacks and carryovers. (SBJPA) Note permanently extended under TRA 1997.	_____	____	______________
.22)	Work opportunity credit for eligible employees who begin work after September 30, 1996 and before July 1, 1998. (Form 5884) (SBJPA 1996 and TRA 1997)	_____	____	______________
.23)	Welfare -to-work credit for eligible employees who begin work on or after January 1, 1998 and before May 1, 1999. (TRA 1997)	_____	____	______________

504) Determine if the taxpayer is subject to:

		DONE	N/A	COMMENTS OR EXPLANATION
.1)	Self-employment tax.	_____	____	______________
.2)	Credit recaptures. (Investment credit low-income housing credit, qualified electric vehicle credit, mortgage interest credit).	_____	____	______________
.3)	Social security tax on tip income. (Form 4137)	_____	____	______________
.4)	Form 5329 - tax on:			
.a)	Premature distributions.	_____	____	______________
.b)	Overfunding of IRAs and other qualified plans.	_____	____	______________
.c)	Failure to withdraw.	_____	____	______________

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	DONE	N/A	COMMENTS OR EXPLANATION
505) Determine if the taxpayer has paid excess FICA.			
506) Determine if there was withholding on interest, dividends, sale transactions, retirement plan distributions or other sources of income.			
507) Confirm amounts and dates of any federal, state and local estimated tax deposits/payments (including withholding) for the year, prior year overpayments, and extension payments.			
508) If withholding and estimated tax payments are less than required, consider filing Form 2210.			
509) Consider changes needed in withholding or estimated tax for the forthcoming year and set up estimated tax payments including adequate coverage for household employment taxes.			
510) In an overpayment situation, consider filing Form 8379 "Injured Spouse Claim" if taxpayer's spouse has outstanding child or spousal support payments or certain federal debt.			
511) Consider filing Form 9465, Installment Agreement Request. Note effect on any existing installment agreements.			
600) OTHER REQUIREMENTS			
601) Compare taxable income to projections for reasonableness.			
602) If the taxpayer sold partnership interests during year, determine:			
.1) That appropriate information was given to the partnership to enable it to prepare Form 8308.			
.2) That the required statement under Reg. § 1.751-1(a)(3) is attached if the partnership had § 751(a) assets.			
603) If taxpayer acquired partnerships interests, consider providing appropriate information to partnership under Prop. Reg. § 209682-94.			
604) Determine if Form 8271 is required for tax shelters.			
605) Consider capitalizing carrying charges (interest, taxes, etc.) on nonproductive property.			
606) Consider making § 190 election to expense cost of expenditures exceeding the limit for the disabled access credit or for those taxpayers who do not qualify for the disabled access credit.			

Page Completed ☐

	DONE	N/A	COMMENTS OR EXPLANATION
607) Consider the election to forego the net operating loss carryback:			
.1) If electing to forego - attach required statement.	____	____	____________
.2) If carrying back - prepare Form 1045 or Form 1040X. Note carryback period has been changed from three years to two years. (TRA 1997)	____	____	____________
.3) Consider state differences.	____	____	____________
608) If the taxpayer is divorced or separated:			
.1) Obtain a copy of the applicable documents.	____	____	____________
.2) Determine the appropriate basis of property transferred.	____	____	____________
.3) Attach Form 8332 or a copy of the authorizing documentation for dependency exemption on non-custodial parent's tax return.	____	____	____________
609) If under age 14 dependent meets filing requirements:			
.1) Consider need to report taxable income information on dependent's returns.	____	____	____________
.2) If parent elects to report child's interest and dividends, prepare Form 8814.	____	____	____________
610) If final return of deceased taxpayer, determine if the proper allocation has been made for all items of income, deduction and credits between this return and the estate income tax return.	____	____	____________
611) If the taxpayer has made an "applicable asset acquisition" transfer of assets (that constitute a trade or business), determine that applicable reporting requirements regarding allocation of purchase price have been met. (Form 8594)	____	____	____________
612) Consider § 6662 accuracy-related penalty. If this penalty could apply:			
.1) Consider if substantial authority exists for the item in question. If not, consider disclosure (Form 8275 or 8275R).	____	____	____________
.2) Consider advising the taxpayer, in writing, of the penalty.	____	____	____________
613) Prepare state and local tax returns. Review each state's modification requirements. Note some states' filing requirements are based on federal AGI. Taxpayer may be required to file even though taxpayer has negative AGI in that state. Consider state and local credits.	____	____	____________

Page Completed ☐

	DONE	N/A	COMMENTS OR EXPLANATION
614) If filing multistate returns, determine if a credit may be claimed on resident state tax return for taxes paid to other states.	____	____	____
615) Information returns:			
.1) Inquire whether the taxpayer has filed all required information returns (1098, 1099 and 1042 series) and whether the value of personal use portion of employer property, expense reimbursements under "unaccountable plans" and § 401(k) deferred compensation information has been included in employees' W-2s. Note new reporting requirements on certain payments made to attorneys. (TRA 1997)	____	____	____
.2) Inquire if the taxpayer has complied with magnetic media filing requirements for Forms 1099 and W-2.	____	____	____
.3) Inquire if additional items subject to employer FICA such as § 401(k) deferrals, employer-provided excess group-term life insurance, all cash tips, etc., have been properly reported.	____	____	____
.4) Determine that reimbursement of employee moving expenses and tuition and related expenses are properly reported. (TRA 1997)	____	____	____
.5) Consider filing information returns relating to foreign partnerships and corporations. (TRA 1997)	____	____	____
616) Inquire if employment taxes were timely deposited. Consider EFTPS requirements.	____	____	____
617) Consider informing client of requirement to file Form 8300 for certain payments received exceeding $10,000.	____	____	____
618) Determine that 5500 series forms have been filed for cafeteria plans and for welfare benefit plans (e.g., medical benefit plans, life insurance, disability or death benefit plans) that have more than 100 participants.	____	____	____
619) Determine if Form TD F 90-22.1 is needed to report foreign financial accounts.	____	____	____
620) Inquire if gift tax returns are required.	____	____	____
621) For gifts received after August 20, 1996 by a U.S. person from foreign donors under § 6039F, consider need to file information return. (HIPAA 1996)	____	____	____
622) Include Form 1040V for payments noting IRS lockbox address.	____	____	____

Page Completed ☐

	DONE	N/A	COMMENTS OR EXPLANATION
623) Consider direct deposit for refunds.			
624) Include/attach extension request(s).			
625) Prepare filing instructions and transmittal letter.			
626) Note tax planning/additional service suggestions.			

COMMENTS OR EXPLANATIONS

Page Completed ☐

MINI-CHECKLIST
ESTATE AND TRUST INCOME TAX RETURN
1998 - FORM 1041

Client Name and Number: ______________________________

Prepared by: ______________ Date: ____________ Reviewed by: ____________________ Date: ____________

GENERAL INFORMATION	Done	N/A
1. Review and update taxpayer information including beneficiaries' names, addresses, social security numbers and birth dates.	☐	☐
2. Complete Form 1040 Schedule H.	☐	☐
3. Review prior year returns, workpapers, correspondence and audit results.	☐	☐
4. Consider signed engagement letter.	☐	☐
5. Check for carryovers and update schedules including effect of prior tax audits.	☐	☐
6. Verify that a copy of will or trust agreement, Form 706 or Form 709 is in file.	☐	☐
7. Verify classification of trust (grantor, simple, complex, bankruptcy, etc.).	☐	☐
8. Determine situs of trust.	☐	☐
9. Determine residencies of trustee(s) and beneficiaries.	☐	☐
10. Determine state filing requirements.	☐	☐
11. Determine basis for all assets received.	☐	☐
12. Inquire if foreign financial accounts exist.	☐	☐
13. Determine basis adjustment due to grantor's death.	☐	☐
14. If first return, allocate income and deductions among trust, estate and/or 1040.	☐	☐
15. Determine changes in interests of beneficiaries during year.	☐	☐
16. Review pro forma/organizer for accuracy.	☐	☐
17. Review accounting methods.	☐	☐
18. Determine if Form 56 is necessary.	☐	☐
19. Review for trust termination date.	☐	☐
20. Inquire about trustee changes.	☐	☐
21. Note GST inclusion ratio and determine that adequate support is in the file to verify inclusion ratio.	☐	☐
22. Consider filing power of attorney.	☐	☐
23. Determine if a foreign trust.	☐	☐
24. Confirm proof as U.S. citizens for grantor and beneficiaries.	☐	☐

INCOME	Done	N/A
1. Compare sources of income with prior year.	☐	☐
2. Properly report all adjustments from changes in period or method.	☐	☐
3. Sale or dispositions of property:		
Check for related party sales & consequences.	☐	☐
Like-kind exchanges.	☐	☐
Utilize suspended losses.	☐	☐
Installment sales:		
Depreciation recapture reported in year of sale	☐	☐
Adequate interest rate	☐	☐
Consider electing out of installment sale treatment	☐	☐
Report proper amount from pledging receivables	☐	☐
Involuntary conversions. See SBJPA 1996 and TRA 1997.	☐	☐
4. Determine holding period and basis of sold assets.	☐	☐
5. Review passive loss limitations and carryovers.	☐	☐
6. Determine separate passive activity reporting.	☐	☐
7. Review K-1s for proper reporting of data.	☐	☐
8. Consider election for gain/loss on distributed property (§ 643(e)).	☐	☐
9. Compute trust accounting income.	☐	☐
10. Determine if capital gains are allocated to DNI.	☐	☐
11. Determine if property sold before August 6, 1997 was contributed to trust within 2 years of sale. (§ 644).	☐	☐
12. Determine if discharge of indebtedness income.	☐	☐
13. Determine limitation on losses from related party transactions.	☐	☐

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MINI-CHECKLIST
ESTATE AND TRUST INCOME TAX RETURN
1998 - FORM 1041

DEDUCTIONS

	Done	N/A
1. Determine proper allocations and limitations on interest expense relating to the following expenditures: investments, trade/business, passive, tax-exempt, etc.	☐	☐
2. If tax exempt income, allocate deductions.	☐	☐
3. Consider depreciation requirements.	☐	☐
4. Determine that amortizable items are written off over the correct period.	☐	☐
5. Inquire about other possible deductions (charitable, taxes, business, worthless securities, casualty losses).	☐	☐
6. T&E expenses - inquire if support is adequate.	☐	☐
7. Limit deduction for meals and entertainment to allowable percentage.	☐	☐
8. Compute distribution deduction.	☐	☐
9. Determine if there is a 65-day distribution, limited to taxable income.	☐	☐
10. Determine if a deduction for estate tax attributable to income in respect of a decedent is available.	☐	☐
11. Consider that TRA 1997 repealed accumulation distributions for most domestic trusts.	☐	☐

TAX COMPUTATION AND CREDITS

	Done	N/A
1. Compute tax, including AMT.	☐	☐
2. Compute AMT-DNI.	☐	☐
3. Compute credit recapture.	☐	☐
4. Confirm for prior year overpayments, estimates and extension payments.	☐	☐
5. Prepare estimated tax vouchers.	☐	☐
6. Determine whether estimated tax should be 100% or 105% of prior year.	☐	☐
7. Compute underpayment penalties. (TRA 1997)	☐	☐
8. Consider tax credits. (SBJPA 1996 and TRA 1997).	☐	☐

OTHER REQUIREMENTS

	Done	N/A
1. Prepare Schedule(s) K-1.	☐	☐
2. If trust tax payments are allocated to beneficiaries, file Form 1041-T within 65 days of year end.	☐	☐
3. Inquire if information returns have been filed.	☐	☐
4. Consider election to forego NOL carryback.	☐	☐
5. Prepare state income and intangibles returns.	☐	☐
6. Consider credits for multistate returns.	☐	☐
7. Determine excess deductions or losses available to beneficiaries in final year.	☐	☐
8. Determine if a generation skipping distribution was made, prepare Form 706 GS(T) or GS(D) and (D-1).	☐	☐
9. Consider risk of accuracy-related penalty (§ 6662).	☐	☐
10. Attach extension request(s).	☐	☐
11. Note tax planning/additional service suggestions.	☐	☐

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SHORT VERSION
ESTATE AND TRUST INCOME TAX RETURN CHECKLIST
1998 - FORM 1041

Client Name and Number: ______________________________

Prepared by: ____________ Date: ______ Reviewed by: ____________ Date: ______

	DONE	N/A	COMMENTS OR EXPLANATION
100) GENERAL INFORMATION			
101) Review and update trust's name, address, beneficiaries, social security numbers, etc., and IRS and other tax processing centers.			
102) Determine if taxpayer had household employees. Complete Form 1040 Schedule H.			
103) Review permanent file, prior returns, workpapers, etc.			
104) Consider signed engagement letter.			
105) Obtain information concerning IRS, state tax audits, and/or correspondence.			
106) Check for carryover items and update carryforward schedules including effect of prior tax audits.			
107) Verify that copies of will or trust and Form 706, or 709, if applicable and the date created for GST purposes are in the file.			
108) Determine proper classification of trust (grantor, simple, complex, unitrust, annuity, bankruptcy estate).			
109) Determine proper basis of property passing from a decedent.			
110) Determine situs of trust.			
111) Determine residencies of trustee(s) and beneficiaries.			
112) Review computer-generated pro forma/organizer for accuracy.			
113) Determine state filing requirements.			
114) Determine if accounting methods used are comparable to the preceding year unless changes are approved or required.			
115) Determine if there have been any changes in income interests or rights over corpus of beneficiaries during the year.			
116) Inquire about changes in trustees.			

Page Completed ☐

117) Determine if gift tax returns are required by grantor. ____ ____ __________

118) Consider obtaining copies of marriage, birth and death certificates. ____ ____ __________

119) Consider obtaining documentation affirming grantor's and beneficiaries' status as U.S. citizens. ____ ____ __________

120) If first return, determine proper allocation of income and deductions between trust, estate, and/or 1040. ____ ____ __________

121) Review trust for termination date. ____ ____ __________

122) If a trust, determine accounting income. ____ ____ __________

123) Consider filing Form 56 (not required). ____ ____ __________

124) Determine that all current adjustments from changes in accounting method and period are reported. ____ ____ __________

125) Inquire if foreign financial accounts exist. ____ ____ __________

126) Note GST exclusion ratio and determine that adequate support is in the file to verify inclusion ratio. ____ ____ __________

127) Consider filing power of attorney. ____ ____ __________

128) Determine if a foreign trust. ____ ____ __________

129) Determine if a U.S. person created or transferred property to a foreign trust. (SBJPA 1996) ____ ____ __________

130) Determine proper reporting if foreign trust has a U.S. grantor or the trust made distributions to a U.S. person. (SBJPA 1996) ____ ____ __________

131) Determine if an "abusive trust arrangement" exists. ____ ____ __________

132) Inquire about any IRS or state taxing authority correspondence. ____ ____ __________

133) Determine proper filing if bankruptcy estate of an individual and gross income exceed $6,100. ____ ____ __________

134) If an estate, determine if it is open more than 2 years. ____ ____ __________

200) INCOME

201) Compare sources of income with prior year. ____ ____ __________

202) Sale or dispositions of property: ____ ____ __________

Page Completed ☐

.1) Check for recapture items. ____ ____ ____________

.2) Review interest rates on debt instruments. ____ ____ ____________

.3) Consider installment reporting for sales that qualify. ____ ____ ____________

.4) Report proper amount from pledging installment receivables. ____ ____ ____________

.5) Determine the holding period and federal, state, and AMT tax bases of disposed property. ____ ____ ____________

.6) Determine the effect of dividends (stock and reinvested) and OID on basis of sold assets. ____ ____ ____________

.7) Consider rules for related party and like-kind exchanges (Form 8824). ____ ____ ____________

.8) Utilize suspended losses. ____ ____ ____________

.9) Involuntary conversions. (SBJPA 1996.) ____ ____ ____________

203) Report gains on constructive sales of appreciated financial positions occurring after June 8, 1997. (TRA 1997) ____ ____ ____________

204) Determine if property sold before August 6, 1997 was contributed to trust within 2 years of sale (§ 644). (TRA 1997) ____ ____ ____________

205) Determine proper reporting of all annuities (SBJPA 1996), qualified retirement plans, IRAs, etc. ____ ____ ____________

206) Determine separate passive activity reporting. ____ ____ ____________

207) Consider regular and AMT passive activity loss limitations, carryovers and elections (see Passive Activity checklist). ____ ____ ____________

208) Review K-1s to determine that all are present and that all items have been properly reported. ____ ____ ____________

209) Inquire about other possible sources of income such as salaries, dividends, interest, rents, taxable fringe benefits, etc. ____ ____ ____________

210) Determine that gain is reported if appreciated property is used to satisfy pecuniary bequest. ____ ____ ____________

211) Consider the election to recognize gain or loss when property is distributed (§ 643(e)). ____ ____ ____________

Page Completed ☐

212) Consider ordinary income treatment from gain on sale of market discount bonds. _____ _____ __________

213) Consider the mark to market rules for dealers in securities (§ 475). _____ _____ __________

214) Determine if there is income from discharge of indebtedness. Consider exclusion and elections under § 108 and Form 982. _____ _____ __________

215) If trust is an electing small busmiess trust (§ 1361(c)(2)(A)(v)) consider special taxation rules under § 641(d). (SBJPA 1986) _____ _____ __________

300) DEDUCTIONS

301) Determine the proper allocation of and limitations on deductions for interest and other expenses relating to:

.1) Investment expenditures. _____ _____ __________

.2) Qualified residence interest. _____ _____ __________

.3) Trade or business expenditures. _____ _____ __________

.4) Passive activity expenditures. _____ _____ __________

.5) Tax-exempt investments. _____ _____ __________

.6) Capitalization of interest during construction. _____ _____ __________

.7) Inventory and cost of goods sold. _____ _____ __________

.8) Meals and entertainment expenses (allowable percentage). _____ _____ __________

.9) Club dues. _____ _____ __________

302) Consider all depreciation requirements and options including:

.1) Note that § 179 deduction is not allowed. _____ _____ __________

.2) Requirements relating to listed property. _____ _____ __________

.3) Determine if leased property should be capitalized. _____ _____ __________

.4) Determine basis for federal and state purposes. _____ _____ __________

303) Determine that amortizable items, including goodwill, are written off over the correct periods. _____ _____ __________

Page Completed ☐

304) Inquire about other possible deductions such as charitable contributions, taxes, employee business expense, worthless securities, casualty losses, vacation homes, etc. ____ ____ ____________

305) Determine amount of distribution deduction, limited to taxable income. ____ ____ ____________

306) Determine if a property distribution, the amount claimed is equal to the lesser of adjusted basis, or fair market value. ____ ____ ____________

307) Determine if loans made after Sept. 19, 1995 by a foreign trust to a U.S. grantor or beneficiary should be treated as distributions. ____ ____ ____________

308) Consider 65 day distribution election for complex trust or estate. ____ ____ ____________

309) Determine the amount of deduction for estate tax attributable to income in respect of decedent, including generation skipping transfer tax. ____ ____ ____________

310) Attach proper election for items deducted on Form 1041 that could have been claimed on Form 706. ____ ____ ____________

311) Determine passive activity reporting for activities distributed to beneficiaries. ____ ____ ____________

312) Determine limitation on losses from related party transactions. ____ ____ ____________

313) Determine if basis limitation rules apply, e.g., §§ 267, 469, 704(d), 1366(d). ____ ____ ____________

314) Determine that there is no § 6166 interest deduction for decedents dying after 1997. ____ ____ ____________

400) TAX COMPUTATION AND CREDITS

401) Compute tax, including alternative minimum tax. ____ ____ ____________

402) Compute all applicable credits, including carryovers. (See SBJPA 1996 and TRA 1997.) ____ ____ ____________

403) Claim prior year overpayment applied, estimate payments, and extension payment. ____ ____ ____________

404) Compute credit recapture. ____ ____ ____________

405) Compute tax underpayment penalties. ____ ____ ____________

406) Prepare estimated tax vouchers. (EFTPS) ____ ____ ____________

Page Completed ☐

407) If estimate is based on prior year, determine if 100% or 105% rule applies. _____ _____ ____________

408) If multistate filing, claim credit for taxes paid to nonresident states. _____ _____ ____________

500) OTHER REQUIREMENTS

501) Determine that proper classifications of income have been made on Schedule(s) K-1. _____ _____ ____________

502) Determine if estimated tax payments should be allocated to beneficiaries. File Form 1041-T within 65 days of year end. _____ _____ ____________

503) Consider that TRA 1997 repealed accumulation distributions for most domestic trusts. _____ _____ ____________

504) Determine if Form 8271 is required for tax shelters, attach to Schedule K-1. _____ _____ ____________

505) Consider capitalization of carrying charges on non-productive property. _____ _____ ____________

506) Consider election to forego net operating loss carryback. _____ _____ ____________

507) Consider risk of accuracy-related penalty (§ 6662). _____ _____ ____________

508) Prepare state and local tax returns. _____ _____ ____________

509) Determine if excess deductions or losses available to beneficiaries in final year. _____ _____ ____________

510) Determine if there has been a generation skipping distribution, and prepare Form 706GS(D), 706GS(D-1) or 706GS(T). _____ _____ ____________

511) Compare taxable income to projections. _____ _____ ____________

512) Attach extension requests. _____ _____ ____________

513) Inquire if information returns (1098 and 1099 series) have been filed. _____ _____ ____________

514) Inquire if employment taxes paid/timely deposits. (EFTPS) _____ _____ ____________

515) Consider distribution of income reconciliation to beneficiary. _____ _____ ____________

516) Note tax planning/additional service suggestions. _____ _____ ____________

Page Completed ☐

SHORT VERSION
ESTATE AND TRUST INCOME TAX RETURN CHECKLIST
1998 - FORM 1041

COMMENTS OR EXPLANATIONS

Page Completed ☐

ESTATE AND TRUST INCOME TAX RETURN CHECKLIST
1998 - FORM 1041

Client Name and Number: ____________________

Prepared by: ____________ Date: ________ Reviewed by: ____________ Date: ________

	DONE	N/A	COMMENTS OR EXPLANATION
100) GENERAL INFORMATION			
101) Review the trust or estate's name, address, fiscal year, type of entity, identification number, date entity was created, and IRS and other processing centers. Note changes.	____	____	____________
102) Review permanent file, prior year returns, memos, workpapers, correspondence files.	____	____	____________
103) Verify that copies of the trust agreement or will and Form 706 or Form(s) 709, and the date created for GST purposes are in the permanent file. Check for amendments, revisions, litigation, etc., since last review.	____	____	____________
104) Inquire about changes in trustees. If changed, obtain documentation relating to approval and acceptance of successor trustee.	____	____	____________
105) Determine proper classification of trust (grantor, simple, complex, unitrust, annuity, bankruptcy estate).	____	____	____________
106) If grantor trust, consider alternative reporting methods. Note: A final Form 1041 for the tax year immediately preceding first year of alternative reporting should be filed. (Reg. § 1.671-4(g))	____	____	____________
107) Consider signed engagement letter.	____	____	____________
108) If the trust or estate has been examined by the IRS or state taxing authority:	____	____	____________
.1) Obtain copies of the revenue agent's reports.			
.2) Determine that the agent's adjustments have been entered in the trust's records and appropriate carryover workpapers.	____	____	____________
.3) If the agent's adjustments affect federal or state income tax returns of years other than those audited, or the corresponding federal or state returns for the same year, consider filing amended returns.	____	____	____________
109) Obtain copies of correspondence with IRS or state taxing authority. Consider impact.	____	____	____________

Page Completed ☐

	DONE	N/A	COMMENTS OR EXPLANATION
110) Inquire about any correspondence between trustee and beneficiaries relating to distributions.	_____	____	______________
111) Document the various provisions which determine the tax treatment of income, corpus, and distributions.	_____	____	______________
112) Determine that the basis used for property passing from a decedent is based on fair market value at date of death or other applicable estate tax value.	_____	____	______________
113) Review computer-generated pro forma/organizer for accuracy.	_____	____	______________
114) Review proper filing requirements if the trust appears to be an "abusive trust arrangement" (aka "Unincorporated Business Trusts"). (Notice 97-24, 1997-16 IRB).	_____	____	______________
115) Review and update schedules for federal and state carryover items (regular and AMT) such as:			
.1) Update the trust or estate carryforward data schedule for any nontaxable dividends, or reinvested dividends or original issue discount (OID).	_____	____	______________
.2) Net operating loss.	_____	____	______________
.3) Capital loss.	_____	____	______________
.4) Investment credit.	_____	____	______________
.5) Minimum tax credit.	_____	____	______________
.6) Other credits.	_____	____	______________
.7) Installment sales. Consider applicable tax rates for components of gain.	_____	____	______________
.8) Change of accounting adjustments (§ 481).	_____	____	______________
.9) Passive activity losses/credits.	_____	____	______________
.10) Suspended losses/credits due to at-risk limitations.	_____	____	______________
.11) Partnership or S basis.	_____	____	______________
.12) "Publicly traded partnership" losses.	_____	____	______________
.13) Investment interest.	_____	____	______________

	DONE	N/A	COMMENTS OR EXPLANATION
.14) Prior year overpayment(s) credited to subsequent year.			
.15) Distributions within 65 days of year end exceeding DNI.			
116) Determine that the box has been checked when estate has been open more than 2 years.			
117) Inquire if the trust or estate has made or received any below-market loans. If so, determine imputed interest consequences and existence of properly executed notes.			
118) Review for adequate stated interest on debt instruments:			
.1) Determine whether OID or the unstated interest rules require restatement of note interest and principal.			
.2) Consider election for purchased discount under § 1278.			
119) Review for proper reporting of interest recognition in accordance with Reg. §§ 1.483-4 and 1.1274-5 for debt instrument providing contingent.			
120) Determine that accounting methods used are comparable to the preceding year unless changes are approved or required.			
121) If accrual method of accounting, note exception from economic performance for recurring items.			
122) Inquire that information regarding beneficiaries' names, social security numbers, addresses, states of residency, dates of birth, etc., is correct.			
123) Consider obtaining copies of marriage certificates and birth certificates of beneficiaries.			
124) Consider obtaining copies of death certificates of decedents (estates) and beneficiaries.			
125) Consider obtaining documentation affirming grantor(s) and/or beneficiaries' status as U.S. citizens.			
126) If beneficiary is not a U.S. citizen or resident, determine that current Forms W-8 and 1001 are in file.			
127) Determine if there have been changes in income interests of beneficiaries during the year and document.			

Page Completed ☐

	DONE	N/A	COMMENTS OR EXPLANATION
128) Determine if there have been changes in rights over corpus during the year.			
129) If a trust, determine accounting income as provided under the governing document and applicable state law.			
130) Determine that short-term capital gains distributed by mutual funds are taxed as ordinary income (included in DNI). (PLR 9811036)			
131) Ascertain whether this trust is taxed as a corporation. If so, complete the 1120 checklist.			
132) Determine if the grantor (or spouse) has a reversionary interest equal to or greater than 5%.			
133) Review powers of trustee.			
134) Review documents to determine if trust is income tax defective to grantor (grantor taxed on income)			
135) Review powers of spouse or others which may cause grantor trust application.			
136) Determine situs of trust for state tax filing purposes.			
137) Determine residencies of trustees and beneficiaries and related state income tax return filing requirements as a result of their residences.			
138) Determine if multistate filing is required.			
139) Review respective state income tax structure for differences in reporting from federal.			
140) If this is a Clifford Trust, list the reversion date _______________.			
141) Review trust agreement for termination date; list date __________.			
142) Determine holding period and adjusted basis of assets acquired via donor gift.			
143) Review capital assets for changes (reorganizations, stock dividends, etc.)			
144) If first return, determine proper allocation of income and deductions between trust, estate and/or 1040.			

145) If first return of an estate:

Page Completed ☐

	DONE	N/A	COMMENTS OR EXPLANATION
.1) Consider fiscal year filing.			
.2) Determine that income in respect of decedent (IRD) has been properly included, and an appropriate estate tax credit has been claimed.			
146) Consider filing Form 56 (Fiduciary Relationship Notice) even though not required.			
147) Determine if the executor of an estate and the trustee of a qualified revocable trust elect to treat the trust as part of the estate. ((No separate trust filing is required) TRA 1997, Rev. Proc. 98-13)			
148) Determine proper filing if a bankruptcy estate for an individual under Chapter 7 or 11 of the U.S. Code, if gross income is $6,100 or more.			
149) Determine if taxpayer had household employees.			
.1) Obtain state reporting number.			
.2) Complete Form 1040 Schedule H.			
150) Note GST inclusion ratio and determine that adequate support is in the file to verify inclusion ratio.			
151) Consider filing power of attorney.			
152) Determine if the trust is a foreign trust.			
.1) Determine if trustee will modify the trust to conform to post 1996 standards. If so, consider attaching disclosure statement to returns for two year period. (TRA 1997 § 1601(i)(4)(D)).			
.2) If the trust was in existence as of August 20, 1996, consider election to apply post 1996 standards retroactively, if appropriate. (TRA 1997 § 1601(i)(4)).			
153) Determine if a U.S. person created a foreign trust. (SBJPA 1996) (TRA 1997 § 1601(i)(3)(A), IRC § 641(b)).			
154) Determine if Form 3520/3520A is required to be filed in conjunction with creation of a foreign trust or transfer of property to or receipt of property from a foreign trust. (SBJPA 1996. IRC § 6048(a)). (Note exceptions for Canadian Registered Retirement Savings Plan (RRSP) under U.S.-Canada Treaty)			
155) Inquire if a U.S. beneficiary of a foreign trust transferred property to a foreign grantor of the trust. (SBJPA 1996)			

	DONE	N/A	COMMENTS OR EXPLANATION
156) Consider treatment of obligations issued or guaranteed by the trust in connection with property transfers made after February 6, 1995, or any grantor or beneficiary of the trust or related party. (TRA 1997 § 1601(i)(2), IRS § 679(a)(3)(c)).	____	____	____________
.1) For transfers through August 4, 1997, note 35% excise tax. (SBJPA 1996)	____	____	____________
.2) For transfers on or after August 5, 1997, consider gain recognition. (TRA 1997 § 113(b), IRC § 684(a)).	____	____	____________
157) Determine if the trust was a domestic trust that became a foreign trust. Consider gain recognition. (TRA 1997 § 1131(b), IRC § 648(c)).	____	____	____________
158) Determine if the foreign trust has a U.S. grantor. Note the reporting requirements of IRC Sec. 6048. (SBJPA 1996)	____	____	____________
159) Determine if the foreign trust made distributions, either directly, or indirectly, to a U.S. person. IRC Sec. 6048. (SBJPA 1996)	____	____	____________
200) INCOME			
201) Compare sources of dividend and interest income with prior year items.	____	____	____________
202) Review 1099s for dividends, interest, and gross proceeds from sales.	____	____	____________
203) Review assets to determine if any exist that may produce non-cash income, e.g., OID, market discount, etc.	____	____	____________
204) If a 1099-OID is received, compute includible amount.	____	____	____________
205) Review dividends in order to segregate taxable, non-taxable and capital gain portions.	____	____	____________
206) Inquire if the trust or estate had investment income from foreign sources and if tax was withheld.	____	____	____________
207) Determine if state tax refund shown on prior year return was received or credited and included in income.	____	____	____________
208) Disclose exempt interest on state and municipal bonds. Determine deductible portion of administrative expense.	____	____	____________
209) Consider excluding interest on United States obligations from the state returns.	____	____	____________

	DONE	N/A	COMMENTS OR EXPLANATION
210) Consider whether municipal bond interest excluded on federal return should be added back on state return.	____	____	____________
211) Review reporting of income tax refunds based on the tax benefit rule.	____	____	____________
212) Determine if there was interest on tax refunds.	____	____	____________
213) Determine that installment sales are reported properly.	____	____	____________
.1) Consider related party rules.	____	____	____________
.2) Determine that the full amount of depreciation recapture is reported in the year of sale whether or not payment was received in the year.	____	____	____________
.3) Review for adequate stated interest on debt instruments received in connection with the sale. Determine whether original issue discount or unstated interest rules require restatement of note interest and principal.	____	____	____________
.4) Determine if the taxpayer is a "dealer" with respect to the related property. If so:			
(a) Determine that the installment method is <u>not</u> used to report post-1987 sales of dealer property. (Exceptions - farm property, certain timeshare rights and residential lots if proper election is made.)	____	____	____________
(b) Determine that the interest owed as a result of an election (a) above is properly reported.	____	____	____________
(c) Consider that manufacturers of tangible personal property will not be eligible to use the installment method for sales to dealers after August 5, 1998 (TRA 1997)	____	____	____________
.5) Consider special rules for installment reporting by certain non-dealers of real (post-1986 sales) or personal property (post-1988 sales) where the sale price exceeds $150,000. (§ 453A) (Does not apply to certain farm property.)	____	____	____________
(a) Compute the interest charge imposed on tax deferred outstanding installment obligations if the face amount of these obligations that arose during, and are still outstanding at the close of the tax year, exceeds five million dollars.	____	____	____________
(b) Determine that the proper amount is treated as a collection on any pledged installment obligation.	____	____	____________

Page Completed ☐

	DONE	N/A	COMMENTS OR EXPLANATION
.6) Consider electing out of installment method.	_____	_____	_____
.7) Determine if an event has occurred requiring accelerated recognition of the remaining unreported gain (e.g., resale rule for related parties, cancellation of the installment obligation, disposition of the installment obligation).	_____	_____	_____
214) If after year of installment sale, determine that the proper income is reported after giving recognition to recapture amount.	_____	_____	_____
215) If property was sold, exchanged, or involuntarily converted during the year, consider the provisions relating to:			
.1) Nonrecognition of gain or loss (Form 8824). Note restrictions on exchanged of US property for foreign property. (TRA 1997)	_____	_____	_____
.2) Recapture of depreciation (including § 291 recapture) and/or tax credits, or reduction of credit carry forwards. Note § 1245 applications. (TRA 1997)	_____	_____	_____
.3) Like-kind exchanges with related parties. Determine if there has been a disposition within two years of transfer.	_____	_____	_____
.4) Presidentially declared disasters. SBJPA 1996.	_____	_____	_____
.5) Forced sale of livestock on account of weather related conditions.	_____	_____	_____
216) Determine that gains on installment sales made by decedent are properly reported.	_____	_____	_____
217) Consider the effect on basis of nontaxable stock dividends, reinvested dividends and OID.	_____	_____	_____
218) Determine holding period, applicable tax rates, state and AMT tax bases of assets sold. (TRA 1997), Internal Revenue Service Restructuring and Reform Act of 1998 (RRA 1998)	_____	_____	_____
219) Determine if there has been a sale of a mutual fund and that a proper basis computation has been made.	_____	_____	_____
220) Determine limitations if there has been a sale of a mutual fund at a loss within six months of acquisition.	_____	_____	_____
.1) a capital gain dividend was received, or	_____	_____	_____
.2) exempt-interest dividend was received.	_____	_____	_____

	DONE	N/A	COMMENTS OR EXPLANATION
221) Review application of the wash sale rules.	____	____	____________
222) Review application of straddle rules and available elections under § 1092.	____	____	____________
223) Consider limitations of losses for transactions with related parties.	____	____	____________
224) Determine that sales of securities settled after year end, with a trade date within current year, are reported this year. Note special rules for short sales in § 1233.	____	____	____________
225) Report gains on constructive sales of appreciated financial positions occurring after June 8,1997. (TRA 1997)	____	____	____________
226) Consider rollover of gain on the sale or exchange of small business stock after August 5, 1997 held for more than six months if other qualified small business stock is bought within 60 days of the sale. (TRA 1997)	____	____	____________
227) If there are § 1231 gains, determine the amount subject to ordinary income treatment as a result of five year recapture rule for prior net § 1231 losses.	____	____	____________
228) Compare sources of K-1s with prior year. Review current K-1s to determine that all items have been properly reported.	____	____	____________
229) Consider limitations of § 465 at risk, § 704(d) and/or § 1366(d) basis rules.	____	____	____________
230) If partnership interests are held, determine the following:			
.1) If a decedent was involved, determine if a § 754 election was made at partnership level.	____	____	____________
.2) If a basis adjustment has occurred, account for differences between "inside" and "outside" basis.	____	____	____________
.3) If the final year of a partnership determine that distributions listed on the K-1 were received. Account for any differences and determine proper reporting.	____	____	____________
231) If a distribution or technical termination has occurred in a partnership, consider both new allocation of basis rule under § 732(c) (TRA 1997), § 751(c)(RRA 1998), and making a § 732(d) election. Note exception for post May 9, 1997 technical terminations. (Reg. 1.708-1)	____	____	____________

	DONE	N/A	COMMENTS OR EXPLANATION
232) Determine if there are any passive activities. (See Passive Activity Checklist). Note that activities must be grouped in accordance with Prop. Reg. § 1.469-4.			
.1) If an estate, consider the $25,000 special allowance exception for rental real estate.			
.2) Determine if pass-through entity in which the trust has an interest has separately reported activities.			
.3) Prepare Form 8582.			
233) If the taxpayer recovered amounts previously deducted, determine if the full benefit was received from prior years' deductions.			
234) Determine if the taxpayer has an S corporation or partnership loss carryforward not previously utilized due to insufficient basis and determine if additional basis has been generated in current year to deduct all or a portion of the unused losses.			
235) If decedent involved, determine if taxpayer is a Qualified Subchapter S Trust (QSST).			
236) If trust is an electing small business trust (§ 1361(c)(2)(A)(v), consider special taxation rules under § 641(d). (SBJPA 1996)			
237) If the taxpayer is a QSST shareholder that made loans to the corporation to utilize losses, determine gain on repayment.			
238) If appreciated property is used to fund a pecuniary bequest, determine that gain is recognized and that the new basis is properly reflected. Verify that information is provided to recipient.			
239) For leased vehicles and property, obtain the business and personal usages and calculate the appropriate income inclusion amount to be reported by referring to the IRS tables.			
240) Inquire if there are worthless securities. Note that substantial worthlessness of short sale property is a gain recognition event.			
241) Consider ordinary income treatment for gain on sale of market discount bonds:			
.1) Taxable bonds issued after July 18, 1984, or issued before July 19, 1984 and purchased after April 30, 1993.			
.2) Tax exempt bonds purchased after April 30, 1993.			

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	DONE	N/A	COMMENTS OR EXPLANATION
242) Consider the mark to market rules for "dealers in securities" under § 475 and the related § 481 adjustment.	____	____	____________
243) Determine if there is income from discharge of indebtedness.	____	____	____________
.1) Consider exclusion and elections under § 108. (See new amendments to proposed amendment to Reg. § 1.1017-1.)	____	____	____________
.2) Consider Form 982.	____	____	____________
244) Inquire if the taxpayer engaged in bartering transactions.	____	____	____________
245) Consider the proper treatment of qualified/nonqualified plan distributions.	____	____	____________
300) DEDUCTIONS			
301) For all businesses of the taxpayer:			
.1) Review the taxpayer's vacation pay policy to determine if a deduction is allowable on the accrual basis (vested at year end and paid within two and one-half months after year end).	____	____	____________
.2) Consider applicability of uniform capitalization rules to resellers with annual gross receipts in excess of $10 million and all producers of property. (Note final regulations related to general rules (§ 1.263A), producers (§ 1.263A-2) and resellers (§ 1.263A-3)).	____	____	____________
(a) Determine that all costs are included.	____	____	____________
(b) Consider interest capitalization rules for debt incurred to produce property.	____	____	____________
(c) If the beginning inventory is revalued to conform to final regulations:			
(i) Ascertain the amount of adjustment required for the beginning inventory due to the change in method of accounting (§ 481).	____	____	____________
(ii) Ascertain § 481 forward spread period (not to exceed four years).	____	____	____________
(iii) Determine that Form 3115 is attached to the tax return for the year of change.	____	____	____________
(iv) consider electing "simplified" methods.	____	____	____________

	DONE	N/A	COMMENTS OR EXPLANATION
(d) For farmers and ranchers consider:			
(i) One-time election out of uniform capitalization rules if election was not required in a prior year.	_____	____	______________
(ii) The exemption for expenses incurred in the production of animals.	_____	____	______________
(e) Review the definition of "produce".	_____	____	______________
.3) Long-Term Contracts			
(a) Determine if the taxpayer is subject to the long-term contract reporting rules requiring that the percentage of completion method, instead of the completed contract method, be used to determine taxable income. Note exceptions for certain qualifying construction contracts and most contracts for the manufacture of property.	_____	____	______________
(b) In determining whether contracts of the taxpayer are subject to the percentage of completion method of reporting, consider:			
(i) Related party rules.	_____	____	______________
(ii) Contract aggregation rules.	_____	____	______________
(c) Determine that the percentage of completion is calculated based on costs incurred, not work performed.	_____	____	______________
(d) Determine that all required costs have been allocated to the contracts. Note the expanded requirement to capitalize costs similar to the uniform capitalization rules.	_____	____	______________
(e) Consider electing the simplified method of allocating costs, whereby fewer costs are taken into account, to determine the degree of contract completion.	_____	____	______________
(f) Consider electing the modified percentage of completion method, whereby the recognition of income and accounting for costs is deferred until the first tax year in which at least 10% of the estimated total contract costs have been incurred as of the end of that year. Note that this election is not available if the simplified method above has been elected.	_____	____	______________
(g) Upon completion of a contract, determine that the "look-back rule" has been applied to compare actual contract			

	DONE	N/A	COMMENTS OR EXPLANATION
price and costs to previously used estimates and pay/claim interest on the related changes in prior years taxes on Form 8697. Note that certain small contracts are not subject to the "look-back rule." See TRA 1997 for changes in interest calculations and election to not apply look-back method.			
302) Complete Schedule C or F (Form 1040) for schedule of cost of operations and verify that beginning and ending inventory agree with books.			
303) Inquire whether the trust or estate can substantiate by adequate records, as required under § 274(d), expenses claimed for entertainment, entertainment facilities, gifts and travel. Limit meals and entertainment to allowable percentage. (Consider exceptions.) Consider optional per diem method.			
304) Determine the deductibility of club dues.			
305) Inquire if trade association dues include nondeductible lobbying expenses.			
306) Determine that certain lobbying expenses are not deducted. Note exceptions.			
307) Prepare a schedule of other deductions. Determine which expenses are not subject to the 2% rule. Determine the deductible portion of administrative expenses based on the ratio of taxable to entire income (a simultaneous equation).			
308) Determine if the trust or estate is entitled to an estate tax deduction for income in respect of a decedent and allocate between the beneficiaries and estate or trust (§ 691(c)).			
309) Allocation of interest expense:			
.1) Determine that the proper allocations have been made by type (investment, passive, tax exempt, etc.).			
.2) For interest on debts allocated to more than one expenditure, determine that the proper ordering of loan repayments has been considered.			
.3) Determine that the interest has been properly reallocated to the expenditure when either:			
(a) The subject of the first expenditure has been disposed of and the proceeds are used for another expenditure; or			

	DONE	N/A	COMMENTS OR EXPLANATION
(b) The character of the expenditure has changed.			
310) Investment interest:			
.1) Limit the trust or estate's deduction for investment interest to net investment income.			
.2) In computing net investment income, deduct investment expenses after the application of the 2% AGI floor.			
.3) Consider the election to treat net long term capital gains as investment income subject to ordinary income tax rates. (See RRA '93.)			
311) Determine that personal interest was not deducted.			
312) Determine if interest deduction limitations apply to interest incurred to purchase or carry market discount bonds or short-term debt obligations.			
313) Other interest considerations:			
.1) Treat amortizable bond premium (for bonds acquired after 1987) as an offset to interest income.			
.2) Consider the capitalization of interest rules when the taxpayer is constructing or producing certain real or tangible personal property.			
.3) Eliminate interest expense on debts with respect to life insurance policies (purchased after June 20, 1986) on current or former beneficial owners and key employees to the extent that the total of such loans exceeds $50,000. Note phase-in rules under 1996 HIPAA and additional limitations for new or materially changed contracts issued after June 8, 1997. (TRA 1997)			
.4) Consider election to amortize bond premium on taxable bonds.			
.5) Determine if interest was paid pursuant to § 6166. Consider filing a Supplemental Form 706.			
(a) Determine for decedents dying after 1997 that no income tax deduction is allowed for interest. (TRA 1997)			
(b) Determine if executor or trustee elected before 1999 to make remaining payments under TRA 1997 procedures with a reduced interest rate.			

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	DONE	N/A	COMMENTS OR EXPLANATION
.6) Determine if interest was paid on a residence which is occupied by a beneficiary.			
314) Consider disallowance of double deductions, i.e., administrative expenses and losses during administration, claimed on Form 706. Attach election if claimed on Form 1041.			
315) Determine that deductions for taxes, interest, business expenses and other items accrued at the date of death are claimed on both Forms 706 and 1041.			
316) Determine that indirect expenses are allocated between taxable and tax exempt income.			
317) Consider distribution deduction election if there are qualifying 65-day distributions from the trust or estate. (TRA 1997)			
318) Determine that loans, made after Sept. 19, 1995, by a foreign trust to a U.S. grantor or a U.S. beneficiary (or to a U.S. person related to the grantor or beneficiary), unless with arms-length terms, are treated as distributions. (SBJPA 1996.)			
319) Compute distributable net income (DNI):			
.1) Determine that direct and indirect expenses have been properly allocated to the various classes of income (including tax exempt and passive activities).			
.2) Ascertain if capital gains are required to be allocated to DNI.			
320) Determine if charitable contributions are accounted for in accordance with trust instrument.			
.1) Inquire if contributions are to qualified charitable organizations.			
.2) Ascertain that charitable contributions have been properly allocated to tax exempt income.			
.3) Complete Forms 1041-A and 5227.			
.4) Determine that charitable contributions are made from gross income or accumulated gross income (not from corpus).			
.5) Inquire if adequate contemporaneous documentation was obtained for contributions of $250 or more.			
321) If a charitable remainder trust, determine:			

Page Completed ☐

	DONE	N/A	COMMENTS OR EXPLANATION
.1) if there is unrelated business income,	____	____	____________
.2) that accumulated long-term capital gains are distributed as 20% qualified gains.	____	____	____________
322) Inquire whether the trust or estate has bad debts.	____	____	____________
323) Review partially worthless debts for write-off under Reg. § 1.166-3.	____	____	____________
324) Consider limitations on deducting expenses related to federally tax exempt income. Note that these expenses may be deductible at the state level if related income is taxable for state purposes.	____	____	____________
325) If this is first year that the taxpayer has incurred real property taxes, determine if a § 461(c) election to accrue ratably is more beneficial than adopting the recurring item exception (Rev. Proc. 92-28).	____	____	____________
326) Consider option to deduct current year qualifying disaster losses on preceding year tax return by filing an amended return.	____	____	____________
327) Determine amount of the distribution deduction, limited to taxable income.	____	____	____________
328) Determine that specific bequests are not included in distribution deduction.	____	____	____________
329) If a property distribution, determine that the deduction is equal to the lesser of the property's adjusted basis or fair market value, subject to taxable income limitation.	____	____	____________
330) Consider the § 643(e)(3) election to recognize gain or loss upon a property distribution, other than the funding of a pecuniary bequest.	____	____	____________
400) DEPRECIATION			
401) Determine whether the trustee is required to maintain a reserve for depreciation.	____	____	____________
402) For assets placed in service during the current year:			
1) Determine that no § 179 election to expense certain depreciable assets has been made since this election is not allowed to estates and trusts.	____	____	____________
.2) Consider § 179A election to expense qualifying clean-fuel vehicles and related refueling property placed in service after June 30, 1993.	____	____	____________

		DONE	N/A	COMMENTS OR EXPLANATION
.3)	Determine the depreciable basis of each asset.			
.4)	Determine the property class, recovery period and depreciation method for each asset. Note new limitations on property qualifying for income forecast method and designated lives of rent to own properties. (TRA 1997)			
.5)	Determine the applicable convention (half-year, mid-quarter or mid-month).			
.6)	Determine that the cost of leasehold improvements is being recovered over the applicable recovery period, regardless of the lease period.			
.7)	Consider 36-month depreciation rules for software.			
.8)	Consider reduced depreciable lives for real estate improvements and special use structure.			
.9)	Consider electing the Alternative Depreciation System (straight line over an ADS recovery period) for qualifying General Depreciation System property.			
.10)	For farming, determine that MACRS is applied using 150% DB. Note ADS required if elected out of § 263A.			
.11)	If property is leased to a tax exempt entity, consider the possible need to use the ADS.			
.12)	Consider depreciation limitations for IDB financed property, and certified historic structures for which a tax credit was taken.			
.13)	If a short year, determine that Rev. Proc. 89-15 is followed.			
.14)	If there has been a purchase price adjustment, see Prop. Reg. § 1.168-2 (d)(3).			
.15)	Determine if interest is payable under look-back method where income forecast method is used (SBJPA 1996). Note interest calculation change. (TRA 1997)			
.16)	Consider accelerated depreciation for qualifying property located on Indian reservations. (TRA 1997)			
403)	Determine that amortizable items, including goodwill, are written off over the correct periods.			

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	DONE	N/A	COMMENTS OR EXPLANATION
404) Consider the provisions of Rev. Proc. 96-31 to rectify prior year claims of less than allowable depreciation or amortization.	_____	_____	_____
405) Determine if leased property/equipment should be capitalized.	_____	_____	_____
406) Consider anti-churning rules.	_____	_____	_____
407) For listed property (e.g., cellular phones, autos, computers, airplanes, boats):			
.1) For autos, consider the maximum allowable under the luxury auto rules. Note TRA 1997 exceptions for clean burning vehicles and electric vehicles.	_____	_____	_____
.2) For autos, determine limitation if the business usage is 50% or less.	_____	_____	_____
.3) Determine limitations for all other mixed-use property, if the business usage is 50% or less.	_____	_____	_____
.4) Inquire if the taxpayer has kept the required records indicating the business and personal use of property.	_____	_____	_____
5) Determine recapture if the business usage is 50% or less.	_____	_____	_____
408) Form 4562 (if required):			
.1) Reconcile depreciation expense to supporting schedules.	_____	_____	_____
.2) Complete questions regarding personal use of listed property.	_____	_____	_____
.3) If the costs were incurred during the current year, determine that amor-tizable items are separately stated and the proper Code section cited.	_____	_____	_____
409) Consider state depreciation, if different.	_____	_____	_____
410) Consider federal and state AMT depreciation. Note - the depreciable lives of tangible personal property placed in service after 1997 are the same for regular and AMT purposes. (TRA 1997)	_____	_____	_____
411) Make adjustments for depreciable assets which are demolished, obsolete, abandoned and/or out of service. Consider credit recapture.	_____	_____	_____
500) TAX COMPUTATION AND CREDITS			
501) Consider capital gains tax computations noting various rates depending on type of asset and holding period. (TRA 1997)	_____	_____	_____

	DONE	N/A	COMMENTS OR EXPLANATION
502) Consider alternative tax rate attributable to S corporation items. (SBJPA 1996.)	____	____	__________
503) Complete Schedule I (AMT).	____	____	__________
504) Alternative minimum tax must be computed by making adjustments such as:			
.1) Depreciation on property placed in service after 1986 (or July 31, 1986 if election was made) must be computed using the alternative system (Rev. Proc. 87-57).	____	____	__________
.2) Mining, exploration research & experimental costs must be capitalized and amortized over a 10-year period.	____	____	__________
.3) Income from long-term contracts entered into after February 28, 1986 must be computed using the percentage of completion method of accounting. Note exception for "home construction contracts."	____	____	__________
. 4) Income from post-February 28, 1986 dispositions of real or personal property held for sale in the ordinary course of business shall be determined without regard to the installment method, except in cases where an election is made to pay interest on the tax deferred by the qualified installment sale. Note exception for cash basis farmers. (TRA 1997)	____	____	__________
.5) Use AMT net operating loss (NOL) deduction in place of the regular NOL deduction. Post-1986 AMT NOL is available only to the extent of 90% of pre-NOL AMTI.	____	____	__________
.6) Compute gains/losses on sales and exchanges using the AMT adjusted basis.	____	____	__________
.7) Adjust itemized deductions for the following AMT rules:			
(a) No deduction is allowed for miscellaneous itemized deductions subject to 2% limit or most taxes.	____	____	__________
(b) State tax refunds are excluded from AMTI.	____	____	__________
(c) Qualified housing interest is restricted.	____	____	__________
.8) The following preference items must be added:			
(a) Excess intangible drilling costs.	____	____	__________

	DONE	N/A	COMMENTS OR EXPLANATION
(b) Tax-exempt interest on private activity bonds issued after August 7, 1986.	_____	_____	_____
(c) Accelerated depreciation on real and leased personal property placed in service before 1987.	_____	_____	_____
.9) Consider special rules denying certain losses for AMT purposes:			
(a) Net passive activity losses as adjusted for tax preferences. (Form 8582).	_____	_____	_____
(b) Certain farm losses.	_____	_____	_____
(c) Insolvent trusts.	_____	_____	_____
.10) Consider foreign tax credits.	_____	_____	_____
.11) Compute Distributable Net Alternative Minimum Taxable Income.	_____	_____	_____
505) Consider tax credits such as:			
.1) Enhanced oil recovery credit (Form 8830).	_____	_____	_____
.2) Credit for producing fuels from nonconventional source.	_____	_____	_____
.3) Foreign tax credit.	_____	_____	_____
.4) Investment tax credit (rehabilitation, transition and carryovers). (Form 3468)	_____	_____	_____
.5) Credit for federal tax on gasoline, special fuels and lubricating oil.	_____	_____	_____
.6) Low income housing credit. (Form 8586)	_____	_____	_____
.7) The Work Opportunity Credit for eligible employees who begin work after September 30, 1996 and before July 1, 1998. (SBJPA 1996 and TRA 1997). (Form 5884)	_____	_____	_____
.8) The credit for qualified clinical testing expenses (Orphan Drug Credit), and associated carrybacks and carryovers. (SBJPA 1996) Note permanently extended under TRA 1997. (Form 8820)	_____	_____	_____

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	DONE	N/A	COMMENTS OR EXPLANATION
.9) Credit for employer social security taxes paid on certain employee cash tips. (See SBJPA 1996 for changes.) (Form 8846).	____	____	____________
.10) Welfare-to-work credit for eligible employees who begin work on or after January 1, 1998 and before May 1, 1999. (TRA 1997)	____	____	____________
.11) General business credit (Form 3800).	____	____	____________
506) If filing multistate returns, determine if a credit may be claimed on resident state tax return for taxes paid to other states.	____	____	____________
507) Determine if the trust or estate is subject to:			
.1) Investment credit recapture.	____	____	____________
.2) § 644 tax upon sale of appreciated property before August 6, 1997 and within two years after transfer to trust. (TRA 1997)	____	____	____________
.3) The GST as the result of the death of a beneficiary.	____	____	____________
.4) Foreign estate or trust treatment as a non-resident alien individual not present in the United States for computation of tax. (TRA 1997 § 1601(i)(3)(B), IRS § 641(b)).	____	____	____________
508) Allocate each item to the beneficiaries' K-1s in accordance with provisions of the trust agreement or will.	____	____	____________
509) Determine if separate share rule applies to trust or estate (§ 663(c), TRA 1997).	____	____	____________
510) Reconcile accounting income per books with distributable net income.	____	____	____________
511) Confirm the amounts and dates of any federal, state and local estimated tax deposits/payments (including withholding) for the year, prior year over-payments applied, and extension payments.	____	____	____________
512) If withholding and estimated tax payments are less than 90% of the tax liability, consider filing Form 2210. Note exception under TRA 1997.	____	____	____________
513) Consider estimated tax for the forthcoming year and set up estimated tax payments. Determine if prior year 100% or 105% rule applies. (Estates are exempt from estimated payment requirement for first two years.) (EFTPS)	____	____	____________

	DONE	N/A	COMMENTS OR EXPLANATION
600) OTHER REQUIREMENTS			
601) If the trust or estate sold partnership interests during the year, determine:			
.1) That the appropriate information was given to the partnership to enable it to prepare Form 8308.			
.2) The required statement under Reg. § 1.751-1(a)(3) is attached if the partnership had § 751(a) assets.			
602) If trust or estate acquired partnership interests, consider providing appropriate information to partnership under Prop. Reg. § 209682-94.			
603) Determine if Form 8271 is required for tax shelters. Attach to Schedule K-1.			
604) Consider capitalizing carrying charges (interest, taxes, etc.) on non-productive property.			
605) Consider the election to forego a net operating loss carryback:			
.1) If electing to forego - attach required statement.			
.2) If carrying back Note - carryback period has been changed from three years to two years. (TRA 1997) -			
a) prepare 1045 or amended 1041.			
b) prepare amended Schedule K-1.			
606) If an NOL deduction is claimed, prepare supporting schedules for regular and AMT carryovers to be attached to the return.			
607) Determine that proper classification has been provided for all items on Schedule K-1.			
608) If this is a final return for the trust or estate, ascertain the deductions to be carried to the returns of the beneficiaries and prepare a schedule of assets, including adjusted basis, distributed to each beneficiary.			
609) Consider unused losses and deductions to be transferred to beneficiaries in final year.			
610) Determine that unused passive activity losses pertaining to an interest in an activity being distributed to a beneficiary are either added to the basis of the property distributed, or treated as a sale with deduction of carryovers.			

	DONE	N/A	COMMENTS OR EXPLANATION
611) Determine if trust payments of estimated tax should be allocated to beneficiaries and file return in appropriate time period; Form 1041-T must be filed within 65 days of the taxable year end.			
612) Consider that TRA 1997 repealed throwbacks for years beginning after August 5, 1997 for most domestic trusts. Throwback rules still apply for foreign trusts and trusts created before March 1, 1984 that are treated as multiple trusts under IRC § 643.			
613) Consider § 6662 accuracy-related penalty. If this penalty could result from any income, deduction, loss or credit item which causes a substantial change in the beneficiary's return and causes the preparer to rise to the level of preparer of the beneficiary's return:			
.1) Consider if substantial authority exists for the item in question. If not, consider disclosure (Form 8275 or 8275R).			
.2) Consider advising the taxpayer, in writing, of the penalty.			
614) Prepare state and local tax returns.			
615) Attach extension requests.			
616) Prepare filing instructions and transmittal letter to the trustee or executor.			
617) If the taxpayer has made an "applicable asset acquisition" (transfer of assets that constitute a trade or business), determine that reporting requirements regarding allocation of purchase price have been met (Form 8594).			
618) Compare taxable income to projections for reasonableness.			
619) If there is more than one trustee or executor, attach statement required pursuant to § 6012(b)(5). ("Sufficient knowledge")			
620) Determine whether related party transactions are properly reported on all available returns.			
621) Determine if Form TD F 90-22.1 is needed to report foreign financial accounts.			
622) Information returns:			
.1) Inquire if taxpayer has complied with magnetic media filing requirements for 1099s and W-2s.			

	DONE	N/A	COMMENTS OR EXPLANATION
.2) Inquire whether the trust has filed all required information returns (1098 and 1099 series) and whether the value of personal use portion of employer property expense reimbursements under "unaccountable plans" and § 401(k) deferred compensation information has been included in employees' W-2s. Note new reporting requirements on certain payments made to attorneys. (TRA 1997)	_____	____	______________
.3) Inquire if additional items subject to employer FICA, such as 401(k) deferrals, employer-provided excess group-term insurance, all cash tips, etc., have been properly reported.	_____	____	______________
.4) Determine if Forms 1042 and 1042-S (Withholding Tax Information of Foreign Persons) have been filed.	_____	____	______________
.5) Determine that reimbursement of employee moving expenses and tuition and related expenses are properly reported. (TRA 1997)	_____	____	______________
623) Inquire if employment taxes were timely deposited. (EFTPS)	_____	____	______________
624) Determine if there has been a taxable distribution for generation skipping tax purposes. Consider preparation of Forms 706GS(D-1), 706GS(T) and 706GS(D).	_____	____	______________
625) Determine if expenditures were incurred that are eligible for the disabled access credit (see Form 8826). If the taxpayer does not qualify for the credit or has expenditures in excess of the credit limit, consider making § 190 election to expense the cost.	_____	____	______________
626) Consider filing Form 3520 if the trust received gifts valued more than $100,000 during the tax year. (SBJPA § 1905(a), IRC § 6039F.)	_____	____	______________
627) Consider informing taxpayer of requirement to file Form 8300 for certain payments received exceeding $10,000.	_____	____	______________
628) Consider distributing to the beneficiary a reconciliation, if applicable, of the difference between taxable income reported to the beneficiary and the income actually distributed.	_____	____	______________
629) Note tax planning/additional service suggestions.	_____	____	______________

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	DONE	N/A	COMMENTS OR EXPLANATION

COMMENTS OR EXPLANATIONS

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MINI-CHECKLIST
PARTNERSHIP RETURN OF INCOME
1998 - FORM 1065

Client Name and Number: ______________________________

Prepared by: ________________ Date: __________ Reviewed by: ________________ Date: __________

GENERAL INFORMATION	Done	N/A
1. Review for changes in the partnership's and partners' names and addresses, FYE, business code.	☐	☐
2. Review prior year returns, workpapers, correspondence, audit results and amendments to the partnership agreement.	☐	☐
3. Consider signed engagement letter.	☐	☐
4. Determine if the partnership is a limited partnership.	☐	☐
5. Review pro forma/organizer for accuracy.	☐	☐
6. Determine if the partnership agreement complies with the 704(b) regulations. (See § 704(b) tax practice guide).	☐	☐
7. Consider below-market-rate loan rules.	☐	☐
8. Determine if there has been a technical termination of the partnership.	☐	☐
9. Determine if the partnership is on the "required" year end.	☐	☐
10. Determine if the partnership is an "electing large partnership".	☐	☐
11. Determine if the partnership is required to file by magnetic media.	☐	☐
12. Determine if there were partnership ownership changes.	☐	☐
Consider § 754 election.	☐	☐
Consider Form 8308.	☐	☐
13. Determine if § 704(c) regulations have been applied to contributions of property by a partner.	☐	☐
14. Provide UBTI data to tax exempt partners.	☐	☐
15. Review financial statements and footnotes for relevant information.	☐	☐
16. Consider tax credits. (SBJPA 1996 and TRA 1997)	☐	☐
17. Consider debt discharge and the exceptions to recognition.	☐	☐
18. Consider filing power of attorney.	☐	☐

INCOME	Done	N/A
1. Compare sources of portfolio income with prior year.	☐	☐
2. Include only trade or business income on page 1, Form 1065.	☐	☐
3. Calculate gains, losses and recaptures on dispositions of property.	☐	☐
4. Consider the following:		
Installment sales and related interest charge on deferred tax	☐	☐
Timing differences	☐	☐
Wash sales	☐	☐
Ordinary income on market discount bonds and deferral of related interest expense	☐	☐
Sales or exchanges with a partner	☐	☐
Worthless securities	☐	☐
Like-kind exchanges	☐	☐

DEDUCTIONS	Done	N/A
1. Consider the uniform capitalization rules.	☐	☐
2. Determine if Form 8283 is required for non-cash charitable contributions.	☐	☐
3. Determine if there were guaranteed payments to partners.	☐	☐
4. Inquire if travel and entertainment expenses are substantiated by adequate records.	☐	☐
5. Consider limitations on deductibility of:		
Club dues	☐	☐
Lobbying expenses/association dues	☐	☐
6. Limit meals and entertainment to allowable percentage.	☐	☐
7. Allocate interest expense among expenditures and/or distributions.	☐	☐
8. Review amount and timeliness of retirement plan contributions.	☐	☐
9. Determine if specific chargeoff method is used for bad debts.	☐	☐
10. Determine applicability of 2½ month deferred comp rule for nonpartner employees and independent contractors.	☐	☐

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MINI-CHECKLIST
PARTNERSHIP RETURN OF INCOME
1998 - FORM 1065

Done N/A

DEPRECIATION/AMORTIZATION

1. Consider the following:

	Done	N/A
§ 179 election	☐	☐
Methods and lives	☐	☐
Listed property	☐	☐
Amortization of goodwill and other intangibles	☐	☐
Capitalization of leased property	☐	☐

	Done	N/A
2. Compute AMT and ACE depreciation.	☐	☐

PARTNER DATA - SCHEDULE K-1

	Done	N/A
1. Complete the analysis of distributive items at the bottom of Schedule K.	☐	☐
2. Consider the at risk rules.	☐	☐
3. Report pre-1987 installment sale as passive. (See Passive Activity Checklist).	☐	☐
4. Reconcile partners capital per Schedule L to Schedule M-2.	☐	☐
5. Complete each partner's reconciliation of capital.	☐	☐
6. Allocate partner debt pursuant to § 752.	☐	☐
7. Ensure the partnership and K-1s report results on an activity by activity basis.	☐	☐
8. Allocate each item on Schedule K to the partners per the partnership agreement and § 704(b). (See § 704(b) tax practice guide).	☐	☐
9. Allocate losses to deceased partners pursuant to § 706 (TRA 1997)	☐	☐
10. Provide information for all items that affect partner's tax liability.	☐	☐
11. Include tax shelter registration number.	☐	☐

OTHER REQUIREMENTS

	Done	N/A
1. Compute net earnings from self-employment.	☐	☐

2. Consider the following elections and statements such as:

	Done	N/A
Amortize organization expense	☐	☐
Cash vs. accrual	☐	☐
Expense intangible drilling costs	☐	☐
Amortize business startup costs	☐	☐
Method for valuation of inventory	☐	☐
Change in accounting method application/approval	☐	☐
Research and experimental costs	☐	☐
Exception from economic performance for recurring items (first year only)	☐	☐
Ratable accrual of real property taxes (first year only)	☐	☐
Step up in basis.	☐	☐
Treatment as a large partnership.	☐	☐

	Done	N/A
3. Determine if the partnership was a party to "applicable asset acquisition" (Form 8594).	☐	☐
4. Inquire if all information returns filed.	☐	☐
5. Consider § 6662 accuracy-related penalty.	☐	☐
6. Determine if there was any § 751 gain (unrealized receivables) to existing partners due to admission of new partners.	☐	☐
7. Compare net income or loss to projections.	☐	☐
8. Prepare state and local tax returns and report necessary partner information.	☐	☐
9. Attach extension requests.	☐	☐
10. Note tax planning/additional service suggestions.	☐	☐

Page Completed ☐

SHORT VERSION
PARTNERSHIP RETURN OF INCOME CHECKLIST
1998 - FORM 1065

Client Name and Number: ______________________________

Prepared by: ____________ Date: ________ Reviewed by: ____________ Date: ________

	DONE	N/A	COMMENTS OR EXPLANATION
100) GENERAL INFORMATION			
101) Review and update the partnership's and partners' names, addresses, fiscal year, business code, identification number, date business started, and IRS and other tax processing centers.	____	____	____________
102) Review permanent file, prior year returns, work papers and correspondence files.	____	____	____________
103) Consider signed engagement letter.	____	____	____________
104) Identify the name, address and identifying number of the "Tax Matters" partner.	____	____	____________
105) Obtain information concerning IRS, state tax audits and/or correspondence.	____	____	____________
106) Verify that a copy of the partnership agreement and all amendments are in the permanent file.	____	____	____________
107) If the taxpayer is an LLC, document the status as a partnership.	____	____	____________
108) Determine if the partnership is a limited partnership.	____	____	____________
109) Review computer-generated pro forma/organizer for accuracy.	____	____	____________
110) If the partnership has a passive activity, note that the activity definitions in the regulations apply to partnerships (see Passive Activity Checklist).	____	____	____________
111) Determine that the partnership agreement complies with the § 704 regulations. (See § 704(b) Tax Practice Guide.)	____	____	____________
112) Determine that accounting methods used are comparable to the preceding year unless changes are approved or required.	____	____	____________
113) If the partnership is using an improper accounting method, consider filing an application for a change in accounting method.	____	____	____________
114) Consider economic performance requirements and recurring item exceptions.	____	____	____________

Page Completed ☐

	DONE	N/A	COMMENTS OR EXPLANATION
115) Inquire whether the partnership has made or received any below-market-rate term or demand loans. If so, determine imputed interest consequences.	_____	_____	_______________
116) Review for adequate stated interest on all new or modified debt instruments.	_____	_____	_______________
117) Determine if there has been any change in the partnership's ownership and/or a technical termination during the year. If there was a technical termination, consider the need for a short period return.	_____	_____	_______________
118) If there were any sales or exchanges of partnership interests, or partner deaths during the current year, consider whether a § 754 election has been, or should be made.	_____	_____	_______________
119) Determine if § 704(c) regulations have been applied to contributions of property by partners.	_____	_____	_______________
120) Consider the consequences if the partnership has a year other than that which is "required."	_____	_____	_______________
121) Determine if the partnership is an "electing large partnership". If so,			
.1) K-1's must be furnished to all partners by March 15 (TRA 1997).	_____	_____	_______________
.2) Simplified reporting rules will appy.	_____	_____	_______________
122) Determine if the partnership has more than 100 partners. If so, the partnership return, including K-1's, must be filed with the IRS by magnetic media (TRA 1997).	_____	_____	_______________
123) Determine if the partnership had any discharge of indebtedness income. If so, consider the exceptions to recognition.	_____	_____	_______________
124) Provide UBTI information to tax-exempt partners.	_____	_____	_______________
125) Review financial statements and footnotes for relevant information.	_____	_____	_______________
126) Consider availability of tax credits. (SBJPA 1996 and TRA 1997)	_____	_____	_______________
127) Consider filing power of attorney.	_____	_____	_______________
200) INCOME			
201) Compare sources and amounts of portfolio income with prior year.	_____	_____	_______________

Page Completed ☐

SHORT VERSION
PARTNERSHIP RETURN OF INCOME CHECKLIST
1998 - FORM 1065

	DONE	N/A	COMMENTS OR EXPLANATION
202) Determine that only trade or business (e.g., not portfolio or rental) income is reported on Page 1 of Form 1065.	_____	____	______________
203) Review dispositions of property for holding period and federal, state, AMT and ACE tax bases, non-recognition and recaptures. (TRA 1997)	_____	____	______________
204) Consider the following:			
.1) Installment sales and related interest charge on deferred tax.	_____	____	______________
.2) Timing differences.	_____	____	______________
.3) Wash sales.	_____	____	______________
.4) Sales or exchanges between the partnership and a partner, or a related party.	_____	____	______________
.5) Income inclusion for leased property.	_____	____	______________
.6) Worthless securities.	_____	____	______________
.7) Like-kind exchanges.	_____	____	______________
.8) Rules for involuntary conversions of post-1994 Presidentially-declared disasters (SBJPA 1996).	_____	____	______________
.9) Gains on constructive sales of appreciated financial positions. (TRA 1997)	_____	____	______________
205) Consider mark to market rules for "dealers in securities" (§ 475).	_____	____	______________
206) Consider ordinary income on market discount bonds and deferral of related interest expense.	_____	____	______________
300) DEDUCTIONS			
301) Consider the uniform capitalization rules.	_____	____	______________
302) Inquire if adequate contemporaneous documentation was obtained for charitable contributions of $250 or more.	_____	____	______________
303) If noncash charitable contributions exceed $500, attach Form 8283.	_____	____	______________

Page Completed ☐

	DONE	N/A	COMMENTS OR EXPLANATION
304) Determine that all guaranteed payments have been deducted in computing ordinary income, or have been capitalized as required.	____	____	____________
305) Inquire whether the partnership can substantiate by adequate records, as required under IRC § 274, expenses claimed for entertainment, entertainment facilities, gifts, travel, conventions.	____	____	____________
306) Consider limitations on deductibility of:			
.1) Club dues	____	____	____________
.2) Lobbying expenses/association dues.	____	____	____________
307) Limit meals and entertainment to allowable percentage. Consider exceptions.	____	____	____________
308) Verify that the proper allocations have been made dividing interest expense among expenditures and/or distributions.	____	____	____________
309) Determine if interest deduction limitations apply to interest incurred to purchase or carry market discount bonds or short-term debt obligations.	____	____	____________
310) Determine that retirement plan contributions are made timely and within allowable limits.	____	____	____________
311) Determine that the partnership has not deducted interest or expenses accrued to a partner or a related party unless it is includible in the income of the partner or related party (§ 267).	____	____	____________
312) Determine that expenses (including interest) allocable to portfolio income have not been deducted on Page 1, Form 1065.	____	____	____________
313) Determine that the specific write-off method is used for bad debts.	____	____	____________
314) Determine applicability of 2½ month deferred compensation rule for nonshareholder employees and independent contractors.	____	____	____________
400) DEPRECIATION/AMORTIZATION			
401) Consider all depreciation requirements and options including:			
.1) § 179 election. (Note new allowable amounts (SBJPA 1996)).	____	____	____________
.2) Consider 36-month depreciation rules for software.	____	____	____________

Page Completed ☐

	DONE	N/A	COMMENTS OR EXPLANATION
.3) Methods and lives.	_____	____	______________
.4) Determine if leased property should be capitalized.	_____	____	______________
.5) Requirements relating to listed property.	_____	____	______________
402) Determine that amortizable items, including goodwill, are written off over the correct periods.	_____	____	______________
403) Consider AMT and ACE depreciation.	_____	____	______________
500) PARTNER DATA - SCHEDULE K-1			
501) Complete the analysis of distributive items at the bottom of Schedule K.	_____	____	______________
502) Consider the at risk rules.	_____	____	______________
503) Consider whether income from a pre-1987 installment sale should be considered passive income.	_____	____	______________
504) Verify that the beginning and ending total partners' capital figures on Schedule L agree with the reconciliation of partners' capital accounts—Schedule M-2.	_____	____	______________
505) Complete each partner's reconciliation of capital. Make sure each column total agrees to the corresponding line on Schedule M-2.	_____	____	______________
506) Determine the allocation of the partnership's recourse, nonrecourse and qualified nonrecourse liabilities pursuant to § 752 and enter separately on each partner's Schedule K-1.	_____	____	______________
507) Ensure that the partnership and K-1s report results on an activity by activity basis.	_____	____	______________
508) Distribute each item on Schedule K among the K-1s in accordance with provisions of the partnership agreement, or in accordance with § 704(b) if the partnership agreement is silent on § 704(b). (See § 704(b) Tax Practice Guide).	_____	____	______________
509) Determine that allocations for deceased partners are consistent with § 706. Note that a partnership's taxable year now closes with respect to a deceased partner (TRA 1997).	_____	____	______________

Page Completed ☐

	DONE	N/A	COMMENTS OR EXPLANATION
510) Determine whether the partnership was required to register as a tax shelter. Place the registration number on each K-1.	_____	____	______________
511) Determine that proper reporting has been provided for all items on Schedule K-1 that affect partners' tax liability.	_____	____	______________
600) OTHER REQUIREMENTS			
601) Compute net earnings from self-employment.	_____	____	______________
602) Consider elections and statements such as:			
.1) Amortization of organization expenses.	_____	____	______________
.2) Cash vs. accrual method.	_____	____	______________
.3) Election to expense intangible drilling costs.	_____	____	______________
.4) Amortization of business start-up costs.	_____	____	______________
.5) Method of valuation of inventory.	_____	____	______________
.6) Change in accounting method application/approval.	_____	____	______________
.7) Research and experimental costs.	_____	____	______________
.8) Exception from economic performance for recurring items (first year only).	_____	____	______________
.9) Ratable accrual of real property taxes (first year only).	_____	____	______________
.10) Election to be treated as a partnership.	_____	____	______________
.11) Election to step up basis (§ 754).	_____	____	______________
.12) Election to be treated as a large partnership.	_____	____	______________
603) If the partnership is a party to an "applicable asset acquisition," determine that the reporting requirements have been met (Form 8594).	_____	____	______________
604) Consider risk of § 6662 accuracy-related penalty.	_____	____	______________
605) If a partnership interest was sold during the year, attach Form 8308 (if required), and send a copy to the transferor and transferee.	_____	____	______________

	DONE	N/A	COMMENTS OR EXPLANATION
606) If a new partner was admitted, determine if existing partners realized ordinary income due to a reduction in their share of unrealized receivables.			
607) Compare net income or loss to projections.			
608) Review prior year's return Schedule M-1, for items which may have an effect upon or require similar treatment in the current year.			
609) Reconcile income and expenses per books with return.			
610) Prepare state and local tax returns (see Nexus Guide). Furnish necessary information to partners.			
611) Attach extension requests.			
612) Determine that related party transactions are properly reported on all available returns.			
613) Inquire if information returns (1098 & 1099 series) have been filed.			
614) Inquire if employment taxes were timely deposited. (EFTPS)			
615) Inquire if employee benefit plans have been reviewed to determine if they are in compliance due to changing partnership circumstances and law changes.			
616) Note tax planning/additional service suggestions.			

COMMENTS OR EXPLANATIONS

Page Completed ☐

PARTNERSHIP RETURN OF INCOME CHECKLIST
1998 - FORM 1065

Client Name and Number: ______________________________

Prepared by: ____________ Date: ________ Reviewed by: ____________ Date: ______

	DONE	N/A	COMMENTS OR EXPLANATION
100) GENERAL INFORMATION			
101) Review the partnership's and partners' names, addresses, fiscal year, business code, identification number, date business started and IRS and other tax processing centers. Note changes.	____	____	________
102) Review permanent file, prior year returns, memos, workpapers, and correspondence files.	____	____	________
103) Consider signed engagement letter.	____	____	________
104) Identify the name, address and identifying number of the Tax Matters Partner if the partnership is subject to the consolidated audit procedures of §§ 6221-6233. (Note final regulation § 301.6231(a)(7)-2 which provides guidance on determining the TMP for LLC's).	____	____	________
105) If the partnership has been examined by the Internal Revenue Service, state or local taxing authority:			
.1) Obtain copies of the revenue agent's reports.	____	____	________
.2) Determine if the agent's adjustments have been entered in the partnership's records and appropriate carry forward workpapers.	____	____	________
.3) If the agent's adjustments affect income tax returns of years other than those audited, or the corresponding federal and state returns for the same year, consider filing amended returns.	____	____	________
.4) Inquire whether the Tax Matters Partner has informed the partners of an examination by the IRS or state agency.	____	____	________
106) Obtain correspondence with the IRS or state taxing authority. Consider impact.	____	____	________
107) Verify that a copy of the partnership agreement and all amendments are in the permanent file, or document in the permanent file why this is thought to be a partnership for federal and state income tax purposes.	____	____	________
.1) Consider final "check the box" regulation § 301.7701-1 and newly issued proposed regulations.	____	____	________

	DONE	N/A	COMMENTS OR EXPLANATION
.2) Note new proposed regulation covering the requirement to file partnership returns. (Prop. Reg. 1.6031(a)-1).	_____	____	______________
108) If the taxpayer is a limited liability company, obtain a copy of the operating agreement and document the status as a partnership.	_____	____	______________
109) Determine if the partnership is a limited partnership.	_____	____	______________
110) Review and update, schedules for federal and state carryover items such as:			
.1) Prior year deferred deductions.	_____	____	______________
.2) Installment sales. Consider applicable tax rates for components of gain.	_____	____	______________
.3) Changes in accounting methods requiring § 481 adjustments.	_____	____	______________
.4) Suspended losses due to at risk limitations.	_____	____	______________
.5) Partnership basis.	_____	____	______________
111) Review computer-generated pro forma/organizer for accuracy.	_____	____	______________
112) Determine if there were passive activities. (See Passive Activity Checklist). Note that partnerships must group their activities in accordance with the regulations.	_____	____	______________
113) Determine if the partnership agreement complies with the § 704 regulations. (See § 704(b) Tax Practice Guide).	_____	____	______________
.1) If there is nonrecourse debt:			
(a) Consider the safe harbor provisions that if met, ensure that the allocations of deductions attributable to nonrecourse debt will be deemed to be in accordance with the partner's interest in the partnership. (Reg. § 1.704-2(e)).	_____	____	______________
(b) Determine whether a minimum gain calculation may be necessary in order to ensure proper allocation of deductions attributable to the nonrecourse debt.	_____	____	______________
.2) Determine if there were any partner or related party loans or guarantees. If so, consider requirement to specially allocate losses to that partner. (Reg. § 1.704-2(i)).	_____	____	______________

Page Completed ☐

	DONE	N/A	COMMENTS OR EXPLANATION
114) Determine that accounting methods used are comparable to the preceding year unless changes are approved or required.	____	____	____________
115) Consider economic performance requirement and recurring item exceptions.	____	____	____________
116) If the partnership is on the cash basis, determine if it must be on the accrual basis due to:			
.1) Classification as a tax shelter under § 461(i)(3).	____	____	____________
.2) A C corporation partner. Consider exceptions which allow partnerships with corporate partners to be on the cash basis:			
.a) $5 million gross receipts test	____	____	____________
.b) "function exception"	____	____	____________
.3) Inventory	____	____	____________
117) Inquire whether the partnership has made or received below-market-rate term or demand loans. Determine imputed interest consequences.	____	____	____________
118) Review for adequate stated interest on all new or modified debt instruments:			
.1) Determine whether OID or the unstated interest rules require restatement of note interest and principal.	____	____	____________
.2) Consider election for purchased discount rule § 1278.	____	____	____________
119) Review for proper reporting of interest recognition in accordance with Regs. §§ 1.483-4 and 1.1274-5 for debt instruments providing contingent payments.	____	____	____________
120) Determine if there has been a change in the partnership's ownership and/or a technical termination during the year. Note that "electing large partnerships" do not terminate as result of a transfer of 50% or more of the partnership interests.	____	____	____________
121) If a technical termination of the partnership occurred, consider the effect on partnership elections, the basis of partnership property, depreciation methods, potential credit recapture, ability to deduct unamortized costs and the need to file short period returns (§ 708).	____	____	____________
122) If there has been a distribution of appreciated partnership property (either an actual distribution or a deemed distribution as a result of a			

	DONE	N/A	COMMENTS OR EXPLANATION
technical termination of the partnership), consider both the new allocation of basis rules under § 732(c) (TRA 1997), § 751(c) Internal Revenue Service Restructuring and Reform Act of 1998 (RRA 1998), (and Prop. Reg. 1.732-1(c)) and the impact of the mandatory basis adjustment rule under § 732(d). (Note that the final regulations under § 708 provide that technical terminations occurring after May 9, 1997 do not result in deemed distributions).	_____	____	______________
123) If there has been a distribution of partnership property, determine whether § 737 requires any partner to recognize gain. Note seven year test in § 737(b)(1) (TRA 1997). If so, the partnership's adjusted basis in the contributed property is adjusted accordingly. Note final Reg. § 1.731-2.	_____	____	______________
124) If there were any sales or exchanges of partnership interests or partner deaths during the current year, determine if a § 754 election has been or should be made and attach required information if a current year election is being made. If made, an adjustment to the basis of partnership property is mandatory.	_____	____	______________
.1) Note new proposed regulations covering how basis adjustments are to be allocated (Reg. - 209682-94).	_____	____	______________
.2) Consider statement of adjustments for § 743 basis adjustments (Reg. - 209682.94).	_____	____	______________
.3) Note that if the partnership is a partner in another partnership, a § 754 election is necessary at both tiers.	_____	____	______________
125) Determine whether property has been contributed by a partner after March 31, 1984, and if so, that <u>all</u> items of income, gain, loss and deductions are shared among the partners to take into account the variation between the basis of the property to the partnership and its value.	_____	____	______________
126) If the partnership has selected an allowable fiscal tax year other than the "required year," determine that Form 8716 has been timely filed, and that "required payments" have been made. Note that a copy of Form 8716 must be attached to Form 1065 for the first taxable year for which the election is made.	_____	____	______________
127) Consider whether changes in partners' taxable years modify the partnership's "required year." Consider the need for short period returns.	_____	____	______________
128) If the return is for a short-year, review the related requirements, and note the due date.	_____	____	______________

	DONE	N/A	COMMENTS OR EXPLANATION
129) Determine if the partnership is a publicly traded partnership. If it is a pre-1987 publicly-traded partnership, determine whether an election to continue status as a partnership was made. (TRA 1997 and Notice 98-3).	____	____	____________
130) Determine if the partnership is an "electing large partnership". If so, K-1's must be furnished to all partners by March 15. (TRA 1997)	____	____	____________
131) Determine if the partnership has more than 100 partners. If so, the partnership return, including K-1's, must be filed with the IRS by magnetic media. (TRA 1997)	____	____	____________
132) Consider simplified reporting for electing large partnerships. (TRA 1997)	____	____	____________
.1) Qualifying partnerships with 100 or more partners may elect to be treated as "electing large partnerships."	____	____	____________
.2) Taxable income is generally computed in the same manner as that of an individual, with certain modifications (such as miscellaneous itemized deductions). In addition, the following items are separately stated:			
(a) taxable income or less from passive activities	____	____	____________
(b) taxable income or loss from other activities (e.g., portfolio income or loss)	____	____	____________
(c) not capital gain or loss allocable to passive loss limitation activities	____	____	____________
(d) net capital gain or loss allocable to other partnership activities	____	____	____________
(e) tax exempt interest	____	____	____________
(f) net alternative minimum tax adjustment separately computed for passive loss limitation activities and other activities	____	____	____________
(g) general credits	____	____	____________
(h) low income housing tax credit	____	____	____________
(i) rehabilitation credit	____	____	____________
(j) foreign income taxes	____	____	____________

Page Completed ☐

	DONE	N/A	COMMENTS OR EXPLANATION
(k) discharge of indebtedness income	____	____	____________
(l) credit for producing fuel from a nonconventional source	____	____	____________
.3) Limited partners treat all passive activities undertaken by an electing large partnership as a single activity.	____	____	____________
.4) Credit recapture is computed at the partnership level.	____	____	____________
.5) Oil and gas partnerships compute depletion at the partnership level. Certain partners are treated as "disqualified persons" and special reporting rules apply.	____	____	____________
133) Determine if the partnership has restructured debt.	____	____	____________
If so:			
.1) Review for possible discharge of indebtedness income.	____	____	____________
.a) Determine if there has been a "significant modification" (Reg. § 1.1001-1(a)) of the old debt which would constitute a taxable exchange of old debt for new debt. (See also, Cottage Savings Ass'n v. Commissioner, 111 S. Ct. 1503 (1991) and final Reg. § 1.1001-3).	____	____	____________
.b) If there has been a "significant modification," review the Original Issue Discount (OID) rules to calculate possible discharge of indebtedness income. Compare the issue price of the old debt to that of the new debt (after taking into account any adjustment to principal (if needed) due to the new debt's failure to meet the Applicable Federal Rate (AFR) for interest). Note regulations under § 1274.	____	____	____________
.2) If the partnership has discharge of indebtedness income, consider the possible exceptions to inclusion in income including:			
.a) § 108(a). Note that these tests are made at the partner level, not at the partnership level. (§ 108(d)(6)).	____	____	____________
.i) If the exclusion is applicable consider the tax attribute reduction rules in § 108(b) and providing partners with information to complete Form 982.	____	____	____________
.ii) Consider advising the partners of an ability to make a § 1017 election to reduce the basis of assets held by the partners. Note that this could require a stepdown in the depreciable assets of the partnership. (Form 982).			

	DONE	N/A	COMMENTS OR EXPLANATION
(See new amendments to proposed amendment to Reg. § 1.1017-1.)	____	____	____________
.iii) Note that the qualified real property business indebtedness exception does not apply to C corporations.	____	____	____________
.b) Qualified real property business indebtedness (§ 108(c)).	____	____	____________
.c) Purchase money debt. (§ 108(e)(5)). Note that the IRS has waived the bankruptcy or insolvency restrictions on the use of § 108(e)(5) by partnerships (Rev. Proc. 92-92).	____	____	____________
.d) If the debt is nonrecourse, consider the possible application of the "freeing of assets" theory.	____	____	____________
.3) Determine if the new debt is qualified nonrecourse indebtedness.	____	____	____________
134) Determine the reporting requirements if the partnership has any tax exempt partners. (§ 6031(d)).	____	____	____________
135) Determine if the partnership is a family partnership. (§ 704(e))	____	____	____________
136) Review financial statements and footnotes for relevant information.	____	____	____________
137) Determine if the partnership is eligible for tax credits such as:			
.1) Foreign tax credit. (Form 1118)	____	____	____________
.2) Investment tax credit (rehabilitation and transition, energy and reforestation). (Form 3468)	____	____	____________
.3) Credit for increasing research activities. (See TRA 1997 for extension through June 30, 1998.) (Form 6765)	____	____	____________
.4) Enhanced oil recovery credit. (Form 8830)	____	____	____________
.5) Credit for producing fuels from nonconventional source.	____	____	____________
.6) Gasoline and special fuels credit. (Form 4136)	____	____	____________
.7) Low income housing credit. (Form 8586)	____	____	____________
.8) Disabled access credit. (Form 8826)	____	____	____________
.9) Qualified electric vehicle credit. (Form 8834)	____	____	____________

Page Completed ☐

	DONE	N/A	COMMENTS OR EXPLANATION
.10) Renewable electricity production credit. (Form 8835)	____	____	____________
.11) Credit for employer social security taxes paid on certain employee cash tips. See SBJPA 1996 for changes. (Form 8846)	____	____	____________
.12) Credit related to wage and health insurance costs for qualified Indian employees. (Form 8845)	____	____	____________
.13) Credit for contributions to certain community development corporations. (Form 8847)	____	____	____________
.14) Credit for alcohol used as a fuel. (Form 4136)	____	____	____________
.15) Empowerment zone employment credit. (Form 8844)	____	____	____________
.16) Work Opportunity Credit for eligible employees who begin work after September 30, 1996 and before July 1, 1998. (TRA 1997). (Form 5994)	____	____	____________
.17) Credit for qualified clinical testing expenses (Orphan Drug Credit) and associated carrybacks and carryovers. (SBJPA 1996). Note permanently extended under TRA 1997. (Form 8820)	____	____	____________
.18) Welfare-to-work credit for eligible employees who begin work on or after January 1, 1998 and before May 1, 1999 (TRA 1997).	____	____	____________
138) Inquire if foreign financial accounts exist (see Form TD F 90-22.1).	____	____	____________
139) Determine if the partnership (SBJPA 1996):			
.1) Created a foreign trust.	____	____	____________
.2) Transferred property to a foreign trust.	____	____	____________
.3) Received distributions, directly or indirectly, from a foreign trust (§ 6048).	____	____	____________
.4) Received loans, unless with arms-length terms, from a foreign trust.	____	____	____________
.5) Is a beneficiary of a foreign trust and transferred property to a foreign grantor of the trust.	____	____	____________
140) Consider filing power of attorney.	____	____	____________

Page Completed ☐

	DONE	N/A	COMMENTS OR EXPLANATION
200) INCOME			
201) Compare sources and amounts of portfolio income with prior year.	____	____	____________
202) Determine that only trade or business (e.g., not portfolio or rental) income is shown on Page 1 of Form 1065. Report rental real estate activities on Form 8825.	____	____	____________
203) Determine that installment sales are reported properly.	____	____	____________
.1) Consider related party rules.	____	____	____________
.2) Determine that the full amount of depreciation recapture is reported in the year of sale whether or not a payment was received in that year.	____	____	____________
.3) Review for adequate stated interest on debt instruments received in connection with the sale. Determine whether original issue discount or unstated interest rules require restatement of note interest and principal.	____	____	____________
.4) If the partnership is a "dealer" with respect to the related property:			
.a) Determine that the installment method is <u>not</u> used to report post December 31, 1987 sales of dealer property. (Exceptions—farm property, certain timeshare rights and residential lots if proper election is made.)	____	____	____________
.b) Determine that the interest owed as a result of an election (a) above is properly reported. Note that the interest calculation is done at the partner level.	____	____	____________
.c) Consider that manufacturers of tangible personal property will not be eligible to use installment method for sales to dealers after August 5, 1998 (TRA 1997).	____	____	____________
.5) Consider special rules for installment reporting by certain non-dealers of real (post 1986 sales) or personal property (post-1988 sales) where the sales price exceeds $150,000 (§ 453A). (Does not apply to certain farm property.)	____	____	____________
.a) Compute the interest charge imposed on outstanding tax deferred installment obligations if the face amount of these obligations that arose during, and are still outstanding at the close of, the tax year exceeds $5 million. Note that the $5			

Page Completed ☐

	DONE	N/A	COMMENTS OR EXPLANATION
million threshold test and interest calculation are done at the partner level.	_____	____	______________
.b) Determine that the proper amount is treated as a collection on any pledged installment obligation.	_____	____	______________
.6) Consider election out of installment method.	_____	____	______________
.7) Determine if an event has occurred requiring accelerated recognition of the remaining unreported gain (e.g., resale rule for related parties, cancellation of the installment obligation, disposition of the installment obligation).	_____	____	______________
204) Deferred income and expenses:			
.1) Include in gross income, as appropriate, income deferred for books in the current year.	_____	____	______________
.2) Exclude from gross income, as appropriate, income for books in the current year that was taken into income for tax in a prior year.	_____	____	______________
.3) Consider whether there are any advance payments for goods that can be determined under Reg. § 1.481-5. Note the information schedule requirements.	_____	____	______________
.4) Consider any advance payments for services under Rev. Proc. 71-21.	_____	____	______________
.5) Determine deductibility of prepaid expenses.	_____	____	______________
205) For disposed properties:			
.1) Reconcile to depreciation schedule.	_____	____	______________
.2) Determine holding period and federal, state, AMT and, if there are any corporate partners, ACE and E&P tax bases of property sold.	_____	____	______________
.3) Determine that related gains and losses are properly characterized:			
.a) Ordinary vs. capital vs. § 1231.	_____	____	______________
.b) Long term or short term. Note holding period changes (RRA 1998).	_____	____	______________

Page Completed ☐

	DONE	N/A	COMMENTS OR EXPLANATION
.4) Consider the provisions related to:			
.a) Nonrecognition of gain or loss (Form 8824). Note restriction on exchange of U.S. property for foreign property (TRA 1997).	____	____	____________
.b) The rules for like kind exchanges with related parties (Form 8824).	____	____	____________
.c) Recapture of depreciation (including § 291 depreciation) and/or tax credits, or reduction of credit carry forward. (See final amendments to Reg. §1.1245 addressing allocation of depreciation recapture among partners.) Note § 1245 applications (TRA 1997).	____	____	____________
.d) Allocation of built-in gain/loss (§ 704(c)).	____	____	____________
.e) The rules for involuntary conversions of post-1994 Presidentially-declared disasters (SBJPA 1996).	____	____	____________
.f) Forced sale of livestock on account of weather related conditions.	____	____	____________
.g) Election to rollover gain from the sale of qualified small business stock (RRA 1998).	____	____	____________
206) Determine that sales of securities settled after year end, with a trade date within current year, are reported this year. Note special rules for "short sales" in § 1233.	____	____	____________
207) Review application of the wash sales rules.	____	____	____________
208) Review application of straddle rules and available elections under § 1092.	____	____	____________
209) Report gains on constructive sales of appreciated financial positions occurring after June 8, 1997 (TRA 1997).	____	____	____________
210) Consider ordinary income on market discount bonds and deferral of related interest expense.	____	____	____________
211) Determine if there were sales or exchanges during the year between the partnership and a partner, or a related party to a partner to ensure compliance with §§ 267 and 707.	____	____	____________
212) Compare Forms 1099 received for proper inclusion in sales, interest income, dividends, etc.	____	____	____________

Page Completed ☐

	DONE	N/A	COMMENTS OR EXPLANATION
213) For leased property, calculate the appropriate income inclusion amount to be reported (see Vehicle Related Guides).			
214) Determine if securities held by the partnership became worthless during the year. Note that substantial worthlessness of short sale property is a gain recognition event. (TRA 1997)			
215) Consider the mark to market rules for "dealers in securities." Warning: the definition of "dealers in securities" contained in § 475 is not limited to Wall Street brokerage firms. The expansive definition includes many taxpayers involved in lending transactions and various seller financed activities.			
.1) Determine that § 475 assets are adjusted to fair market value at the end of the year.			
.2) Determine the § 481 adjustment.			
.3) Amortize the § 481 adjustment over 5 years (15 years for certain floor specialists and market makers) beginning with the year of change.			
.4) Determine if exempt securities were timely identified in taxpayer books and records.			
.5) Consider loss limitations for :			
(a) securities not properly identified.			
(b) nonfinancial customer paper (RRA 1998).			
216) Inquire whether the taxpayer engaged in bartering transactions.			
217) Consider exclusion from income of cash or rent reduction received from lessors, under a short-term lease of rental space, utilized to construct leasehold improvements which will revert to the lessor at termination of lease (TRA 1997).			
300) DEDUCTIONS			
301) Review the taxpayer's vacation pay accrual policy to determine if a deduction is allowable on the accrual basis (vested at year end and paid within 2½ months after year end).			
302) Consider applicability of the uniform capitalization rules which apply to resellers with annual gross receipts in excess of $10 million and all			

	DONE	N/A	COMMENTS OR EXPLANATION
producers of property. (Note final regulations related to general rules (§ 1.263A-1), producers (§ 1.263A-2) and resellers (§ 1.263A-3)).			
.1) Determine that all costs are included.			
.2) Consider interest capitalization rules for debt incurred to produce property.			
.3) If the beginning inventory is revalued:			
.a) Ascertain the amount of adjustment required for the beginning inventory due to the change in method of accounting (§ 481).			
.b) Ascertain § 481 forward spread period (not to exceed four years).			
.c) Determine that Form 3115 is attached to the tax return for the year of change.			
.d) Consider electing "simplified" methods.			
.4) For farmers and ranchers consider:			
.a) One-time election out of uniform capitalization rules if election was not required in a prior year.			
.b) The exemption for expenses incurred in the production of animals.			
.5) Review the definition of "produce".			
303) Long-Term Contracts			
.1) Determine if the taxpayer is subject to the long-term contract reporting rules requiring that the percentage of completion method, instead of the completed contract method, be used to determine taxable income. Note exceptions for certain qualifying construction contracts and most contracts for the manufacture of property.			
.2) In determining whether contracts of the taxpayer are subject to the percentage of completion method of reporting, consider:			
.a) Related party rules.			
.b) Contract aggregation rules.			

	DONE	N/A	COMMENTS OR EXPLANATION
.3) Determine that the percentage of completion is calculated based on costs incurred, not work performed.	____	____	__________
.4) Determine that all required costs have been allocated to the contracts. Note the expanded requirement to capitalize costs similar to the uniform capitalization rules.	____	____	__________
.5) Consider electing the simplified method of allocating costs, whereby fewer costs are taken into account, to determine the degree of contract completion.	____	____	__________
.6) Consider electing the modified percentage of completion method, whereby the recognition of income and accounting for costs is deferred until the first tax year in which at least 10% of the estimated total contract costs have been incurred as of the end of that year. Note that this election is not available if the simplified method above has been elected.	____	____	__________
.7) Upon completion of a contract, determine that the "look-back rule" has been applied to compare actual contract price and costs to previously used estimates and pay/claim interest on the related changes in prior years taxes on Form 8697. Note that certain small contracts are not subject to the "look-back rule," and that the "simplified" look back method is required for many partnerships. See TRA 1997 for changes in interest calculations and election to not apply the look-back method.	____	____	__________
304) For charitable contributions:			
.1) Inquire if all contributions are to qualified charitable organizations.	____	____	__________
.2) Consider the limitation related to contributions of appreciated ordinary income property.	____	____	__________
.3) Consider the deduction for more than cost of appreciated capital gains property.	____	____	__________
.4) Inquire if adequate contemporaneous documentation was obtained for charitable contributions of $250 or more.	____	____	__________
.5) Determine if Form 8283 is required for non-cash gifts.	____	____	__________
305) Determine that all guaranteed payments to partners for services or use of capital, determined without regard to income, have been deducted in computing ordinary income, or have been capitalized as required.	____	____	__________

	DONE	N/A	COMMENTS OR EXPLANATION
306) Inquire whether the partnership can substantiate by adequate records, as required under § 274, expenses claimed for entertainment, entertainment facilities, gifts, travel, conventions. Consider optional per diem method.	____	____	____________
307) Limit meals and entertainment to allowable percentage. Consider exceptions. Report the portion disallowed on Schedule K-1 so that each partner can correctly determine their basis in the partnership.	____	____	____________
308) Determine the deductibility of club dues.	____	____	____________
309) Determine that certain lobbying expenses are not deducted. (Note exceptions).	____	____	____________
310) Inquire if dues include nondeductible lobbying expenses.	____	____	____________
311) Determine that proper allocations have been made by type (trade or business, investment, passive activity, tax exempt expenditures, etc.).	____	____	____________
312) Determine if interest deduction limitations apply to interest incurred to purchase or carry market discount bonds or short-term debt obligations.	____	____	____________
313) Other interest considerations:			
.1) Treat amortizable bond premiums (for bonds acquired after 1987) as an offset to interest income. (Note election under § 171(c)).	____	____	____________
.2) Eliminate interest expense on debts with respect to life insurance policies (purchased after June 20, 1986) on current or former beneficial owners and key employees to the extent that the total of such loans exceeds $50,000. (Note phase-in rules under HIPAA 1996 and additional limitations for new or materially changed contracts issued after June 8, 1997 (TRA 1997).	____	____	____________
.3) Determine if there is an allowable interest deduction related to deferred compensation agreements.	____	____	____________
314) Determine that retirement plan contributions have been calculated using the eligible compensation limit and obtain a listing of dates and amounts paid. Note repeal of family aggregation rule, (SBJPA 1996)	____	____	____________
315) If taxpayer maintains a profit sharing plan and has not contributed the maximum contribution for each taxable year beginning prior to 1987, calculate the unfunded contribution carryover amount.	____	____	____________

Page Completed ☐

	DONE	N/A	COMMENTS OR EXPLANATION
316) Determine that the partnership has not deducted interest or expenses accrued to a partner or a related party unless it is includible in the income of the partner or related party. (§ 267).	_____	____	______________
317) Determine that expenses (including interest) allocable to portfolio income have not been deducted on Page 1 Form 1065. They should be reported on Schedule K.	_____	____	______________
318) If a partner has received an interest in exchange for services rendered, determine if the partnership has properly accounted for the exchange. (Rev. Proc. 93-27).	_____	____	______________
319) Determine that the specific writeoff method is used for bad debts.	_____	____	______________
320) Review partially worthless debts for write-off under Reg. § 1.166-3.	_____	____	______________
321) Consider option to deduct current year qualifying disaster losses on the appropriate preceding year tax return.	_____	____	______________
322) Determine applicability of 2½ month deferred compensation rule for nonshareholder employees and independent contractors.	_____	____	______________
323) Determine if deductions should be reduced by various credits claimed.	_____	____	______________
324) Determine proper treatment of environmental clean-up expenses. Note expense election (TRA 1997).	_____	____	______________
325) Determine proper tax treatment for long term lease agreements (as lessor or lessee) where the lease provides for deferred payments or increasing payments (see also Prop. Reg. § 1.467)	_____	____	______________
326) Determine if inventory write down for book purposes should be adjusted for tax purposes. Note that TRA 1997 allows for estimated inventory shrinkage.	_____	____	______________
400) DEPRECIATION/AMORTIZATION			
401) For assets placed in service during the current year:			
.1) Consider § 179 election to expense qualifying assets. Note new allowable amounts. (SBJPA 1996)	_____	____	______________
.2) Consider § 179A election to expense qualifying clean-fuel vehicles and related refueling property placed in service after June 30, 1993.	_____	____	______________

Page Completed ☐

	DONE	N/A	COMMENTS OR EXPLANATION
.3) Determine the depreciable basis of each asset.	_____	_____	_____
.4) Determine the property class, recovery period and depreciation method for each asset. Note new limitations on property qualifying for income forecast method designated lives of rent to own property (TRA 1997).	_____	_____	_____
.5) Determine the applicable convention (half-year, mid-quarter or mid-month).	_____	_____	_____
.6) Determine that the cost of leasehold improvements is being recovered over the applicable recovery period, regardless of the lease period.	_____	_____	_____
.7) Consider 36-month depreciation rules for software.	_____	_____	_____
.8) Consider reduced depreciable lives for real estate improvements and special use structure.	_____	_____	_____
.9) Consider electing the Alternative Depreciation System (straight line over an ADS recovery period) for qualifying General Depreciation System property.	_____	_____	_____
.10) For farming, determine that MACRS is applied using 150% DB. Note ADS required if elected out of § 263A.	_____	_____	_____
.11) If property is leased to a tax exempt entity, consider the possible need to use the ADS.	_____	_____	_____
.12) Consider depreciation limitations for IDB financed property, and certified historic structures for which a tax credit was taken.	_____	_____	_____
.13) If a short year, determine that Rev. Proc. 89-15 is followed.	_____	_____	_____
.14) If there has been a purchase price adjustment, see Prop. Reg. § 1.168-2 (d)(3).	_____	_____	_____
.15) Determine if interest is payable under look-back method where income forecast depreciation method is used (SBJPA 1996). Note interest calculation change (TRA 1997.	_____	_____	_____
.16) Consider accelerated depreciation for qualifying property located on Indian reservations.	_____	_____	_____
402) Determine that amortizable items, including goodwill, are written off over the correct periods.	_____	_____	_____

Page Completed ☐

	DONE	N/A	COMMENTS OR EXPLANATION
403) Consider the provisions of Rev. Proc. 96-31 to rectify prior year claims of less than allowable depreciation or amortization.	____	____	____________
404) Determine if leased property/equipment should be capitalized.	____	____	____________
405) Consider anti-churning rules.	____	____	____________
406) For listed property (e.g., cellular phones, autos, computers, airplanes, boats):			
.1) For autos, consider the maximum allowable under the luxury auto rules. Note TRA 1997 exceptions for clean burning and electric vehicles.	____	____	____________
.2) For autos, determine limitation if the business usage is 50% or less.	____	____	____________
.3) Determine limitations for all other mixed-use property, if the business usage is 50% or less.	____	____	____________
.4) Inquire if the taxpayer has kept the required records indicating the business and personal use of property.	____	____	____________
5) Determine recapture if the business usage is 50% or less.	____	____	____________
407) Form 4562 (if required):			
.1) Reconcile depreciation expense to supporting schedules.	____	____	____________
.2) Complete questions regarding personal use of listed property.	____	____	____________
.3) If the costs were incurred during the current year, determine that amortizable items are separately stated and the proper Code section cited.	____	____	____________
408) Consider state depreciation, if different.	____	____	____________
409) Consider federal and state AMT, ACE and E&P depreciation. (Note that the depreciable lives of tangible personal property placed in service after 12/31/97 are the same for regular and AMT purposes.)	____	____	____________
410) Make adjustments for depreciable assets which are demolished, obsolete, abandoned and/or out of service. Consider credit recapture.	____	____	____________

Page Completed ☐

	DONE	N/A	COMMENTS OR EXPLANATION
500) PARTNER DATA - SCHEDULE K-1			
501) Complete the analysis of distributive items at the bottom of Schedule K.	____	____	____________
502) If the partnership has acquired real estate after December 31, 1986, or a partner has acquired an interest in the partnership after December 31, 1986:			
.1) Apply the at risk rules.	____	____	____________
.2) Identify qualified nonrecourse debt allocated to the partners. (Note clarification to rules for LLC's in Prop. Reg. § 1.465-27).	____	____	____________
503) Consider whether income from a pre-1987 installment sale should be considered passive income.	____	____	____________
504) Verify that the beginning and ending total partners' capital figures on Schedule L agree with the reconciliation of partners' capital accounts—Schedule M-2. If the M-2 capital account is a § 704 capital account, and it is different than that used on Schedule L, attach a reconciliation.	____	____	____________
505) Complete each partner's reconciliation of capital. Verify that the total agrees to the corresponding line on Schedule M-2 Form 1065.	____	____	____________
506) Determine if there has been a transfer of partnership interests during the year and if so, allocate income or loss in accordance with § 706.	____	____	____________
507) Determine that allocations for deceased partners are consistent with § 706. Note that a partnership's taxable year now closes with respect to a deceased partner (TRA 1997).	____	____	____________
508) Determine the allocation of the partnership's recourse, nonrecourse and qualified nonrecourse liabilities and enter separately on each partner's Schedule K-1. Note that § 752 regulations may require debt to be allocated other than in accordance with the profit or loss percentages.	____	____	____________
509) Ensure that the partnership and K-1s report results on an activity by activity basis.	____	____	____________
510) Distribute each item on Schedule K among the K-1s in accordance with the provisions of the partnership agreement, or in accordance with § 704(b) if the partnership agreement is silent on § 704(b). (See § 704(b) Tax Practice Guide).	____	____	____________

Page Completed ☐

	DONE	N/A	COMMENTS OR EXPLANATION
511) Determine that proper reporting and detail have been provided for all items that affect partners' tax liability, such as:			
.1) Ordinary trade or business activities.	_____	____	______________
.2) Rental activities.	_____	____	______________
.3) Depreciation of built in gain/loss property (§ 704(c)).	_____	____	______________
.4) Portfolio income by type (e.g., U.S. government interest income, state or municipal interest income), and related deductions. Consider need to attach required statement under Reg. § 1.265-1(d)(1).	_____	____	______________
.5) Gains and losses, dates of dispositions, respective holding periods and type of assets sold. (TRA 1997)	_____	____	______________
.6) Passive activity data. (See Passive Activity Checklist).	_____	____	______________
.7) Partners' medical insurance and other fringe benefits. (Rev. Rul. 91-26).	_____	____	______________
.8) Discharge of indebtedness income.	_____	____	______________
.9) Self-charged interest. Note Prop. Reg. § 1.469-7 allowing for possible recharacterization of interest income. (See Passive Activity Checklist).	_____	____	______________
.10) All items that affect partner basis calculations (e.g., nondeductible items).	_____	____	______________
.11) Guaranteed payments (matching of deduction by partnership and income for partner is required). Note also that group benefits provided to a partner must be treated as guaranteed payments. (Rev. Rul. 91-26).	_____	____	______________
.12) Credit information.	_____	____	______________
.13) Interest incurred in the production of property which may have to be capitalized at the partner level.	_____	____	______________
.14) Casualty loss information.	_____	____	______________
.15) Charitable contributions, including a copy of Form 8283 when required.	_____	____	______________

Page Completed ☐

	DONE	N/A	COMMENTS OR EXPLANATION
.16) Other passthrough items (e.g., intangible drilling costs, depletion).			
.17) Income or deductions arising from a § 743 basis adjustment. (See Prop. Reg. 1.743-1.)			
.18) Unrelated business taxable income.			
512) Determine whether the partnership was required to register as a tax shelter—if so, enter the registration number on each K-1.			
513) Determine that Form 8271 and appropriate K-1s are attached if the partnership invested in a registered tax shelter. Note that a copy of Form 8271 must be sent to each individual partner.			
514) Segregate all tax preference, alternative minimum tax adjustment items, and E&P items and list on the appropriate lines of Schedules K & K-1. Note the changes to the rules regarding charitable donations of appreciated property.			
515) Prepare schedules that reflect information to allow each partner to compute credit recapture.			
516) Determine that information relating to interest expense on debt-financed distributions to partners has been provided (Notice 89-35).			
517) If the partnership has foreign partners:			
.1) Determine that proper withholding was made. (See IRC § 1441-1446)			
.2) Determine that proper payment of withholding has been made. (EFTPS)			
600) OTHER REQUIREMENTS			
601) Compute net earnings from self-employment for applicable partners and enter on Schedule K and appropriate K-1 forms. (Note legislative moratorium through July 1, 1998 on the definition of a limited partner under TRA 1997.)			
602) If a tiered partnership arrangement exists, review §§ 706(c)(2)(B) and 706(d)(3) regarding allocation rules.			
603) Consider elections and statements such as:			
.1) Election to amortize organization expense.			

	DONE	N/A	COMMENTS OR EXPLANATION
.2) Cash vs. accrual method.	_____	_____	____________
.3) Election to expense intangible drilling costs.	_____	_____	____________
.4) Election to amortize business start-up costs.	_____	_____	____________
.5) Method for valuation of inventory.	_____	_____	____________
.6) Research and experimental cost election.	_____	_____	____________
.7) Exception from economic performance for recurring items. Under the final regulations, the election for item(s) incurred for the first time is made by accounting for the item(s) under the recurring method on a timely filed return. Note that this election does not apply to tax shelters (§ 461(i)).	_____	_____	____________
.8) If this is the first year the taxpayer incurred real property taxes, determine if a § 461(c) election to accrue ratably is more beneficial than adopting the recurring item exception (Rev. Proc. 92-28).	_____	_____	____________
.9) Election to be treated as a partnership (Form 8832).	_____	_____	____________
.10) Change in accounting method application/approval.	_____	_____	____________
.11) Election to step up basis (§ 754).	_____	_____	____________
.12) Election to be treated as a large partnership.	_____	_____	____________
604) Cross reference the following items:			
.1) Schedule L beginning balances to prior year's ending balances.	_____	_____	____________
.2) Schedule M-2 beginning equity accounts to prior year's ending balance.	_____	_____	____________
.3) Detail listings of Schedule L beginning balances to prior year's detail listings of ending balances.	_____	_____	____________
605) Determine that book/tax accounting method differences related to Schedule M-1 are documented in the workpaper files. Consider reporting on Schedule K-1.	_____	_____	____________
606) Determine if any expenditures were incurred that are eligible for the disabled access credit. (See Form 8826). If the taxpayer does not qualify for the credit, or has expenditures in excess of the credit limit, consider making a § 190 election to expense the costs.	_____	_____	____________

Page Completed ☐

	DONE	N/A	COMMENTS OR EXPLANATION
607) If the partnership is a party to an "applicable asset acquisition" (transfer of assets that constitute a trade or business or a transfer or distribution to which § 755 applies), determine that applicable reporting requirements regarding allocation of purchase price have been met (Form 8594).	____	____	____________
608) If the partnership owns an interest in another partnership:			
.1) Consider § 465 at risk and/or § 704(d) basis rules.	____	____	____________
.2) Report appropriate recourse and nonrecourse debt from the other partnership on the partners' K-1s. (Rev. Rul. 77-309).	____	____	____________
.3) For a distribution from or a technical termination in the 2nd tier partnership, consider both the allocation of basis rules under § 732(c) (TRA 1997), § 751(c) (RRA 1998), (and Prop. Reg. 1.732-1(c)) and making a § 732(d) election. (Note final regulations under § 708). (Note also that a technical termination in the 2nd tier may result in a technical termination of the partnership).	____	____	____________
609) Consider § 6662 accuracy-related penalty. If this penalty could result from any income, deduction, loss, or credit item which causes a substantial change in the partner's return and causes the preparer to rise to the level of preparer of the partner's return:			
.1) Consider if substantial authority exists for the item in question. If not, consider disclosure (Form 8275 or 8275R).	____	____	____________
.2) Determine if the partnership is a tax shelter for purposes of § 6662.	____	____	____________
.3) Consider advising the taxpayer, in writing, of the penalty.	____	____	____________
610) Consider informing client of requirement to file Form 8300 for certain payments received exceeding $10,000.	____	____	____________
611) If a partnership interest was sold during the year, attach Form 8308 (if required) to the partnership return and send copies to the transfer or and transferee. Note that certain contribution-distribution arrangements may constitute a "disguised sale" under the final regulations under § 707(a)(2). Some of these transactions may be required to be reported on Form 8275 or 8275R. (Reg. § 1.707-8).	____	____	____________
612) If the partnership sells an interest it owns in another partnership determine:			

	DONE	N/A	COMMENTS OR EXPLANATION
.1) that appropriate information was given to the partership to enable it to prepare Form 8308.	____	____	____________
.2) That the required statement under Reg. § 1.751-1(a)(3) is attached, if the partnership had any § 751(a) assets.	____	____	____________
613) If the partnership acquires an interest in another partnership, consider providing appropriate information to the partnership (Prop. Reg.-209682-94).	____	____	____________
614) If a new partner was admitted, determine if existing partners realized ordinary income due to a reduction in their share of unrealized receivables. Note that if there has been an in-kind distribution, consider gain recognition provisions of the Revenue Reconciliation Act of 1989.	____	____	____________
615) Compare net income or loss to projections for reasonableness.	____	____	____________
616) Review prior year's return Schedule M-1, for items which may have an effect upon or require similar treatment in the current year.	____	____	____________
.1) Reconcile income per books with return (determine nontaxable income not included).	____	____	____________
.2) Reconcile expenses per books with return (determine nondeductible items not included).	____	____	____________
617) Prepare state and local tax returns (see Nexus Practice Guide).	____	____	____________
Consider:			
.1) Each state's modification requirements. (Including ability to deduct expenses allocated to federally tax-exempt income).	____	____	____________
.2) State withholding requirements on income allocated to nonresident partners, or distributions made to nonresident partners. Consider notification to the partners that they may be able to use this state tax liability as a credit against their individual state liability.	____	____	____________
.3) Desirability of filing a composite return on behalf of all nonresident partners.	____	____	____________
.4) State filing requirements for foreign (out of state) partnerships with resident partners.	____	____	____________
.5) State filing requirements if the entity is an LLC.	____	____	____________

Page Completed ☐

	DONE	N/A	COMMENTS OR EXPLANATION
.6) Providing proper information to allow partners to prepare the necessary state tax returns.			
.7) Compiling apportionment data for multistate taxpayers.			
618) Attach extension requests.			
619) Determine that related party transactions are reported on all available returns.			
620) Information returns:			
.1) Inquire whether the partnership has filed all required information returns (1099 and 1098 series) and whether the value of the personal use of employer property, expense reimbursements under "unaccountable plans" and § 401(k) deferred compensation information has been included in its employees' W-2s.			
.2) Inquire if the taxpayer has complied with magnetic media filing requirements for Forms 1099 and W-2.			
.3) Inquire if additional items subject to employer FICA, such as § 401(k) deferrals, employer-provided excess group-term life insurance, all cash tips, etc., have been properly reported.			
.4) Determine that reimbursement of employee moving expenses and tuition and related expenses are properly reported.			
.5) Inquire whether club dues, spousal travel, etc., is treated as compensation and included on employee's W-2.			
.6) Consider filing information returns relating to foreign partnerships and corporations (TRA 1997).			
621) Inquire if employment taxes were timely deposited. (EFTPS)			
622) Inquire if the required 5500 series forms have been filed for retirement plans covered by this period.			
623) Inquire if the employee benefit plans have been reviewed to determine if they are in compliance due to changing partnership circumstances and law changes.			
624) Inquire if 5500 series forms have been filed for cafeteria plans and welfare benefit plans (e.g., medical benefit plans, life insurance, disability or death benefit plans that have more than 100 participants).			

	DONE	N/A	COMMENTS OR EXPLANATION
625) Advise the partnership that any unpaid retirement plan contribution for the year must be made before the due date of the return, including extensions.	____	____	____________
626) Note tax planning/additional service suggestions.	____	____	____________

COMMENTS OR EXPLANATIONS

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MINI-CHECKLIST
C CORPORATION INCOME TAX RETURN
1998 - FORM 1120

Client Name and Number: ______________________________

Prepared by: ____________ Date: ________ Reviewed by: ____________ Date: ________

GENERAL INFORMATION	Done	N/A
1. Review prior year returns, workpapers, correspondence and audit results.	☐	☐
2. Document any changes in corporation's name, address, FYE, business code.	☐	☐
3. Consider signed engagement letter.	☐	☐
4. Review computer-generated pro forma/organizer for accuracy.	☐	☐
5. Update carryforward schedules, including effect of prior tax audits.	☐	☐
6. Review methods of accounting.	☐	☐
7. Reconcile income and expenses per return with books.	☐	☐
8. Consider below-market-rate loan rules.	☐	☐
9. Review financial statements and footnotes for relevant information.	☐	☐
10. Review Board minutes.	☐	☐
11. Consider filing power of attorney.	☐	☐

INCOME	Done	N/A
1. Determine that dispositions of property are reported properly.	☐	☐
2. Compute proper dividend received deduction.	☐	☐
3. If closely held or PSC, consider any passive loss limitations.	☐	☐
4. Consider the following:		
Discharge of indebtedness	☐	☐
Worthless securities	☐	☐
Deferred income and expenses (SBJPA 1996)	☐	☐
Ordinary income on market discount bonds and deferral of related interest expense	☐	☐
Installment sales and related interest charge on deferred tax	☐	☐
Sales or exchanges between the corporation and shareholder or other related parties	☐	☐
At risk rules	☐	☐
Like-kind exchanges	☐	☐

DEDUCTIONS	Done	N/A
1. Consider uniform capitalization rules.	☐	☐
2. Consider charitable deduction rules and limitations.	☐	☐
3. Determine deductibility of vacation pay accrual.	☐	☐
4. Determine applicability of 2½ month deferred comp rule for nonshareholder employees and independent contractors.	☐	☐
5. Inquire if travel and entertainment expenses are substantiated by adequate records.	☐	☐
6. Limit meals and entertainment to allowable percentage.	☐	☐
7. Consider limitations on deductibility of:		
Club dues	☐	☐
Lobbying expenses/association dues	☐	☐
Bad debts	☐	☐
Casualty losses	☐	☐
Stock option compensation	☐	☐
8. Review amount and timeliness of retirement plan contributions.	☐	☐
9. Consider limitation on tax attribute utilization if there has been a more than 50% ownership change.	☐	☐

DEPRECIATION/AMORTIZATION	Done	N/A
1. Consider the following:		
§ 179 election	☐	☐
Methods and lives	☐	☐
Listed property	☐	☐
Capitalization of leased property	☐	☐
Amortization of goodwill and other intangibles.	☐	☐
2. Compute AMT and ACE depreciation.	☐	☐

TAX COMPUTATION AND CREDITS	Done	N/A
1. Compute alternative minimum tax (including ACE adjustment). Sales over $5 million. (TRA 1997)	☐	☐
2. Consider tax credits. (SBJPA 1996 and TRA 1997)	☐	☐
3. Determine if PHC tax is applicable.	☐	☐
4. Consider accumulated earnings tax exposure.	☐	☐

Page Completed ☐

MINI-CHECKLIST
C CORPORATION INCOME TAX RETURN
1998 - FORM 1120

	Done	N/A
5. Determine if 35% PSC tax applies.	☐	☐
6. Confirm prior year overpayments, estimates and extension payments.	☐	☐
7. Compute underpayment penalties. (TRA 1997)	☐	☐
8. Prepare estimates. (EFTPS)	☐	☐
OTHER REQUIREMENTS		
1. Determine if NOL, capital loss or credit carryback claim is required.	☐	☐
2. Consider election to relinquish NOL carryback.	☐	☐
3. Consider elections and statements such as:		
Amortize organization expenses	☐	☐
Cash vs. accrual	☐	☐
Amortize business startup costs	☐	☐
Method for valuation of inventory	☐	☐
Research and experimental costs	☐	☐
Exception from economic performance for recurring items (first year only)	☐	☐
Ratable accrual of real property taxes (first year only)	☐	☐
4. Inquire whether all information reporting returns have been filed.	☐	☐
5. Consider accuracy-related penalty (§ 6662).	☐	☐
6. Prepare state and local tax returns.	☐	☐
7. Attach extension requests.	☐	☐
8. Inquire if foreign financial accounts exist.	☐	☐
9. Note tax planning/additional service suggestions.	☐	☐

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SHORT VERSION
C CORPORATION INCOME TAX RETURN CHECKLIST
1998 - FORM 1120

Client Name and Number: ______________________________

Prepared by: ______________ Date: ________ Reviewed by: ______________ Date: ________

	DONE	N/A	COMMENTS OR EXPLANATION
100) GENERAL INFORMATION			
101) Review and update the corporation's name, address, fiscal year, incorporation date, business code, identification number, and IRS and other tax processing centers.	____	____	____
102) Consider signed engagement letter.	____	____	____
103) Review permanent file, prior year returns, memos, workpapers and correspondence files.	____	____	____
104) Review computer-generated pro forma/organizer for accuracy.	____	____	____
105) Check for carryover items and update carryforward schedule, including effects of prior tax audits.	____	____	____
106) Determine that accounting methods used are comparable to the preceding year unless changes are approved or required.	____	____	____
107) Obtain information concerning IRS and state tax audits and/or correspondence.	____	____	____
108) Review for adequate stated interest on all new or modified debt instruments.	____	____	____
109) Review financial statements and footnotes for relevant information.	____	____	____
110) Review Board minutes.	____	____	____
111) Consider filing Power of Attorney.	____	____	____
200) INCOME			
201) Determine that installment sales are properly reported, including related interest charge on deferred tax.	____	____	____
202) Review dispositions of property for holding period and federal, state, AMT and ACE tax bases. Consider non-recognition, gains, losses and recaptures. (SBJPA 1996 and TRA 1997).	____	____	____
203) Report gains on constructive sales of appreciated financial positions. (TRA 1997)	____	____	____

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	DONE	N/A	COMMENTS OR EXPLANATION
204) Consider rules for like-kind and related party exchanges (Form 8824). Note restrictions for US exchange for foreign property. (TRA 1997)			
205) Determine that deferred income and expenses for book purposes are properly reported for tax purposes.			
206) Determine taxability of dividends and complete schedule C. Consider 20% ownership rule, including possible reduction in the dividends received deduction under § 246A.			
207) Exclude tax exempt income from federal gross income and state and local income as applicable, and determine whether there is interest expense disallowance related to such income.			
208) Consider the passive loss limitations for closely held or PSCs. (See Passive Activity Checklist.)			
209) Determine if there is discharge of indebtedness income. Consider exclusion and elections under § 108 and Form 982.			
210) Consider ordinary income on market discount bonds and deferral of related interest expense.			
211) Consider mark to market rules for "dealers in securities" (§ 475).			
212) Consider appropriate income inclusion amount for leased property. (See Vehicle Related Guides.)			
300) DEDUCTIONS			
301) Consider the uniform capitalization rules.			
302) Consider charitable contribution rules, limitations and contemporaneous receipt requirements.			
303) Identify any nondeductible vacation pay accrual.			
304) Inquire whether the corporation can substantiate by adequate records, as required under § 274, expenses claimed for entertainment, entertainment facilities, gifts, travel and conventions. Consider optional per diem method.			
305) Limit deduction for meals and entertainment to allowable percentage. Consider exceptions.			
306) Officers and stockholders:			

Page Completed ☐

	DONE	N/A	COMMENTS OR EXPLANATION
.1) Determine the ownership of officer's life insurance policies and the proper treatment of related expenses.			
.2) Identify expense including interest if applicable, for officers life insurance which are non deductible.			
.3) Determine limitation on any losses or accruals of expenses during the year between related corporation/shareholder under § 267(a)(1).			
.4) If there were any accruals of interest, compensation or other expenses payable to a shareholder or related parties, determine that for tax purposes the deduction is deferred until the year in which it is includable in income of the shareholder.			
.5) If the corporation is a PSC with a fiscal year-end and § 280H applies, determine the appropriate distribution and deduction amounts.			
.6) Consider whether there is a potential unreasonable compensation issue.			
307) Determine if compensation deductions are allowable with respect to qualified and nonqualified stock options.			
308) Consider limitations on deductibility of:			
.1) Bad debts			
.2) Casualty losses			
.3) Club dues			
.4) Lobbying expenses/association dues			
309) Determine applicability of the 2½ month deferred compensation rule for nonshareholder employees and independent contractors.			
310) Determine that retirement plan contributions are within allowable limits and are made timely.			
311) Consider economic performance requirement and recurring item exceptions.			
400) DEPRECIATION/AMORTIZATION			
401) Consider all depreciation requirements and options including:			
.1) § 179 election. (Note new allowable amounts SBJPA 96)			
.2) Methods and lives.			
.3) Requirements relating to listed property.			

	DONE	N/A	COMMENTS OR EXPLANATION
.4) Whether leased property should be capitalized.			
.5) Consider 36-month depreciation rules for software.			
402) Consider AMT and ACE depreciation.			
403) Determine that amortizable items, including goodwill, are written off over the correct periods.			
500) TAX COMPUTATIONS AND CREDITS			
501) If this is a consolidated tax return:			
.1) Attach Form 851.			
.2) Attach Form 1122 (only for consolidated group's first year).			
.3) Review consolidated journal entries and determine that intercompany eliminations and restorations are calculated correctly.			
.4) Attach election to allocate tax liability of group.			
502) If member of controlled group, attach apportionment schedule.			
503) Compute tax including alternative minimum tax and ACE adjustment. (Over $5 million in sales - TRA 1997)			
504) Consider application of environmental tax.			
505) Consider tax credits. (SBJPA 1996 and TRA 1997)			
506) Consider limitations on use of NOLs and credits.			
507) If corporation is a personal service corporation, calculate tax without benefit of graduated rates.			
508) Determine personal holding company status.			
509) Determine if accumulated earnings tax exposure is present. Note exceptions.			
510) Claim current year estimated tax payments, prior year overpayments applied and extension payments.			
511) Consider filing for a quick refund (Form 4466).			

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	DONE	N/A	COMMENTS OR EXPLANATION
512) Prepare Form 2220 for underestimated tax penalty or exception if applicable. Note exception under TRA 1997.			
513) Determine need for estimated tax payments. (EFTPS)			
600) OTHER REQUIREMENTS			
601) If the corporation is a party to an "applicable asset acquisition," determine that the reporting requirements have been met (Form 8594).			
602) Attach schedule for carryforward NOL.			
603) If there is a current period NOL, consider the election to forego the carryback.			
604) Consider preparing Form 1139 for carrybacks.			
605) If there is an NOL generated or utilized in the current year, disclosure is required of any change in ownership.			
606) Consider elections such as:			
.1) Amortization of organization expense.			
.2) Amortization of business start-up costs.			
.3) Ratable accrual of real property taxes (first year only).			
.4) Cash vs. accrual.			
.5) Method for valuation of inventory.			
.6) Research and experimental costs.			
.7) Exception from economic performance for recurring items (first year only).			
607) Consider applicable reporting requirements for liquidations, reorganizations, and tax-free incorporations.			
608) Reconcile net income per books to taxable income per return.			
609) Cross reference the following items:			
.1) Schedule L beginning balances to prior year's ending balances.			

Page Completed ☐

	DONE	N/A	COMMENTS OR EXPLANATION
.2) Schedule M-2 beginning retained earnings to prior year's ending balance.			
.3) Carryforward items to carryover schedule/prior year returns.			
610) Consider accuracy-related penalty and filing of a disclosure statement. (§ 6662)			
611) Consider state tax return issues (see Nexus Guide) such as:			
.1) Tax credits.			
.2) Doing business in new states.			
.3) Unitary or consolidated filing requirements.			
.4) Allocation of investment income.			
.5) Credits for income taxes paid to other states.			
612) Attach extension requests.			
613) Inquire if employee benefit plans have been reviewed to determine if they are in compliance due to changing corporate circumstances and law changes.			
614) Compare taxable income to projections for reasonableness.			
615) Determine that related party transactions are properly reported on all available returns.			
616) Inquire if information returns (1099 and 1098 series) have been filed.			
617) Inquire if employment taxes were timely deposited. (EFTPS)			
618) Consider whether an "S" election should be made.			
619) Note tax planning suggestions.			

COMMENTS OR EXPLANATIONS

C CORPORATION INCOME TAX RETURN CHECKLIST
1998 - FORM 1120

Client Name and Number: ______________________________

Prepared by: ____________________ Date:__________ Reviewed by: ____________________ Date:__________

	DONE	N/A	COMMENTS OR EXPLANATION
100) GENERAL INFORMATION			
101) Review the corporation's name, address, fiscal year, incorporation date, business code, identification number, and IRS and other tax processing centers. Note changes.	____	____	____________
102) Consider signed engagement letter.	____	____	____________
103) Review permanent file, prior year returns, memos, workpapers and correspondence files.	____	____	____________
104) Review computer-generated pro forma/organizer for accuracy.	____	____	____________
105) If the corporation has been examined by the IRS, state or local taxing authorities:			
.1) Obtain copies of the revenue agent's reports.	____	____	____________
.2) Determine that the agent's adjustments have been entered on the corporation's records and appropriate carryforward workpapers.	____	____	____________
.3) If the agent's adjustments affect income tax returns of years other than those audited, or the corresponding federal or state returns for the same year, consider filing amended returns.	____	____	____________
106) Obtain correspondence with IRS and state taxing authorities. Consider impact.	____	____	____________
107) Review and update schedules for federal and state carryover items (regular and AMT) such as:			
.1) Prior year overpayment(s) credited to current year estimate.	____	____	____________
.2) Prior year deferred deductions.	____	____	____________
.3) Net operating loss.	____	____	____________
(a) Consider limitations due to change in ownership rules (§ 382).	____	____	____________
(b) Consider limitations due to acquisition under § 384.	____	____	____________
(c) Consider SRLY limitation for consolidated returns.	____	____	____________

Page Completed ☐

.4) Capital loss. ____ ____ ____________

.5) Investment credit. ____ ____ ____________

.6) AMT credit. ____ ____ ____________

.7) Other credits. ____ ____ ____________

.8) Charitable contributions. ____ ____ ____________

.9) Installment sales. Consider applicable tax rates for components of gain. ____ ____ ____________

.10) Passive losses/credits. ____ ____ ____________

.11) Suspended losses/credits due to at-risk limitations. ____ ____ ____________

.12) Partnership basis. ____ ____ ____________

.13) Change of accounting method adjustments (§ 481). ____ ____ ____________

.14) § 179 amounts. ____ ____ ____________

.15) For consolidated returns:

(a) Stock bases. ____ ____ ____________

(b) Excess loss accounts. ____ ____ ____________

(c) Deferred intercompany transactions. ____ ____ ____________

108) Inquire whether the taxpayer has made or received any below-market-rate loans. Determine imputed interest consequences and existence of properly executed note. ____ ____ ____________

109) Review for adequate stated interest on debt instruments:

.1) Determine whether original issue discount or unstated interest rules require restatement of note interest and principal. ____ ____ ____________

.2) Consider election for purchased discount under § 1278. ____ ____ ____________

110) Review for proper reporting of interest recognition in accordance with Reg. §§ 1.483-4 and 1.1274-5 for debt instruments providing contingent payments. ____ ____ ____________

111) Consider whether or not corporate capitalization is realistic in light of the debt/equity rules. ____ ____ ____________

112) Document any changes in stock ownership during the tax year. ____ ____ ____________

Page Completed ☐

113) Determine officers' compensation and complete Schedule E, if required. ____ ____ ____________

114) Determine if the corporation is a personal service corporation (PSC) and is required to file on a calendar-year basis. If the PSC has made a § 444 election to have an allowable fiscal tax year, determine that Form 8716 has been timely filed. Note that a copy of Form 8716 must be attached to Form 1120 for the first tax year for which the election is made. ____ ____ ____________

115) If the corporation is on the cash basis, determine if the accrual basis is required (generally, gross receipts in excess of $5 million). ____ ____ ____________

116) Determine if accounting methods used are comparable to the preceding year unless changes are approved or required. ____ ____ ____________

117) Consider economic performance requirement and recurring item exceptions. ____ ____ ____________

118) Review financial statements and footnotes for relevant information. ____ ____ ____________

119) Review Board minutes. ____ ____ ____________

120) Consider filing Power of Attorney. ____ ____ ____________

200) INCOME

201) Determine that installment sales are reported properly.

.1) Consider related party rules. ____ ____ ____________

.2) Determine that the full amount of depreciation recapture is reported in the year of sale whether or not payment was received in that year. ____ ____ ____________

.3) Review for adequate stated interest on debt instruments received in connection with the sale. Determine whether original issue discount or unstated interest rules require restatement of note interest and principal. ____ ____ ____________

.4) If the corporation is a "dealer" with respect to the related property:

(a) Determine that the installment method is <u>not</u> used to report post-1987 sales of dealer property (exceptions—farm property, certain timeshare rights and residential lots if proper election is made). ____ ____ ____________

(b) Determine that the interest owed as a result of an election in (a) above is properly reported. ____ ____ ____________

(c) Consider that manufacturers of tangible personal property will not be eligible to use installment method for sales to dealers after August 5, 1998. (TRA 1997) ____ ____ ____________

.5) Consider special rules for installment reporting by certain non-dealers of real (post-1986 sales) or personal property (post-1988 sales) where the sales price exceeds $150,000 (§ 453A) (does not apply to certain farm property). ____ ____ ____________

(a) Compute the interest charge imposed on outstanding tax deferred installment obligations if the face amount of these obligations that arose during, and are still outstanding at the close of, the tax year exceeds $5 million. ____ ____ ____________

(b) Determine that the proper amount is treated as a collection on any pledged installment obligation. ____ ____ ____________

.6) Consider election out of installment method. ____ ____ ____________

.7) Determine if an event has occurred requiring accelerated recognition of the remaining unreported gain (e.g., resale rule for related parties, cancellation of the installment obligation, disposition of the installment obligation). ____ ____ ____________

202) For disposed property:

.1) Reconcile to depreciation schedule. ____ ____ ____________

.2) Determine holding period and federal, state, AMT and ACE tax bases. ____ ____ ____________

.3) Determine that gains and losses are properly characterized: ____ ____ ____________

(a) Ordinary, § 1231, capital ____ ____ ____________

(b) Long term, short term - note holding changes (Internal Revenue Service Restructuring and Reform Act of 1998 (RRA 1998)) ____ ____ ____________

.4) If there are § 1231 gains, determine the amount subject to ordinary income treatment as a result of five year recapture rule for prior net § 1231 losses. ____ ____ ____________

.5) Consider the provisions relating to:

(a) Non-recognition of gain or loss (Form 8824). See new rules for involuntary conversion of post-1994 Presidentially declared disasters (SBJPA 1996). Note restrictions on exchanges of US property for foreign property. (TRA 1997) ____ ____ ____________

(b) Rules for like-kind and related party exchanges (Form 8824). ____ ____ ______________

(c) Recapture of depreciation (including § 291 recapture) and/or tax credits, or reduction of credit carryforwards. Note § 1245 applications (TRA 1997). ____ ____ ______________

(d) Forced sale of livestock on account of weather related conditions. ____ ____ ______________

203) Deferred income and expenses:

.1) Include in gross income, as appropriate, income deferred for books in the current year. ____ ____ ______________

.2) Exclude from gross income, as appropriate, income for books in the current year that was taken into income for tax in a prior year. ____ ____ ______________

.3) Consider whether there are any advance payments for goods that can be determined under Reg. § 1.481-5. Note the information schedule requirements. ____ ____ ______________

.4) Consider any advance payments for services under Rev. Proc. 71-21. ____ ____ ______________

.5) Determine deductibility of prepaid expenses. ____ ____ ______________

204) Review application of the wash sale rules. ____ ____ ______________

205) Report gains on constructive sales of an appreciated financial positions occurring after June 8, 1997. (TRA 1997) ____ ____ ______________

206) Review application of straddle rules and available elections under § 1092. ____ ____ ______________

207) Determine that sales of securities settled after year end, with a trade date within current year, are reported this year. Note special rules for short sales in § 1233. ____ ____ ______________

208) Exclude interest on state or local obligations from federal taxable income; however, enter amounts on Form 1120, Page 3, Schedule K, Question 12. ____ ____ ______________

209) Exclude interest on exempt state, local and federal obligations from state and local taxable income. ____ ____ ______________

210) Determine taxability of dividends and complete Schedule C. ____ ____ ______________

.1) Consider 20% ownership rule. ____ ____ ______________

.2) Determine that stock was held more than 45 days. ____ ____ ____________

.3) Consider reduction in dividends received deduction where underlying stock is debt financed (§ 246A). ____ ____ ____________

.4) Determine if extraordinary dividends exceed tax basis. (TRA 1997) ____ ____ ____________

211) For passive activities see Passive Activity Checklist and consider: ____ ____ ____________

.1) Passive activity elections. ____ ____ ____________

.2) If any pass-through entity in which the corporation has an interest has separately reported activities. ____ ____ ____________

212) Determine if either of the following apply. If so, the corporation's losses from an activity may be limited (See Passive Activity Checklist and Form 8810):

.1) During the last half of the year, there are five or fewer individuals who own directly or indirectly more than 50% of the stock and shareholders owning (in the aggregate) more than 50% are NOT materially participating in the activity. ____ ____ ____________

.2) The corporation is a personal service corporation—even if shareholders are materially participating in the activity. ____ ____ ____________

213) Determine if an M-1 adjustment is required for any change in the cash surrender value of key person life insurance. ____ ____ ____________

214) Determine whether income from services does not have to be accrued if, based on experience, such amounts will not be collected (§ 448(d)(5)). ____ ____ ____________

215) For leased property, calculate the appropriate income inclusion amount to be reported by referring to the IRS tables (See Vehicle Related Guides). ____ ____ ____________

216) Determine if there is discharge of indebtedness income. ____ ____ ____________

.1) Consider exclusion and elections under § 108. (See new amendments to proposed amendment to Reg. 1.1017-1) ____ ____ ____________

.2) Consider Form 982. ____ ____ ____________

217) Determine if there have been any distributions of appreciated property to shareholders requiring recognition of gain by the corporation (§ 311). ____ ____ ____________

218) Determine applicability of Reg. § 1.1502-20 disallowing loss on disposition of stock of consolidated subsidiary. ____ ____ ____________

219) Determine if securities held by the corporation became worthless during the year. Note that substantial worthlessness of short sale property is a gain recognition event. (TRA 1997) ____ ____ ____________

220) If worthless securities were stock in an affiliated corporation, the deduction may be ordinary under § 165(g)(3) subject to:

.1) loss disallowance rules of Reg. § 1.1502-20 (See 218 above) and ____ ____ ____________

.2) for consolidated return years beginning on or after January 1, 1995, the worthless stock deduction is subject to deferral under Reg. § 1.1502-80(c). ____ ____ ____________

221) Inquire if the taxpayer engaged in bartering transactions. ____ ____ ____________

222) Consider ordinary income on market discount bonds and deferral of related interest expense. ____ ____ ____________

223) Determine whether interest income on ESOP loans is excludable (SBJPA 1996). ____ ____ ____________

224) Consider the mark to market rules for "dealers in securities." Warning: the definition of "dealers in securities" contained in § 475 is not limited to Wall Street brokerage firms. The expansive definition includes many taxpayers involved in lending transactions and various seller financed activities. ____ ____ ____________

.1) Determine that § 475 assets are adjusted to fair market value at the end of the year. ____ ____ ____________

.2) Determine the § 481 adjustment. ____ ____ ____________

.3) Amortize the § 481 adjustment over 5 years (15 years for certain floor specialists and market makers) beginning with the year of change. ____ ____ ____________

.4) Determine if exempt securities were timely identified in taxpayer books and records. ____ ____ ____________

.5) Consider loss limitations for:

(a) securities not properly identified ____ ____ ____________

(b) nonfinancial customer paper ((RRA 1998) 1998) ____ ____ ____________

225) Consider the exclusion from income of cash or rent space reduction received from lessor under a short term lease of retail space utilized to construct leasehold improvements which will benefit to the lessor at termination of lease. (TRA 1997) ____ ____ ____________

300) DEDUCTIONS

301) Review the taxpayer's vacation pay policy to determine if a deduction is allowable on the accrual basis (vested at year end and taken within 2½ months after year end). _____ ____ ______________

302) Consider applicability of uniform capitalization rules to resellers with annual gross receipts in excess of $10 million and all producers of property. (Note final regulations related to general rules (§ 1.263A-1), producers (§ 1.263A-2) and resellers (§ 1.263A-3)). _____ ____ ______________

.1) Determine that all costs are included. _____ ____ ______________

.2) Consider interest capitalization rules for debt incurred to produce property. _____ ____ ______________

.3) If the beginning inventory is revalued:

(a) Ascertain the amount of adjustment required for the beginning inventory due to the change in method of accounting (§ 481). _____ ____ ______________

(b) Ascertain § 481 forward spread period (not to exceed four years). _____ ____ ______________

(c) Determine that Form 3115 is attached to the tax return for the year of change. _____ ____ ______________

(d) Consider electing "simplified" methods. _____ ____ ______________

.4) For farmers and ranchers consider:

(a) One-time election out of uniform capitalization rules if election was not required in a prior year. _____ ____ ______________

(b) The exemption for expenses incurred in the production of animals. _____ ____ ______________

.5) Review the definition of "produce". _____ ____ ______________

303) Long-Term Contracts

.1) Determine if the taxpayer is subject to the long-term contract reporting rules requiring that the percentage of completion method, instead of the completed contract method, be used to determine taxable income. Note exceptions for certain qualifying construction contracts and most contracts for the manufacture of property. _____ ____ ______________

.2) In determining whether contracts of the taxpayer are subject to the percentage of completion method of reporting, consider:

(a) Related party rules. ____ ____ ____________

(b) Contract aggregation rules. ____ ____ ____________

.3) Determine that the percentage of completion is calculated based on costs incurred, not work performed. ____ ____ ____________

.4) Determine that all required costs have been allocated to the contracts. Note the expanded requirement to capitalize costs similar to the uniform capitalization rules. ____ ____ ____________

.5) Consider electing the simplified method of allocating costs, whereby fewer costs are taken into account, to determine the degree of contract completion. ____ ____ ____________

.6) Consider electing the modified percentage-of-completion method, where-by the recognition of income and accounting for costs is deferred until the first tax year in which at least 10% of the estimated total contract costs have been incurred as of the end of that year. Note that this election is not available if the simplified method above has been elected. ____ ____ ____________

.7) Upon completion of a contract, determine that the "look-back rule" has been applied to compare actual contract price and costs to previously used estimates and pay/claim interest on the related changes in prior years taxes on Form 8697. Note that certain small contracts are not subject to the "look-back rule." (See TRA 1997 for changes in interest calculations and election to not apply look-back method.) ____ ____ ____________

304) For charitable contributions:

.1) Inquire if all contributions are to qualified charitable organizations. ____ ____ ____________

.2) Determine that certain contributions to organizations conducting lobbying activities related to the taxpayer's trade or business are not deducted. ____ ____ ____________

.3) Consider the contribution deduction limitation and record any carryover amounts. ____ ____ ____________

.4) If a carryforward deduction is claimed, attach a supporting schedule to the return. ____ ____ ____________

.5) Inquire if adequate contemporaneous documentation was obtained for contributions made of $250 or more. ____ ____ ____________

.6) Consider the limitation related to contributions of appreciated ordinary income property.

.7) Consider increased deduction for contributions of inventory.

.8) Determine that costs of contributed property held for sale in the course of a trade or business that are incurred in the year of contribution are treated as part of cost of goods sold for such year, not a charitable contribution subject to the related rules and limitations.

.9) Consider the deduction for more than cost of appreciated capital gains property.

.10) Ascertain that minutes document authorization before year end for accrued charitable contributions, and that contributions are paid by the 15th day of the 3rd month after the end of the tax year. An election statement and a certified copy of the minutes must be attached to the return.

.11) Determine if Form 8283 is required for non-cash charitable donations.

305) Inquire whether the corporation can substantiate by adequate records, as required under § 274, expenses claimed for entertainment, entertainment facilities, gifts, travel and conventions. Consider optional per diem method and limitation on deductibility of certain non-employee travel expenses.

306) Determine if professional fees and/or employee salaries require capitalization.

307) Limit deductions for meals and entertainment to allowable percentage. Consider exceptions.

308) Determine the deductibility of club dues.

309) Determine that certain lobbying expenses are not deducted (note exceptions).

310) Inquire if dues include non-deductible lobbying expenses.

311) Officers and shareholders:

.1) Determine the ownership of officers' life insurance policies and the proper treatment of related expenses.

.2) Determine deductibility of disability insurance premiums.

.3) Determine limitation on losses during the year between related corporations/shareholders or other related parties under § 267(a)(1). ____ ____ ____________

.4) If there were any accruals of interest, compensation or other expenses payable to a cash basis payee who owns directly or indirectly more than 50% of the corporation's stock, determine that for tax purposes the deduction is deferred until the year in which it is includible in the income of the shareholder. ____ ____ ____________

.5) If the corporation is a PSC with a fiscal year end and § 280H (regarding allowable applicable amounts) applies, determine the amount including carryover to be deducted in the current year. Complete Schedule H (Form 1120) to figure the required minimum distribution and the maximum deductible amount—attach to the return if the minimum distribution requirements are not met. ____ ____ ____________

.6) Consider whether there is a potential unreasonable compensation issue. ____ ____ ____________

.7) Review documentation of shareholder loans. ____ ____ ____________

312) Consider limitation of deduction for executive compensation in excess of $1 million unless qualifying performance-based program was in effect. ____ ____ ____________

313) Determine applicability of 2½ month deferred compensation rule for nonshareholder employees and independent contractors. ____ ____ ____________

314) Determine if there are non-deductible payments made under golden parachute agreements. ____ ____ ____________

315) Determine if compensation deductions are allowable with respect to:

(1) current or past transfers of property that are no longer subject to a substantial risk of forfeiture (§ 83) ____ ____ ____________

(2) disqualifying dispositions of stock under Incentive Stock Options (§ 422) ____ ____ ____________

(3) employee Stock Purchase Plans (§ 423) ____ ____ ____________

(4) exercise of nonqualified options for stock without a readily obtainable fair market value ____ ____ ____________

(5) consider requirements for inclusion in W-2 and appropriate withholding. ____ ____ ____________

316) Determine that the specific write-off method is used for bad debts. ____ ____ ____________

317) Review partially worthless debt for write-off under Reg. § 1.166-3. ____ ____ ____________

Page Completed ☐

318) Consider limitation of Bad Debt Reserve Method for Thrifts (SBJPA 1996). ____ ____ ________

319) Review increases or decreases in reserve accounts for potential M-1 items. ____ ____ ________

320) If taxpayer maintains a profit sharing or stock bonus plan and has not contributed the maximum contribution for each taxable year beginning prior to 1987, calculate the unfunded contribution carryover amount. ____ ____ ________

321) Determine applicability of rules with respect to post-October 2, 1989 transfers of franchises, trademarks and trade names. ____ ____ ________

322) Determine if inventory write-down for book purposes should be adjusted for tax purposes. Note TRA 1997 allows estimated inventory shrinkage. ____ ____ ________

323) Determine proper tax treatment for long-term lease agreements (as lessor or lessee) where the lease provides for deferred payments or increasing payments. (See also Proposed Reg. 1.467) ____ ____ ________

324) Review penalties paid or accrued for deductibility. ____ ____ ________

325) Interest considerations:

.1) Treat amortizable bond premiums (for bonds acquired after 1987) as an offset to interest income. ____ ____ ________

.2) Eliminate interest expense on debts with respect to life insurance policies (purchased after June 20, 1986) on current or former beneficial owners and key employees to the extent that the total of such loans exceeds $50,000. Note phase-in rules under HIPAA 1996, and additional limitations for new or materially changed contracts issued after June 8, 1997. (TRA 1997) ____ ____ ________

.3) Determine that proper allocation of interest expense has been made if the proceeds of a loan were used for more than one purpose. ____ ____ ________

.4) Determine that the proper allocations have been made by type (trade or business, investment, passive activity, tax-exempt expenditures, etc.) ____ ____ ________

.5) Determine if there is an allowable interest deduction related to deferred compensation agreements. ____ ____ ________

.6) Determine if interest deduction limitations apply to interest incurred to purchase or carry market discount bonds or short-term debt obligations. ____ ____ ________

.7) Capitalize interest and carrying charges on straddles (§ 263(g)). ____ ____ ________

Page Completed ☐

.8) Determine if any interest is nondeductible on disqualified debt instruments under § 163(l). (TRA 1997) ____ ____ ____________

326) Consider limitations on deducting expenses related to federally tax exempt income. Note that these expenses may be deductible at the state level if the related income is state taxable. ____ ____ ____________

327) Consider option to deduct current year qualifying disaster losses on preceding year tax return by filing an amended return. ____ ____ ____________

328) Determine that retirement plan contributions have been calculated using the eligible compensation limit and obtain a listing of the amounts and payments. Note Repeal of Family Aggregation Rules. (SBJPA 1996) ____ ____ ____________

329) Determine if deductions should be reduced by credits claimed. ____ ____ ____________

330) Determine proper treatment of environmental clean-up expenses. Note new expense election. (TRA 1997) ____ ____ ____________

400) DEPRECIATION/AMORTIZATION

401) For assets placed in service during the current year:

.1) Consider § 179 election to expense qualifying assets. ____ ____ ____________

.2) Consider § 179A election to expense qualifying clean-fuel vehicles and related refueling property placed in service after June 30, 1993. ____ ____ ____________

.3) Determine the depreciable basis of each asset. ____ ____ ____________

.4) Determine the property class, recovery period and depreciation method for each asset. Note new limitations on property qualifying for income forecast method and designated lives or rent to own property. (TRA 1997) ____ ____ ____________

.5) Determine the applicable convention (half-year, mid-quarter or mid-month). ____ ____ ____________

.6) Determine that the cost of leasehold improvements is being recovered over the applicable recovery period, regardless of the lease period. ____ ____ ____________

.7) Consider 36-month depreciation rules for software. ____ ____ ____________

.8) Consider reduced depreciable lives for real estate improvements and special use structure. ____ ____ ____________

.9) Consider electing the Alternative Depreciation System (straight line over an ADS recovery period) for qualifying General Depreciation System property. ____ ____ ____________

.10) For farming, determine that MACRS is applied using 150% DB. Note ADS required if elected out of § 263A. ____ ____ ____________

.11) If property is leased to a tax exempt entity, consider the possible need to use the ADS. ____ ____ ____________

.12) Consider depreciation limitations for IDB financed property, and certified historic structures for which a tax credit was taken. ____ ____ ____________

.13) If a short year, determine that Rev. Proc. 89-15 is followed. ____ ____ ____________

.14) If there has been a purchase price adjustment, see Prop. Reg. § 1.168-2(d)(3). ____ ____ ____________

.15) Determine if interest is payable under look-back method where income forecast method is used (SBJPA 1996). Note interest calculations change (TRA 1997) ____ ____ ____________

.16) Consider accelerated depreciation for qualifying property located on Indian reservations. ____ ____ ____________

402) Determine that amortizable items, including goodwill, are written off over the correct periods. ____ ____ ____________

403) Consider the provisions of Rev. Proc. 96-31 to rectify prior year claims of less than allowable depreciation or amortization. ____ ____ ____________

404) Determine if leased property should be capitalized. ____ ____ ____________

405) Consider anti-churning rules. ____ ____ ____________

406) For listed property (e.g., cellular phones, autos, computers, airplanes, boats):

.1) For autos, consider the maximum allowable under the luxury auto rules. Note TRA 1997 exceptions for clean-burning and electric vehicles. ____ ____ ____________

.2) For autos, determine limitation if the business usage is 50% or less. ____ ____ ____________

.3) Determine limitations for all other mixed-use property, if the business usage is 50% or less. ____ ____ ____________

.4) Inquire if the taxpayer has kept the required records indicating the business and personal use of property. ____ ____ ____________

.5) Determine recapture if the business usage is 50% or less. ____ ____ ____________

407) Form 4562 (if required):

.1) Reconcile depreciation expense to supporting schedules. ____ ____ ____________

.2) Complete questions regarding personal use of listed property. ____ ____ ____________

.3) If the costs were incurred during the current year, determine that amortizable items are separately stated and the proper Code section cited. ____ ____ ____________

408) Consider state depreciation, if different. ____ ____ ____________

409) Consider federal and state AMT depreciation. Note depreciable lives of tangible personal property placed in service after 12/31/97 are the same for regular and AMT purposes. (TRA 1997) ____ ____ ____________

410) Make adjustments for depreciable assets which are demolished, obsolete, abandoned and/or out of service. Consider credit recapture. ____ ____ ____________

500) TAX COMPUTATIONS AND CREDITS

501) Compute regular tax. ____ ____ ____________

502) Consider alternative tax rate on net capital gains (TRA 1997). ____ ____ ____________

503) If this is a consolidated tax return:

.1) Attach Form 851. ____ ____ ____________

.2) Attach Form 1122 (only for consolidated group's first year). ____ ____ ____________

.3) Review consolidated journal entries and determine that intercompany eliminations and restorations are calculated correctly. ____ ____ ____________

.4) Attach election to allocate tax liability of group. ____ ____ ____________

504) If taxpayer is part of a controlled group, consider special allocation rules under §§ 1561 and 1563. Attach apportionment schedule. ____ ____ ____________

505) Alternative minimum tax (over $5 million sales - TRA 1997):

.1) Consider adjustments to regular taxable income or loss such as:

(a) Depreciation on property placed in service after 1986 (or July 31, 1986, if election was made) must be computed using ADS (Rev. Proc. 87-57). ____ ____ ____________

(b) Mining exploration and development costs must be capitalized and amortized over a ten-year period. ____ ____ ____________

(c) Gains/losses on sales and exchanges are to be recomputed using AMT adjusted basis. ____ ____ ____________

Page Completed ☐

(d) Income from long-term contracts entered into after February 28, 1986 must be computed using the percentage-of-completion method of accounting. (Note exception for home construction contracts.) See exception for cash basis farmers. (TRA 1997) ____ ____ ____________

(e) Income from post-February 28, 1986 disposition of real or personal property held for sale in the ordinary course of business shall be determined without regard to the installment method, except in cases where an election is made to pay interest on the tax deferred by the installment method. Note exception for cash basis farmers. (TRA 1997) ____ ____ ____________

(f) All gains and losses from tax shelter farm activities, that are not passive activities, are to be recomputed by taking into account any AMT adjustments and tax preference items (PSCs only). ____ ____ ____________

(g) All passive activity gains and losses are to be recomputed by taking into account any AMT adjustments, tax preference items, and AMT prior year unallowed losses (closely held corporations and PSCs only). ____ ____ ____________

.2) Consider tax preference items to be added such as:

(a) Tax exempt interest from private activity bonds issued after August 7, 1986. ____ ____ ____________

(b) Excess intangible drilling costs. ____ ____ ____________

(c) Accelerated depreciation on real property placed in service before 1987. ____ ____ ____________

(d) Accelerated depreciation on leased personal property placed in service prior to 1987 (PHCs only). ____ ____ ____________

.3) Adjusted current earnings (ACE) adjustment (§ 56(g)) must be calculated taking into account adjustments such as:

(a) Depreciation for property placed in service prior to 1994. ____ ____ ____________

(b) E&P inclusion items:

i) Net tax exempt interest income. ____ ____ ____________

ii) Net death benefits from life insurance contracts. ____ ____ ____________

iii) Other. ____ ____ ____________

(c) E&P disallowed items:

Page Completed ☐

i) Dividends received deduction (70%).

ii) Other.

(d) Other E&P adjustments:

i) LIFO.

ii) Amortization of organization expense.

iii) Installment sales.

iv) Other.

.4) Use AMT net operating loss (NOL) deduction in place of the regular NOL deduction. Post-1986 AMT NOL deduction is available only to the extent of 90% of pre-NOL AMTI.

.5) Consider foreign tax credit.

.6) Consider AMT credit carryover. (TRA 1997)

.7) Consider potential relief under AMT Tax Benefit Rule § 59(g).

506) Consider § 1341 claim of right where an item of income was included in gross income in a previous year and a deduction for such item is allowable this year.

507) Determine if the corporation is eligible for tax credits such as:

.1) Foreign tax credit. (Form 1118)

.2) Investment tax credit (rehabilitation and transition, energy and reforestation). (Form 3468)

.3) Credit for increasing research activities. (See TRA 1997 for extension through June 30, 1998.) (Form 6765)

.4) Enhanced oil recovery credit. (Form 8830)

.5) Credit for producing fuels from nonconventional source.

.6) Gasoline and special fuels credit. (Form 4136)

.7) Low income housing credit. (Form 8586)

.8) Disabled access credit. (Form 8826)

.9) Qualified electric vehicle credit. (Form 8834).

Page Completed ☐

.10) Renewable electricity production credit. (Form 8835).

.11) Credit for employer social security taxes paid on certain employee cash tips. See SBJPA 1996 for changes. (Form 8846)

.12) Credit related to wage and health insurance costs for qualified Indian employees (Form 8845).

.13) Credit for contributions to certain community development corporations (Form 8847).

.14) Credit for alcohol used as a fuel. (Form 4136)

.15) Empowerment zone employment credit (Form 8844).

.16) The Work Opportunity Credit for eligible employees who began work after September 30, 1996, and before July 1, 1998. (SBJPA 1996 and TRA 1997) (Form 5884)

.17) The credit for qualified clinical testing expenses (Orphan Drug Credit) and associated carrybacks and carryovers. (SBJPA 1996) Note permanently extended under TRA 1997. (Form 8820)

.18) Welfare-to-work tax credit for eligible employees who begin work after Jan 1, 1998 and before May 1, 1999. (TRA 1997)

508) Determine if the corporation is a personal holding company.

.1) Prepare Schedule PH.

.2) Consider consent dividends.

509) Determine if the corporation is a personal service corporation subject to tax without benefit of graduated rates.

510) Consider whether accumulated earnings tax exposure is present. Note exceptions.

511) Confirm the amounts and dates of any federal, state and local estimated tax deposits for the year, prior year overpayments applied, backup withholding and extension payments.

512) If estimated tax deposits are less than 100% of the tax liability, including alternative minimum tax, consider filing Form 2220. Note exception under TRA 1997.

513) Consider estimated tax payments, alternate "large corporation" estimate payment calculation and electronic filing requirements. Note: Prior year safe harbor does not apply if prior year return was not for twelve months, shows no tax or if no prior year return was filed.

514) Consider election to use one of the two new optional time periods to determine annualized income for purposes of paying estimated taxes (Form 8842 must be filed by the 15th day of the fourth month of the tax year for which the election is to apply). _____ ____ ______________

515) Consider filing Form 4466 for a quick refund of overpaid estimated tax. _____ ____ ______________

600) OTHER REQUIREMENTS

601) If the corporation is party to an "applicable asset acquisition" (transfer of assets that constitute a trade or business), determine that applicable reporting requirements regarding allocation of purchase price have been met (Form 8594). _____ ____ ______________

602) If the corporation has made a qualifying stock purchase attach Form 8023A. Consider the election to treat the purchase as an asset acquisition (§ 338). _____ ____ ______________

603) Determine if Form 8271 is required for tax shelters. _____ ____ ______________

604) Net Operating Losses (NOL):

.1) If an NOL deduction is claimed, prepare supporting schedules for regular and AMT carryovers to be attached to the return. _____ ____ ______________

.2) If there is a current year NOL, consider the election to forego the carryback. _____ ____ ______________

.3) Determine if part of a current NOL is attributable to a specified liability loss, such as product liability (§ 172(b)(1)(c)). Attach statement (Reg. § 1.172 - 13(c)). _____ ____ ______________

.4) If there is an NOL incurred in the current year, or a carryforward deducted in the current year, disclosure is required of any change in ownership. _____ ____ ______________

.5) Consider preparing Form 1139 for carrybacks. Note carryback period has been changed from three years to two years. (TRA 1997) _____ ____ ______________

.6) If a net operating loss is anticipated for next year, consider filing Form 1138 to extend time for paying current year's tax. _____ ____ ______________

.7) Consider state differences. _____ ____ ______________

605) Consider elections and statements such as:

.1) Election to amortize organization expense. _____ ____ ______________

.2) Election to amortize business start-up costs. _____ ____ ______________

Page Completed ☐

.3) Cash vs. accrual method. _____ ____ ______________

.4) Election to expense intangible drilling costs. _____ ____ ______________

.5) § 351, statement of transferred assets. _____ ____ ______________

.6) Method for valuation of inventory. _____ ____ ______________

.7) Change in accounting method application/approval. _____ ____ ______________

.8) Research and experimental costs. _____ ____ ______________

.9) Exception from economic performance for recurring items. Under final regulations, the election for any item(s) incurred for the first time is made by accounting for the item(s) under the recurring method on a timely filed tax return. _____ ____ ______________

.10) If this is the first year the taxpayer has incurred real property taxes, determine if a § 461(c) election to accrue ratably is more beneficial than adopting the recurring item exception (Rev. Proc. 92-28). _____ ____ ______________

.11) Election to apply any overpayment to a particular quarter other than the first (Rev. Rul. 88-98). _____ ____ ______________

.12) Section 265 (expenses and interest related to tax-exempt income) allocation statement. _____ ____ ______________

606) Determine if expenditures were incurred that are eligible for the Disabled Access Credit (Form 8826). If the taxpayer does not qualify for the credit or has expenditures in excess of the credit limit, consider making § 190 election to expense the costs. _____ ____ ______________

607) Consider applicable reporting requirements, including information reporting Forms 1099, for the following corporate liquidation and reorganization transactions:

.1) Reorganizations (Reg. § 1.368-3). _____ ____ ______________

.2) Liquidation (Reg. § 1.332-6). _____ ____ ______________

.3) Corporate separations (Reg. § 1.355-5). _____ ____ ______________

608) Reconcile net income per books to taxable income per return, including review of prior year's schedule M-1 adjustments. _____ ____ ______________

609) Cross reference the following items:

.1) Schedule L beginning balances to prior year's ending balances. _____ ____ ______________

.2) Schedule M-2 beginning retained earnings to prior year's ending balance. ____ ____ ____________

.3) Detail listings of Schedule L beginning balances to prior year's detail listings of ending balances. ____ ____ ____________

.4) Carryforward items to carryover schedule/prior year returns. ____ ____ ____________

610) Cross reference line items to supporting schedules within the return. ____ ____ ____________

611) Consider § 6662 accuracy-related penalty. If this penalty could apply:

.1) Consider if substantial authority exists for the item in question. If not, consider disclosure (Form 8275 or 8275R). ____ ____ ____________

.2) Consider advising the taxpayer, in writing, of the penalty. ____ ____ ____________

612) Consider filing information returns related to ownership in foreign partnerships and corporations (Form 5471). ____ ____ ____________

613) Consider filing requirements of foreign owned U.S. corporations (Form 5472). ____ ____ ____________

614) Determine if Form TD F 90-22.1 is needed to report foreign financial accounts. ____ ____ ____________

615) Determine if corporation (SBJPA 1996):

.1) Created a foreign trust ____ ____ ____________

.2) Transferred property to a foreign trust ____ ____ ____________

.3) Received distributions, directly or indirectly, from a foreign trust (§ 6048). ____ ____ ____________

.4) Received loans, unless with arms-length terms, from a foreign trust. ____ ____ ____________

.5) Is a beneficiary of a foreign trust and transferred property to a foreign grantor of the trust. ____ ____ ____________

616) Consider other foreign reporting requirements. Note new foreign trust reporting requirements. (SBJPA 1996) ____ ____ ____________

617) Prepare state and local tax returns (see Nexus Practice Guide) and review each state's modification requirements. Compile apportionment data. ____ ____ ____________

Consider the following:

.1) State tax credits. ____ ____ ____________

Page Completed ☐

.2) Taxpayer doing business in new states. ____ ____ ____________

.3) Unitary or consolidated filing requirements or opportunities. ____ ____ ____________

.4) Allocation of investment income. ____ ____ ____________

.5) Carryback claims. ____ ____ ____________

.6) Applicability of throwback rule for "non-taxed" out of state sales. ____ ____ ____________

.7) Estimated taxes. (EFTPS) ____ ____ ____________

.8) If appropriate, trace sales from apportionment factor to sales tax returns. ____ ____ ____________

.9) Appropriate treatment of federal consolidated return items not reflected in separate company state filings. ____ ____ ____________

618) Extended returns:

.1) Attach extension requests. ____ ____ ____________

.2) Verify that payments per extensions agree with tax returns. ____ ____ ____________

.3) If extension payment did not cover the full tax for the year, consider:

(a) Adding interest to balance due. ____ ____ ____________

(b) Adding a statement disclosing reasonable cause to avoid the failure to pay penalty (§ 6651(a)(2)). ____ ____ ____________

619) Determine if there have been non-dividend distributions (Form 5452). ____ ____ ____________

620) Information returns:

.1) Inquire if taxpayer has complied with magnetic media requirements for Forms 1099 and W-2. ____ ____ ____________

.2) Inquire whether the corporation has filed all required information returns (1098, 1099 and 1042) and whether the value of the personal use of employer property, expense reimbursements under "unaccountable plans," and § 401(k) deferred compensation information has been included in employees' W-2s. Note new reporting requirements of certain payments made to attorneys. (TRA 1997) ____ ____ ____________

.3) Inquire if additional items subject to employer FICA such as § 401(k) deferrals, employer-provided excess group-term life insurance, all cash tips, etc., have been reported. ____ ____ ____________

.4) Determine that reimbursement of employee moving expenses and tuition and related expenses are properly reported. (TRA 1997) ____ ____ ____________

.5) Inquire whether club dues, spousal travel, etc., are treated as compensation and included on employee's W-2. ____ ____ ____________

621) Inquire if employment taxes were timely deposited. (EFTPS) ____ ____ ____________

622) Inquire if the corporation has updated the corporate minute book. ____ ____ ____________

623) Advise the corporation that any unpaid retirement plan contribution for the year must be made before the due date of the return, including extension. ____ ____ ____________

624) Inquire if the required 5500 series forms have been filed for retirement plans covered by this period. ____ ____ ____________

625) Inquire if the required 5500 series forms have been filed for cafeteria plans and welfare benefit plans (e.g., medical benefit plans, life insurance, disability or death benefit plans that have more than 100 participants). ____ ____ ____________

626) Compare taxable income or loss to projections. ____ ____ ____________

627) Determine that related party transactions are properly reported on all available returns. ____ ____ ____________

628) With respect to related party transactions, determine that the taxpayer has adequate contemporaneous documentation to substantiate the arms length pricing of the transaction. ____ ____ ____________

629) Determine that salary and other transactions between the corporation and officers/shareholders are properly recorded on all available returns. ____ ____ ____________

630) If the corporation is a member of a partnership, consider § 465 at risk and/or § 704(d) basis rules. ____ ____ ____________

631) If corporation sold partnership interest during the year, determine:

.1) That the appropriate information was given to the partnership to enable it to prepare Form 8308. ____ ____ ____________

.2) That the required statement under Reg. § 1.751-1(a)(3) is attached if partnership had § 751(a) assets. ____ ____ ____________

632) If corporation acquired partnership interest during the year determine that the appropriate information was given to the partnership. (Prop. Reg § 209682-94) ____ ____ ____________

633) If a distribution or technical termination has occurred in a partnership in which the corporation is a partner, consider both the new allocation of basis rules under § 732(c) (TRA 1997 and Prop. Reg 1.732-1(c)) and making a § 732(d) election. Note exception for post May 9, 1997, Technical Terminations (Reg § 1.708-1) ____ ___ __________

634) Consider informing client of requirements to file Form 8300 for certain payments received exceeding $10,000. ____ ___ __________

635) Consider whether an "S" election should be made. ____ ___ __________

636) Note tax planning/additional service suggestions. ____ ___ __________

COMMENTS OR EXPLANATIONS

MINI-CHECKLIST
S CORPORATION INCOME TAX RETURN
1998 - FORM 1120S

Client Name and Number: ______________________________

Prepared by: ____________________ Date: __________ Reviewed by: ____________________ Date: __________

GENERAL INFORMATION	Done	N/A
1. Review prior year returns, workpapers, correspondence and audit results.	☐	☐
2. Document any changes in corporation's name and address, shareholders' names and addresses, FYE, and business code	☐	☐
3. Consider signed engagement letter.	☐	☐
4. Review pro forma/organizer accuracy.	☐	☐
5. Consider below-market-rate loan rules.	☐	☐
6. Determine officers' compensation.	☐	☐
7. If fiscal year retained, determine that Form 8716 timely filed and "required payments" made.	☐	☐
8. Review methods of accounting.	☐	☐
9. Consider recurring item exception election for accrual method taxpayers.	☐	☐
10. Update carryforward schedules including effect of prior period tax audits.	☐	☐
11. Review financial statements and footnotes for relevant information.	☐	☐
12. Include QSSS activity.	☐	☐
13. Consider filing power of attorney.	☐	☐

INCOME	Done	N/A
1. Compare portfolio income with prior year.	☐	☐
2. Include only trade or business income on page 1, Form 1120S.	☐	☐
3. Determine that dispositions of property are reported properly.	☐	☐
4. Consider the following:		
Ordinary income on market discount bonds and deferral of related interest expense	☐	☐
Installment sales and related interest charge on deferred tax	☐	☐
Sales or exchanges between the corporation and shareholder or other related parties	☐	☐
At risk rules	☐	☐
Discharge of indebtedness	☐	☐
Like-kind exchanges	☐	☐
Deferred income/expenses (SBJPA 1996)	☐	☐
5. Consider separate reporting of passive activities on K-1 schedules (see Passive Activity Checklist).	☐	☐

DEDUCTIONS	Done	N/A
1. Consider uniform capitalization rules.	☐	☐
2. Determine deductibility of vacation pay accrual.	☐	☐
3. Determine applicability of 2½ month deferred comp rule for nonshareholder employees and independent contractors	☐	☐
4. Determine that fringe benefits for more than 2% shareholders are properly reported on W-2 and deducted.	☐	☐
5. Inquire if travel and entertainment expenses are substantiated by adequate records.	☐	☐
6. Limit meals and entertainment to allowable percentage.	☐	☐
7. Consider the following for officers and shareholders:		
Nondeductible officers' life insurance.	☐	☐
Limitation on losses, or accruals between related parties.	☐	☐
Inadequate compensation.	☐	☐
8. Limit interest incurred to purchase or carry market discount bonds or short-term debt obligations.	☐	☐
9. Limit retirement contributions to allowable amount.	☐	☐
10. Properly report expenses allocable to portfolio income on Schedules K and K-1 and not deducted on page 1, 1120S.	☐	☐
11. Consider limitations on deductibility of:		
Bad debts	☐	☐
Club dues	☐	☐
Lobbying expense/Association dues	☐	☐
Casualty loss	☐	☐
Stock option compensation	☐	☐

DEPRECIATION/AMORTIZATION	Done	N/A
1. Consider the following:		
§ 179 election	☐	☐
Methods and lives	☐	☐
Listed property	☐	☐

Page Completed ☐

MINI-CHECKLIST
S CORPORATION INCOME TAX RETURN
1998 - FORM 1120S

	Done	N/A
Worthless securities	☐	☐
2. Compute AMT depreciation.	☐	☐

TAX COMPUTATION AND CREDITS

Consider the following:

	Done	N/A
Tax on excess net passive income	☐	☐
Tax on built-in gain	☐	☐
Tax on capital gains	☐	☐
Credit recapture tax	☐	☐
Estimated federal and state tax payments	☐	☐
Tax credits (SBJPA 1996 and TRA 1997)	☐	☐

SHAREHOLDER INFORMATION

1. Shareholder allocation/limitation:

	Done	N/A
Determine that income, deductions, and credits are allocated to the shareholders on a per-share, per-day basis.	☐	☐
If complete termination occurred, consider specific cut off.	☐	☐
Attach shareholder consent and statement of election. (Prop. Reg. § 1.1377-1)	☐	☐

2. Shareholder distribution/basis computations:

Determine that equity increases and decreases (Schedule M) are properly segregated among:

	Done	N/A
Accumulated adjustment account	☐	☐
Other adjustments account	☐	☐
Shareholders undistributed PTI	☐	☐
Determine proper reporting if distributions exceed accumulated adjustment account.	☐	☐
Determine that gains are recognized and allocated to each shareholder for distribution of appreciated property.	☐	☐
3. Consider Shareholder Basis Practice Guide.	☐	☐

K-1 INFORMATION

	Done	N/A
1. Properly reflect shareholders' shares of all items that affect tax liability.	☐	☐
2. Segregate and report tax preference and adjustment items.	☐	☐
3. Determine that information relating to interest expense on debt-financed distributions has been provided.	☐	☐

	Done	N/A
Capitalization of leased property	☐	☐
Amortization of goodwill and other intangibles	☐	☐

OTHER

1. Consider elections and statements such as:

	Done	N/A
Cash vs. accrual	☐	☐
Amortize organization expenses	☐	☐
Expense intangible drilling costs	☐	☐
Method of valuation of inventory	☐	☐
Ratable accrual of real property taxes (first year only)	☐	☐
Amortize business start-up cost	☐	☐
Research and experimental cost	☐	☐
Exception from economic performance for recurring clients (first year only)	☐	☐
2. Consider risk of accuracy-related penalty. (§ 6662)	☐	☐
3. Inquire whether all required information returns have been filed.	☐	☐
4. Prepare state and local tax returns and report necessary shareholder information.	☐	☐
5. Attach extension requests.	☐	☐
6. Note tax planning/additional service suggestions.	☐	☐

Page Completed ☐

SHORT VERSION
S CORPORATION INCOME TAX RETURN CHECKLIST
1998 - FORM 1120S

Client Name and Number: ______________________________

Prepared by: ____________ Date: ________ Reviewed by: ____________ Date: ________

		DONE	N/A	COMMENTS OR EXPLANATION
100)	GENERAL INFORMATION			
101)	Review permanent file, prior year returns, workpapers, etc.	____	____	________
102)	Review and update the S corporation and shareholder's names, addresses, fiscal year, incorporation date, business code, identification numbers, and IRS and other tax processing centers. Note changes.	____	____	________
103)	Consider signed engagement letter.	____	____	________
104)	Review computer-generated pro forma/organizer for accuracy.	____	____	________
105)	Obtain information concerning IRS, state tax audits and/or correspondence.	____	____	________
106)	Inquire whether the S corporation has made or received any below-market-rate loans. If so, determine imputed interest consequences.	____	____	________
107)	Review for adequate interest on new or modified debt instrument.	____	____	________
108)	If the corporation has selected an allowable fiscal tax year, determine that Form 8716 has been timely filed, and that "required payments" have been made.	____	____	________
109)	Determine that accounting methods used are comparable to the preceding year unless changes are approved or required.	____	____	________
110)	Ascertain officers' compensation and review for reasonableness.	____	____	________
111)	Review and update schedules for carryforward items and effect of prior tax audits.	____	____	________
112)	Review financial statements and footnotes for relevant information.	____	____	________
113)	Review Board minutes.	____	____	________
114)	Consider filing power of attorney.	____	____	________
115)	If the corporation owns a QSSS include all activity on the return. (SBJPA 1996)	____	____	________

Page Completed ☐

SHORT VERSION
S CORPORATION INCOME TAX RETURN CHECKLIST
1998-FORM 1120S

	DONE	N/A	COMMENTS OR EXPLANATIONS
200) INCOME			
201) Compare sources and amounts of portfolio income with prior year.	_____	____	______________
202) Determine that only trade or business (e.g., not portfolio or rental) income is reported on Page 1 of Form 1120S.	_____	____	______________
203) Review dispositions of property for holding period and federal, state, AMT bases. Consider nonrecognition, gains, losses and recaptures. (SBJPA 1996 and TRA 1997)	_____	____	______________
204) Consider the following:			
.1) Wash sales.	_____	____	______________
.2) Sales or exchanges between the corporation and shareholder.	_____	____	______________
.3) Worthless securities.	_____	____	______________
.4) At risk rules.	_____	____	______________
.5) Installment sales and related interest charged on deferred tax.	_____	____	______________
.6) Discharge of indebtedness.	_____	____	______________
.7) Tax-exempt income and related interest expense disallowance.	_____	____	______________
.8) Like-kind exchanges and related party exchanges (Form 8824).	_____	____	______________
.9) Straddle rules and § 1092 election.	_____	____	______________
.10) Gains on constructive sales of appreciated financial position. (TRA 1997)	_____	____	______________
205) Determine that deferred income and expenses for book purposes are properly reported for tax purposes. (SBJPA 1996)	_____	____	______________
206) If the S corporation has passive income or losses from one or more activities, they may be required to be separately reported on the Schedule K-1 (see Passive Activity Checklist).	_____	____	______________
207) Consider appropriate income inclusion amount for leased property. (See Vehicle Related Guides).	_____	____	______________
208) Consider ordinary income on market discount bonds and deferral of related interest expense.	_____	____	______________
209) Consider mark to market rules for "dealers in securities" (§ 475).	_____	____	______________

Page Completed ☐

SHORT VERSION
S CORPORATION INCOME TAX RETURN CHECKLIST
1998-FORM 1120S

	DONE	N/A	COMMENTS OR EXPLANATIONS
300) DEDUCTIONS			
301) Identify any nondeductible vacation pay accrual.			
302) Consider the uniform capitalization rules.			
303) Determine that fringe benefits for more than 2% shareholders have been reported on the recipient shareholders' W-2s (usually non FICA wages) and claimed as a deduction by the S corporation.			
304) Inquire whether the S corporation can substantiate by adequate records, as required under § 274, expenses claimed for entertainment, entertainment facilities, gifts, travel and conventions. Consider optional per diem method.			
305) Limit deduction for meals and entertainment to allowable percentage. Consider exceptions.			
306) Determine the deductibility of club dues.			
307) Determine that expenses allocable to portfolio income have not been deducted on Page 1, Form 1120S.			
308) Determine that retirement plan contributions are made timely and within allowable limits.			
309) Determine that specific charge off method is used for bad debts.			
310) Officers and shareholders:			
.1) Determine the ownership of life insurance policies and the proper treatment of related expenses.			
.2) Identify expenses, including interest if applicable, for officers' life insurance which are non deductible.			
.3) Determine limitation on any losses or accruals of expenses during the year between related corporations/shareholders under § 267(a)(1).			
.4) Determine if expenses to shareholders (§ 267(e)) or other related parties on the cash basis were paid by corporation's year end.			
.5) Consider reasonableness of compensation to shareholders who perform substantial services.			
311) Determine if compensation deductions are allowable with respect to qualified and nonqualified stock options.			

Page Completed ☐

	DONE	N/A	COMMENTS OR EXPLANATIONS
312) Determine applicability of 2½ month deferred compensation rule for nonshareholder employees and independent contractors.			
313) Verify that the proper allocations have been made dividing interest expense among various types of expenditures.			
314) Determine if interest deduction limitations apply to interest incurred to purchase or carry market discount bonds or short-term debt obligations.			
315) Consider limitations of deductibility of lobbying expenses/association dues.			
316) Consider economic performance requirement and recurring item exceptions.			
400) DEPRECIATION/AMORTIZATION			
401) Consider all depreciation requirements and options including:			
.1) § 179 election. (Note new allowable amounts, SBJPA 1996)			
.2) Methods and lives.			
.3) Requirements relating to listed property.			
.4) Determine if leased property should be capitalized.			
.5) Consider 36-month depreciation rules for software.			
402) Consider AMT depreciation.			
403) Determine that amortizable items, including goodwill, are written off over the correct periods.			
500) TAX COMPUTATION AND CREDITS			
501) Consider tax on excess net passive income.			
502) Consider tax on built-in gain.			
503) Consider tax on capital gains.			
504) Consider credit recapture.			
505) Claim current year estimated tax payments, prior year overpayments applied and extension payments.			
506) Consider requirement for estimated tax payments. (EFTPS)			

	DONE	N/A	COMMENTS OR EXPLANATIONS
507) Consider tax credits. (SBJPA 1996 and TRA 1997)	____	____	____________
508) If member of a controlled group, attach apportionment schedules.	____	____	____________
600) SHAREHOLDER INFORMATION			
601) Shareholder allocation/limitation:			
.1) Determine that items of income, deductions, credits, etc., are allocated to the shareholders on a per-share, per-day basis.	____	____	____________
.2) If stock transfers occurred during the year resulting in a termination of a shareholder's interest, consider allocations based on time of actual occurrence. Attach the affected shareholder's and corporation's statement of election. (SBJPA 1996)	____	____	____________
602) Shareholder distribution/basis computations:			
.1) Determine that equity increases and decreases (Schedule M) are properly segregated between:			
(a) Accumulated adjustment account.	____	____	____________
(b) Other adjustments account.	____	____	____________
(c) Shareholders' undistributed PTI.	____	____	____________
.2) Determine that distributions exceeding accumulated adjustment account for S corporations with earnings and profits from C years are reported (Form 1099-DIV) to shareholders as dividends to the extent of accumulated earnings and profits. Note current year net reductions are disregarded in this computation. (SBJPA 1996)	____	____	____________
.3) For distributions of appreciated property, determine that gain is recognized and allocated to each shareholder.	____	____	____________
.4) Consider Shareholder Basis Practice Guide.	____	____	____________
700) K-1 INFORMATION			
701) Determine that proper reporting has been provided for all items on Schedule K-1 that affect shareholder's tax liability.	____	____	____________
702) Provide information about nontaxable income and nondeductible expenses to enable shareholders to make adjustments to basis of their stock.	____	____	____________
703) Segregate all tax preference and adjustment items and report on the appropriate lines.	____	____	____________

Page Completed ☐

	DONE	N/A	COMMENTS OR EXPLANATIONS
704) Determine that information relating to interest expense of debt-financed distributions to shareholders has been provided. (Notice 89-35)			
800) OTHER REQUIREMENTS			
801) Consider elections such as:			
.1) Cash vs. accrual.			
.2) Amortization of organization expense.			
.3) Expense intangible drilling costs.			
.4) Method for valuation of inventory.			
.5) Ratable accrual of real property taxes (first year only).			
.6) Amortization of business start-up costs.			
.7) Research and experimental cost.			
.8) Exception from economic performance for recurring items (first year only).			
802) If the corporation was a party to an "applicable asset acquisition," determine that the reporting requirements have been met (Form 8594).			
803) Reconcile income and expenses per books with return.			
804) Consider risk of accuracy-related penalty (§ 6662).			
805) Prepare state and local tax returns. Furnish necessary information to shareholders. (See Nexus Practice Guide).			
806) Attach extension requests.			
807) Inquire if employee benefit plans have been reviewed to determine if they are in compliance due to changing corporate circumstances and law changes.			
808) Inquire if information returns (1098 and 1099 series) have been filed.			
809) Inquire if employment taxes were timely deposited. (EFTPS)			
810) Compare taxable income to projections.			
811) Determine that related transactions are properly reported on all available returns.			

Page Completed ☐

SHORT VERSION
S CORPORATION INCOME TAX RETURN CHECKLIST
1998-FORM 1120S

	DONE	N/A	COMMENTS OR EXPLANATIONS
812) Note tax planning/additional service suggestions.	____	____	____________

COMMENTS OR EXPLANATIONS

____

____

____

____

Page Completed ☐

S CORPORATION INCOME TAX RETURN CHECKLIST
1998 - FORM 1120S

Client Name and Number: ______________________________

Prepared by: ____________ Date: ________ Reviewed by: ______________ Date: ________

	DONE	N/A	COMMENTS OR EXPLANATION
100) GENERAL INFORMATION			
101) Review permanent file, prior year returns, memos, workpapers, carryovers and correspondence files.	____	____	____________
102) Review the S corporation and shareholder's names, addresses, fiscal year, incorporation date, business code, identification numbers, and IRS and other tax processing centers. Note changes.	____	____	____________
103) Consider signed engagement letter.	____	____	____________
104) Review computer-generated pro forma/organizer for accuracy.	____	____	____________
105) If the S corporation has been examined by the Internal Revenue Service, state or local taxing authority:			
.1) Obtain copies of the revenue agent's reports.	____	____	____________
.2) Determine that the agent's adjustments have been entered on the S corporation's records, and appropriate carryover workpapers.	____	____	____________
.3) If the agent's adjustments affect income tax returns of years other than those audited, or the corresponding federal or state returns for the same year, consider filing amended returns.	____	____	____________
.4) Inquire whether the S corporation has informed the shareholders of examination by the IRS or state agency.	____	____	____________
106) Obtain correspondence with the IRS or state taxing authorities. Consider impact.	____	____	____________
107) Inquire whether the S corporation has made or received any below-market-rate loans. Determine imputed interest consequences and existence of properly executed note.	____	____	____________
108) Review for adequate stated interest on debt instruments:			
.1) Determine whether original issue discount or unstated interest rules require restatement of note interest and principal.	____	____	____________
.2) Consider election for purchased discount under § 1278.	____	____	____________

Page Completed ☐

	DONE	N/A	COMMENTS OR EXPLANATION
109) Review for proper reporting of interest recognition in accordance with Reg. §§ 1.483-4 and 1.1274-5 for debt instruments providing contingent payments.	_____	____	_____________
110) Election/revocation/termination of S status:			
.1) If S status was <u>elected</u> during the current year:			
(a) Confirm that IRS (and state if applicable) approval of the election has been received and is in effect for the current year.	_____	____	_____________
(b) Consider scheduling potential "built-in" gains at date of election.	_____	____	_____________
(c) Consider requesting relief of an invalid election under §§ 1362(b)(5) and 1362(f). (SBJPA 1996)	_____	____	_____________
.2) If the S status was <u>revoked</u> during the current year:			
(a) Confirm that a revocation was properly filed.	_____	____	_____________
(b) Determine whether the revocation is effective for the entire year (if filed within the first 2½ months of the year) or prospectively.	_____	____	_____________
(c) Obtain a copy of IRS approval letter.	_____	____	_____________
.3) Events terminating S status:			
(a) Determine that no disqualifying event has occurred related to excess number of shareholders, prohibited type of shareholder or issuance of a second class of stock. Consider SBJPA 1996 changes regarding number of shareholders, types of shareholders and safe harbor debt.	_____	____	_____________
(b) Determine that termination is not triggered by excess passive income for three consecutive years if corporation has C corporation accumulated earnings and profits. Note passive income exclusion of dividends from 80% or greater subsidiary attributable to E&P derived from an active trade or business. (SBJPA 1996)	_____	____	_____________
.4) If S status was <u>terminated</u> or revoked during the year:			
(a) Verify allocation method - per day basis or actual. More than 50% cumulative change in stock ownership			

	DONE	N/A	COMMENTS OR EXPLANATION
during the year requires actual. If electing actual, match the election and the shareholders' consent.	_____	_____	_____
(b) Consider C corporation estimated tax payments for the succeeding year based on the S corporation's net income.	_____	_____	_____
(c) Consider requesting relief under the "inadvertent termination rule" under § 1362(f). (SBJPA 1996)	_____	_____	_____
111) If the corporation owns a "qualified subchapter S subsidiary" include all assets, liabilities, and items of income, deduction and credits of the QSSS on the return. (SBJPA 1996)	_____	_____	_____
112) If the corporation has selected an allowable fiscal tax year, determine that Form 8716 has been timely filed, and that "required payments" have been made. Note that a copy of Form 8716 must be attached to Form 1120S for the first taxable year for which the election is made.	_____	_____	_____
113) If the corporation is on the cash basis, determine if the accrual basis is required.	_____	_____	_____
114) Determine that accounting methods are comparable to the preceding year unless changes are approved or required.	_____	_____	_____
115) Consider economic performance requirements and recurring item exceptions.	_____	_____	_____
116) Review and update schedules for federal and state carryover items (regular and AMT) such as:			
.1) Prior year deferred deductions.	_____	_____	_____
.2) Installment sales. Consider applicable tax rates for components of gain.	_____	_____	_____
.3) Changes in accounting methods requiring § 481 adjustments.	_____	_____	_____
.4) Suspended losses/credits due to at-risk limitations.	_____	_____	_____
.5) Compare losses to basis limitations to determine deductibility of losses; update basis schedules accordingly.	_____	_____	_____
.6) Net unrealized built-in gain.	_____	_____	_____
117) Review financial statements and footnotes for relevant information.	_____	_____	_____
118) Review Board minutes.	_____	_____	_____

Page Completed ☐

	DONE	N/A	COMMENTS OR EXPLANATION
119) Review prior year's return schedule M-1 for items which may have an effect upon or require similar treatment in the current year.	____	____	____________
120) Consider filing power of attorney.	____	____	____________
121) Determine if the corporation (SBJPA 1996):			
.1) Created a foreign trust.	____	____	____________
.2) Transferred property to a foreign trust.	____	____	____________
.3) Received distributions, directly or indirectly, from a foreign trust (§ 6048).	____	____	____________
.4) Received loans, unless with arms-length terms, from a foreign trust.	____	____	____________
.5) Is a beneficiary of a foreign trust and transferred property to a foreign grantor of the trust.	____	____	____________
200) INCOME			
201) Compare sources and amounts of portfolio income with prior year.	____	____	____________
202) Determine that only trade or business (e.g., not portfolio or rental) income is shown on page 1 of Form 1120S.	____	____	____________
203) Determine that installment sales are reported properly.			
.1) Consider related party rules.	____	____	____________
.2) Determine that the full amount of depreciation recapture is reported in the year of sale whether or not payment was received in that year.	____	____	____________
.3) Review for adequate stated interest on debt instruments received in connection with the sale. Determine whether original issue discount or unstated interest rules require restatement of note interest and principal.	____	____	____________
.4) If the taxpayer is a "dealer" with respect to the related property:	____	____	____________
(a) Determine that the installment method is not used to report post- December 31, 1987 sales of dealer property. (Exceptions - farm property, certain timeshare rights and residential lots if proper election is made.)	____	____	____________

	DONE	N/A	COMMENTS OR EXPLANATION
(b) Determine that the interest owed as a result of an election in (a) above is properly reported. Note that interest calculation is made at shareholder level.	_____	_____	_____
(c) Consider that manufacturers of tangible personal property will not be eligible to use the installment method for sales to dealers after August 5, 1998. (TRA 1997)	_____	_____	_____
.5) Consider special rules for installment reporting by certain non-dealers of real (post-1986 sales) or personal property (post-1988 sales) where the sales price exceeds $150,000 (§ 453A). (Does not apply to certain farm property.)	_____	_____	_____
(a) Compute the interest charge imposed on outstanding tax deferred installment obligations if the face amount of these obligations that arose during, and are still outstanding at the close of the tax year exceeds $5,000,000. Note that the $5,000,000 threshold test and interest calculation are done at the shareholder level. (Announcement 89-33).	_____	_____	_____
(b) Determine that the proper amount is treated as a collection on any pledged installment obligation.	_____	_____	_____
.6) Consider election out of installment method.	_____	_____	_____
.7) Determine if an event has occurred requiring accelerated recognition of the remaining unreported gain (e.g., resale rule for related parties, cancellation of the installment obligation, disposition of the installment obligation).	_____	_____	_____
204) For disposed property:			
.1) Reconcile to depreciation schedule.	_____	_____	_____
.2) Determine holding period and federal, state, and AMT tax bases.	_____	_____	_____
.3) Determine that gains and losses are properly characterized:			
(a) Ordinary, § 1231, capital.	_____	_____	_____
(b) Long term, short term. Note holding period changes. (IRS 1998)	_____	_____	_____
.4) Consider the provisions related to:			

Page Completed ☐

	DONE	N/A	COMMENTS OR EXPLANATION
(a) Non-recognition of gain or loss. (Form 8824) Note restrictions on exchange of U.S. property for foreign property. (TRA 1997)	_____	____	____________
(b) Rules for like-kind and related party exchanges. (Form 8824)	_____	____	____________
(c) Recapture of depreciation (including § 291 recapture) and/or tax credit, or reduction of credit carryforwards. Note § 1245 applications. (TRA 1997)	_____	____	____________
(d) Presumption of capital gain relating to subdivision of land. § 1237 (SBJPA 1996)	_____	____	____________
(e) Gain from distributions of appreciated property.	_____	____	____________
(f) Forced sale of livestock on account of weather related conditions.	_____	____	____________
(g) Election to rollover gain from the sale of qualified small business stock. (IRS 1998)	_____	____	____________
205) Deferred income and expenses:			
.1) Include in gross income, as appropriate, income deferred for books in the current year.	_____	____	____________
.2) Exclude from gross income, as appropriate, income for books in the current year that was taken into income for tax in a prior year.	_____	____	____________
.3) Consider whether there are any advance payments for goods that can be determined under Reg. § 1.481-5. Note the information schedule requirements.	_____	____	____________
.4) Consider any advance payments for services under Rev. Proc. 71-21.	_____	____	____________
.5) Determine deductibility of prepaid expenses.	_____	____	____________
206) Review application of the wash sale rules.			
207) Report gains on constructive sales of appreciated financial positions occurring after June 8, 1997. (TRA 1997)	_____	____	____________
208) Review application of straddle rules and available elections under § 1092.	_____	____	____________

	DONE	N/A	COMMENTS OR EXPLANATION
209) Determine that sales of securities settled after year end, with a trade date within current year, are reported this year. Note special rules for short sales in § 1233.			
210) Determine if there were passive activities. Note requirement to group activities. (See Passive Activity Checklist)			
211) Inquire if securities held by the S corporation became worthless during the year. Note that substantial worthlessness of short sale property is a gain recognition event. (TRA 1997)			
212) Report rental real estate activities on Form 8825.			
213) For leased property, calculate the appropriate income inclusion amount to be reported by referring to the IRS tables. (See Vehicle Related Guides)			
214) Determine if there is income from discharge of indebtedness.			
.1) Consider exclusion and elections under § 108. (See new amendments to proposed amendment to Reg. 1.1017-1)			
.2) Consider Form 982.			
.3) Review TAM 9423003 and the impact on basis.			
215) Consider ordinary income on market discount bonds and deferral of related interest expense.			
216) Inquire if the taxpayer engaged in bartering transactions.			
217) Consider limitations of losses for transactions with related parties.			
218) Consider the mark to market rules for "dealers in securities." Warning: the definition of "dealers in securities" contained in § 475 is not limited to Wall Street brokerage firms. The expansive definition includes many taxpayers involved in lending transactions and various seller financed activities.			
.1) Determine that § 475 assets are adjusted to fair market value at the end of the year.			
.2) Determine the § 481 adjustment.			
.3) Amortize the § 481 adjustment over 5 years (15 years for certain floor specialists and market makers) beginning with the year of change.			
.4) Determine if exempt securities were timely identified in taxpayer books and records.			

Page Completed ☐

	DONE	N/A	COMMENTS OR EXPLANATION
.5) Consider loss limitations for:			
(a) Securities not properly identified.			
(b) Non financial customer paper. (IRS 1998)			
219) If a 1099-OID is received, compute for includible amount.			
220) Consider exclusion from income of cash or rent reduction received from lessor under a short-term lease of retail space utilized to construct leasehold improvements which will revert to the lessor at termination of lease. (TRA 1997)			
300) DEDUCTIONS			
301) Review the taxpayer's vacation pay policy to determine if a deduction is allowable on the accrual basis (vested at year end and paid within two and one-half months after year end).			
302) Consider applicability of uniform capitalization rules to resellers with annual gross receipts in excess of $10 million and all producers of property. (Note final regulations related to general rules (§ 1.263A-1), producers (§ 1.263A-2) and resellers (§ 1.263A-3)).			
.1) Determine that all costs are included.			
.2) Consider interest capitalization rules for debt incurred to produce property.			
.3) If the beginning inventory is revalued:			
(a) Ascertain the amount of adjustment required for the beginning inventory due to the change in method of accounting (§ 481).			
(b) Ascertain § 481 forward spread period (not to exceed four years).			
(c) Determine that Form 3115 is attached to the tax return for the year of change.			
(d) Consider electing "simplified" methods.			
.4) For farmers and ranchers consider:			
(a) One-time election out of uniform capitalization rules if election was not required in a prior year.			
(b) The exemption for expenses incurred in the production of animals.			

Page Completed ☐

	DONE	N/A	COMMENTS OR EXPLANATION
.5) Review the definition of "produce".			
303) Long-Term Contracts			
.1) Determine if the taxpayer is subject to the long-term contract reporting rules requiring that the percentage of completion method, instead of the completed contract method, be used to determine taxable income. Note exceptions for certain qualifying construction contracts and most contracts for the manufacture of property.			
.2) In determining whether contracts of the taxpayer are subject to the percentage of completion method of reporting, consider:			
(a) Related party rules.			
(b) Contract aggregation rules.			
.3) Determine that the percentage of completion is calculated based on costs incurred, not work performed.			
.4) Determine that all required costs have been allocated to the contracts. Note the expanded requirement to capitalize costs similar to the uniform capitalization rules.			
.5) Consider electing the simplified method of allocating costs, whereby fewer costs are taken into account, to determine the degree of contract completion.			
.6) Consider electing the modified percentage of completion method, whereby the recognition of income and accounting for costs is deferred until the first tax year in which at least 10% of the estimated total contract costs have been incurred as of the end of that year. Note that this election is not available if the simplified method above has been elected.			
.7) Upon completion of a contract, determine that the "look-back rule" has been applied to compare actual contract price and costs to previously used estimates and pay/claim interest on the related changes in prior years taxes on Form 8697. Note that certain small contracts are not subject to the "look-back rule." See TRA 1997 for changes in interest calculations and election to not apply lookback method.			
304) For charitable contributions:			
.1) Inquire if all contributions are to qualified charitable organizations.			

	DONE	N/A	COMMENTS OR EXPLANATION
.2) Consider the limitation related to contributions of appreciated ordinary income property.	_____	____	______________
.3) Consider the deduction for more than cost of appreciated capital gains property.	_____	____	______________
.4) Inquire if adequate contemporaneous documentation was obtained for charitable contributions made of $250 or more.	_____	____	______________
.5) Ascertain that minutes document authorization before year end for accrued charitable contributions, and contributions are paid by the 15th day of the 3rd month after the end of the tax year. An election statement and a certified copy of the minutes must be attached to the return.	_____	____	______________
.6) Determine if Form 8283 is required for non-cash gifts.	_____	____	______________
305) Inquire if fringe benefits for more than 2% shareholders claimed as deductions by the S corporation have been reported on the recipient shareholders' W-2s as wages subject to income tax.	_____	____	______________
306) Inquire whether the S corporation can substantiate by adequate records, as required under § 274, expenses claimed for entertainment, entertainment facilities, gifts, travel and conventions. Consider optional per diem method and note limitation on deductibility of certain nonemployee travel expenses. Note $25 limit on gifts. Note new $75 substantiation requirement (see Reg. § 1.274-5T(c)(2)(iii)).	_____	____	______________
307) Limit deduction for meals and entertainment to allowable percentage. Consider exceptions.	_____	____	______________
308) Determine the deductibility of club dues.	_____	____	______________
309) Determine that expenses allocable to portfolio income have not been deducted on page 1, Form 1120S.	_____	____	______________
310) Determine if professional fees and/or employee salaries require capitalization.	_____	____	______________
311) If taxpayer maintains a profit sharing plan and has not contributed the maximum contribution for each taxable year beginning prior to 1987, calculate the unfunded contribution carryover amount.	_____	____	______________
312) Determine that specific write-off method is used for bad debts.	_____	____	______________
313) Review partially worthless debt for write-off under Reg. § 1.166-3.	_____	____	______________
314) Officers and shareholders:			

	DONE	N/A	COMMENTS OR EXPLANATION
.1) Determine the ownership of life insurance policies and the proper treatment of related expenses.			
.2) Determine deductibility of disability insurance premiums.			
.3) If there were any accruals of interest, compensation or other expenses payable to a shareholder or other related parties, determine that for tax purposes the deduction is deferred until the year in which it is includible in income of the shareholder.			
.4) Consider if compensation to shareholders who perform substantial services for the corporation was sufficient.			
.5) Consider whether there is a potential reasonable compensation issue.			
.6) Review documentation of shareholder loans.			
315) Determine applicability of 2½ month deferred compensation rule for nonshareholder employees and independent contractors.			
316) Interest considerations:			
.1) Treat amortizable bond premium (for bonds acquired after 1987) as an offset to interest income.			
.2) Eliminate interest expense on debts with respect to life insurance policies (purchased after June 20, 1986) on current on former beneficial owners and key employees to the extent that the total of such loans exceeds $50,000. Note phase-in rules under 1996 HIPAA and additional limitations for new or materially changed contracts issued after limitations June 8, 1997. (TRA 1997)			
.3) Determine that the proper allocations have been made by type (trade or business, investment, passive activity, tax-exempt expenditures, etc.).			
.4) Determine that proper allocation of interest expense has been made if the proceeds of a loan were used for more than one purpose.			
.5) Determine if interest deduction limitations apply to interest incurred to purchase or carry market discount bonds or short-term debt obligations.			
.6) Determine if there is an allowable interest deduction related to deferred compensation agreements.			

	DONE	N/A	COMMENTS OR EXPLANATION
.7) Capitalize interest and carrying charges on straddles (§ 263(g)).	____	____	____________
.8) Determine if there is nondeductible disqualified debt interest under § 163(1). (TRA 1997)	____	____	____________
317) Consider limitations on deducting expenses related to federally tax exempt income. Note that these expenses may be deductible at the state level if the related income is state taxable.	____	____	____________
318) Determine that certain lobbying expenses are not deducted. Note exceptions.	____	____	____________
319) Inquire if dues include nondeductible lobbying expenses.	____	____	____________
320) Determine if compensation deductions are allowable with respect to:			
.1) Current or past transfers of property that are no longer subject to a substantial risk of forfeiture. (§ 83)	____	____	____________
.2) Disqualifying dispositions of stock under incentive stock options. (§ 422)	____	____	____________
.3) Employee stock purchase plans. (§ 423)	____	____	____________
.4) Exercise of nonqualified stock options for stock without a readily ascertainable fair market value.	____	____	____________
.5) Consider requirement for inclusion in W-2 and appropriate withholding.	____	____	____________
321) Determine that retirement plan contributions have been calculated using the eligible compensation limit and were timely made. Obtain a listing of dates and amounts of payments. Note repeal of the family aggregation rules. (SBJPA 1996)	____	____	____________
322) Determine if deductions should be reduced by credits claimed.	____	____	____________
323) Determine proper treatment of environmental clean-up expenses. Note new expense election. (TRA 1997)	____	____	____________
324) Determine whether inventory write-down for book purposes should be adjusted for tax. Note TRA 1997 allows estimated inventory shrinkage.	____	____	____________
325) Determine proper treatment for long-term leases where leases provide for deferred payments or increasing payments under § 467. Also see proposed Reg. 1.467.	____	____	____________

400) DEPRECIATION/AMORTIZATION

	DONE	N/A	COMMENTS OR EXPLANATION
401) For assets placed in service during the current year:			
.1) Consider § 179 election to expense qualifying assets. Note new allowable amounts. (SBJPA 1996)			
.2) Consider § 179A election to expense qualifying clean-fuel vehicles and related refueling property placed in service after June 30, 1993.			
.3) Determine the depreciable basis of each asset.			
.4) Determine the property class, recovery period and depreciation method for each asset. Note new limitations on property qualifying for income forecast method and designated lives of rent-to-own property. (TRA 1997)			
.5) Determine the applicable convention (half-year, mid-quarter or mid-month).			
.6) Determine that the cost of leasehold improvements is being recovered over the applicable recovery period, regardless of the lease period.			
.7) Consider 36-month depreciation rules for software.			
.8) Consider reduced depreciable lives for real estate improvements and special use structure.			
.9) Consider electing the Alternative Depreciation System (straight line over an ADS recovery period) for qualifying General Depreciation System property.			
.10) For farming, determine that MACRS is applied using 150% DB. Note ADS required if elected out of § 263A.			
.11) If property is leased to a tax-exempt entity, consider the possible need to use the ADS.			
.12) Consider depreciation limitations for IDB financed property, and certified historic structures for which a tax credit was taken.			
.13) If a short year, determine that Rev. Proc. 89-15 is followed.			
.14) If there has been a purchase price adjustment, see Prop. Reg. § 1.168-2 (d)(3).			
.15) Determine if interest is payable under look-back method where income forecast depreciation method is used (SBJPA 1996). Note interest calculation change. (TRA 1997)			

	DONE	N/A	COMMENTS OR EXPLANATION
.16) Consider accelerated depreciation for qualifying property located on Indian reservations.			
402) Determine that amortizable items, including goodwill, are written off over the correct periods.			
403) Consider the provision of Rev. Proc. 96-31 to rectify prior year claims of less than allowable depreciation or amortization.			
404) Determine if leased property/equipment should be capitalized.			
405) Consider anti-churning rules.			
406) For listed property (e.g., cellular phones, autos, computers, airplanes, boats):			
.1) For autos, consider the maximum allowable under the luxury auto rules. Note TRA 1997 exceptions for clean living and electric vehicles.			
.2) For autos, determine limitation if the business usage is 50% or less.			
.3) Determine limitations for all other mixed-use property, if the business usage is 50% or less.			
.4) Inquire if the taxpayer has kept the required records indicating the business and personal use of property.			
5) Determine recapture if the business usage is 50% or less.			
407) Form 4562 (if required):			
.1) Reconcile depreciation expense to supporting schedules.			
.2) Complete questions regarding personal use of listed property.			
.3) If the costs were incurred during the current year, determine that amortizable items are separately stated and the proper Code section cited.			
408) Consider state depreciation, if different.			
409) Consider federal and state AMT depreciation. Note: depreciable lives of tangible personal property placed in service after 1997 are the same for regular and AMT purposes. (TRA 1997)			
410) Make adjustments for depreciable assets which are demolished, obsolete, abandoned and/or out of service. Consider credit recapture.			

	DONE	N/A	COMMENTS OR EXPLANATION
500) TAX COMPUTATION AND CREDITS			
501) Tax on excess net passive income:			
.1) Determine if passive investment income is greater than 25% of gross receipts and the S corporation has earnings and profits from any C years. Note passive income exclusion of dividends from an 80% or greater subsidiary attributable to E&P from an active trade or business. (SBJPA 1996)	_____	____	______________
.2) Consider election to designate distributions as deemed out of earnings and profits. (§ 1368(e)(3))	_____	____	______________
.3) Consider election to forego previously taxed income. (§ 1.1368-1(f)(4))	_____	____	______________
502) Tax on "built-in" gains - applies to prior C corporations that filed S status election subsequent to 1986. Consider the following:			
.1) Compute tax at maximum corporate rate for the net recognized gains for the taxable years (not to exceed Subchapter C taxable income as adjusted) on the disposition of assets. (§ 1374)	_____	____	______________
.2) If S election was made after March 30, 1988, determine built-in gain carryover, if applicable.	_____	____	______________
.3) Consider tax on capital gains.	_____	____	______________
.4) Gasoline and special fuel credits as well as the following carryforwards from C years may be used to reduce built-in gains tax:			
(a) Net operating loss.	_____	____	______________
(b) Capital losses.	_____	____	______________
(c) Business credits.	_____	____	______________
(d) Minimum tax credits.	_____	____	______________
503) Consider tax on LIFO recapture for C corporations electing S status.	_____	____	______________
504) Consider tax payable by the corporation from recomputing a prior year investment tax credit as a result of the early disposition of assets acquired in C corporation years.	_____	____	______________
505) Confirm the amounts and dates of any federal, state and local estimated tax deposits for the year, prior year overpayments applied, backup withholding and extension payments.	_____	____	______________

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		DONE	N/A	COMMENTS OR EXPLANATION
506)	Consider federal and state estimated tax requirements and related electronic filing requirements.			
507)	Determine if the corporation is eligible for tax credits such as:			
.1)	Foreign tax credit. (Form 1118)			
.2)	Investment tax credit (rehabilitation and transition, energy and reforestation). (Form 3468)			
.3)	Credit for increasing research activities. See TRA 1997 for extension through June 30, 1998. (Form 6765)			
.4)	Enhanced oil recovery credit. (Form 8830)			
.5)	Credit for producing fuels from nonconventional source.			
.6)	Gasoline and special fuels credit. (Form 4136)			
.7)	Low income housing credit. (Form 8586)			
.8)	Disabled access credit. (Form 8826)			
.9)	Qualified electric vehicle credit. (Form 8834)			
.10)	Renewable electricity production credit. (Form 8835)			
.11)	Credit for employer social security taxes paid on certain employee cash tips. (Form 8846) See SBJPA 1996 for changes.			
.12)	Credit related to wage and health insurance costs for qualified Indian employees. (Form 8845)			
.13)	Credit for contributions to certain community development corporations. (Form 8847)			
.14)	Credit for alcohol used as fuel. (Form 4136)			
.15)	Empowerment zone employment credit. (Form 8844)			
.16)	Work Opportunity Credit for eligible employees who begin work after September 30, 1996 and before July 1. 1998 (SBJPA 1996 and TRA 1997). (Form 5884)			
.17)	Credit for qualified clinical testing expenses (Orphan Drug Credit), and associated carrybacks and carryovers. (SBJPA 1996) Note permanently extended under TRA 1997. (Form 8820)			

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	DONE	N/A	COMMENTS OR EXPLANATION
.18) Welfare-to-work tax credit for eligible employees who begin work on or after January 1, 1998 and before May 1, 1999. (TRA 1997)	____	____	____________
508) If taxpayer is part of a controlled group, consider special allocation rules under §§ 1561 and 1563. Attach apportionment schedules.	____	____	____________
600) SHAREHOLDER INFORMATION			
601) Shareholder allocation/limitation:			
.1) Determine that items of income, deductions, credits, etc., are allocated to the shareholders on a per-share, per-day basis.	____	____	____________
.2) If stock transfers occurred during the year which resulted in a termination of a shareholder's interest, consider allocations based on time of actual occurrence. Attach the affected shareholders' and corporation's statement of election. (SBJPA 1996)	____	____	____________
602) Shareholder distribution/basis computations:			
.1) Determine that equity increases and decreases (Schedule M) are properly segregated among:			
(a) Accumulated adjustment account.	____	____	____________
(b) Other adjustment account.	____	____	____________
(c) Shareholders undistributed PTI.	____	____	____________
.2) Determine that distributions exceeding the accumulated adjustment account for S corporations with earnings and profits from C years are reported (Form 1099-DIV) to shareholders as dividends to the extent of accumulated earnings and profits. Note that current year net reductions are disregarded in this computation. (SBJPA 1996)	____	____	____________
.3) Determine that gain is recognized and allocated to each shareholder for distribution of appreciated property.	____	____	____________
603) Consider Shareholder Basis Practice Guide.	____	____	____________
700) K-1 INFORMATION			
701) Determine that proper reporting and separate stating have been provided for all appropriate items such as:			
.1) Ordinary trade or business activities.	____	____	____________

	DONE	N/A	COMMENTS OR EXPLANATION
.2) Rental activities.			
.3) Portfolio income and related deductions.			
.4) Gains and losses, dates of dispositions, respective holding periods and type of assets sold. (TRA 1997)			
.5) Passive activity data (note elections). See Passive Activity Checklist.			
.6) Self-charged interest. Note Prop. Reg. § 1.469-7 allowing for possible recharacterization of interest income. (See Passive Activity Checklist.)			
.7) All items that affect shareholder basis calculations (e.g., nondeductible items and nontaxable income).			
.8) Charitable contributions including copy of Form 8283 when required.			
.9) Shareholder loan repayments.			
.10) Distributions.			
.11) At risk information.			
.12) Credit information.			
.13) Interest incurred in the production of property that may have to be capitalized at the shareholder level (Notice 88-99).			
.14) Other passthrough items (e.g., intangible drilling costs, depletion).			
.15) Tax shelter registration number and Form 8271 when required.			
.16) State allocation of income, deductions and credits.			
.17) Unrelated business taxable income.			
702) Segregate tax preference and adjustment items and report on the appropriate lines.			
703) Prepare schedules that reflect information to allow each shareholder to compute credit recapture.			
704) Determine that information relating to interest expense on debt-financed distributions to shareholders has been provided (Notice 89-35).			

	DONE	N/A	COMMENTS OR EXPLANATION
800) OTHER REQUIREMENTS			
801) Consider elections and statements such as:			
.1) Election to amortize organization expense.	_____	____	______________
.2) Election to amortize business start-up costs.	_____	____	______________
.3) Election to expense intangible drilling costs.	_____	____	______________
.4) Cash vs. accrual method.	_____	____	______________
.5) Section 351, statement of transferred assets.	_____	____	______________
.6) Method for valuation of inventory.	_____	____	______________
.7) Research and experimental cost election.	_____	____	______________
.8) Exception from economic performance for recurring items. Under final regulations, the election for any item(s) incurred for the first time is made by accounting for the item(s) under the recurring method on a timely filed tax return.	_____	____	______________
.9) If a distribution or technical termination has occurred in a partnership consider both the new allocation of basis rules under § 732(c) (TRA 1997) and making a § 732(d) election. Note exceptions for post May 9, 1997 technical terminations. Reg. 1.708-1	_____	____	______________
.10) If this is the first year the taxpayer has incurred real property taxes, determine if a § 461(c) election to accrue ratably is more beneficial than adopting the recurring item exception. (Rev. Proc. 92-28).	_____	____	______________
.11) Consider the option to treat current year qualifying disaster losses on appropriate preceding year tax return.	_____	____	______________
.12) Change of accounting method application/approval.	_____	____	______________
802) Determine if expenditures were incurred that are eligible for the Disabled Access Credit (Form 8826). If the taxpayer does not qualify for the credit or has expenditures in excess of the credit, consider making a § 190 election to expense the cost.	_____	____	______________
803) Cross reference the following items:			
.1) Schedule L beginning balances to prior year's ending balances.	_____	____	______________
.2) Schedule M beginning equity accounts to prior year's ending balance.	_____	____	______________

Page Completed ☐

	DONE	N/A	COMMENTS OR EXPLANATION
.3) Detail listings of Schedule L beginning balances to prior year's detail listings of ending balances.	_____	_____	_____
804) If the corporation was a party to an "applicable asset acquisition" (transfer of assets that constitute a trade or business), determine that applicable reporting requirements regarding allocation of purchase price have been met. (Form 8594)	_____	_____	_____
805) Determine that book/tax accounting method differences related to Schedule M are documented in the workpaper files.	_____	_____	_____
806) Consider § 6662 accuracy-related penalty. If this penalty could result from any income, deduction loss or credit item which causes a substantial change in the shareholder's return and causes the preparer to rise to the level of preparer of the shareholder's return:			
.1) Consider if substantial authority exists for the item in question. If not, consider disclosure (Form 8275 or 8275R).	_____	_____	_____
.2) Consider advising the taxpayer, in writing, of the penalty.	_____	_____	_____
807) Prepare state and local tax returns (see Nexus Practice Guide). Consider:			
.1) Recognition of "S" status.	_____	_____	_____
.2) State modification requirements.	_____	_____	_____
.3) State withholding requirements on income allocated to non-resident shareholders.	_____	_____	_____
.4) Information to allow shareholder to file the necessary state tax returns.	_____	_____	_____
.5) Composite filing on behalf of nonresident shareholders.	_____	_____	_____
.6) Compile apportionment data for multistate taxpayer.	_____	_____	_____
808) Attach extension requests.	_____	_____	_____
809) Complete and attach Form 5452 to report nondividend distribution (i.e., distributions in excess of earnings and profit).	_____	_____	_____
810) Inquire if the corporate minute book has been updated.	_____	_____	_____
811) Inquire if the required 5500 series forms have been filed for retirement plans covered by this period.	_____	_____	_____

Page Completed ☐

	DONE	N/A	COMMENTS OR EXPLANATION
812) Inquire if the required 5500 series forms have been filed for cafeteria plans and welfare benefit plans (e.g., medical benefits, life insurance, disability or death benefit plans that have more than 100 participants).	____	____	________
813) Advise the S corporation that any unpaid retirement plan contribution must be made before the due date of the return including extension.	____	____	________
814) Information returns:			
.1) Inquire whether the S corporation has filed all required information returns (1098, 1099 and 1042 series) and whether the value of the personal use of employer property, expense reimbursements under "unaccountable plans," and 401(k) deferred compensation information has been included in employees' W-2s. Note new reporting requirements on certain payments made to attorneys. (TRA 1997)	____	____	________
.2) Inquire if the taxpayer has complied with magnetic media filing requirements for 1099s and W-2s.	____	____	________
.3) Inquire if additional items subject to employer FICA such as 401(k) deferrals, employer provided excess group term life insurance, all cash tips, etc., have been properly reported.	____	____	________
.4) Determine that reimbursement of employee moving expenses and tuition and related expenses are properly reported. (TRA 1997)	____	____	________
.5) Inquire whether club dues, spouse travel, etc., is treated as compensation and included on employee's W-2.	____	____	________
.6) Consider filing information returns relating to foreign partnerships and corporations. (TRA 1997)	____	____	________
815) Inquire as to whether employment taxes were timely deposited. (EFTPS)	____	____	________
816) Compare net income or loss to projections.	____	____	________
817) Determine that related party transactions are properly reported on all available returns.	____	____	________
818) Consider informing client of requirement to file Form 8300 for certain payments received exceeding $10,000.	____	____	________
819) Determine if Form TD F 90-22.1 is needed to report foreign financial accounts.	____	____	________
820) If the S corporation is a partner in a partnership, consider § 465 at risk and/or § 704(d) basis rules.	____	____	________

Page Completed ☐

	DONE	N/A	COMMENTS OR EXPLANATION
821) If the corporation sold partnership interests during the year, determine:			
.1) That appropriate information was given to the partnership to enable it to prepare Form 8308.	_____	____	____________
.2) That the required statement under Reg. § 1.751-1(a)(3) is attached if the partnership had § 751 assets.	_____	____	____________
822) If the corporation acquired partnership interests during the year determine that the appropriate information was given to the partnership. Prop. Reg. § 209682-94	_____	____	____________
823) Note tax planning/additional service suggestions.	_____	____	____________

COMMENTS OR EXPLANATIONS

Page Completed ☐

EMPLOYEE BENEFIT PLAN RETURN/REPORT CHECKLIST
1998 - FORM 5500 SERIES

Client Name and Number: ____________________

Prepared by: ____________ Date: ______ Reviewed by: ____________ Date: ______

	DONE	N/A	COMMENTS OR EXPLANATION
100) GENERAL INFORMATION			
101) Verify if the current plan document is on file. Note the date of the latest amendment to the plan and the date of the latest plan document restatement.	____	____	____________
102) Verify that plan documents and amendments were signed and approved by proper persons, noting signature date.	____	____	____________
103) Review the plan sponsor/employer name, address, plan year, identification number, telephone number, business code, and CUSIP number. Note changes.	____	____	____________
104) Review the name, address, identification number and telephone number of the plan administrator if they are different from those of the plan sponsor. Note changes.	____	____	____________
105) Verify that a copy of IRS determination letter (if applicable) is on file. Determine whether any plan amendments have been adopted since the date of the latest determination letter.	____	____	____________
106) Review prior year returns, review memos, workpapers and correspondence files.	____	____	____________
107) Review plan name, effective date, plan number; determine if the plan name as shown on the plan document is the same as shown on Form 5500 for the prior year.	____	____	____________
108) If the plan is a pension benefit plan and has been examined by the Internal Revenue Service or Department of Labor:			
.1) Obtain copies of the examination report.	____	____	____________
.2) Verify that examination adjustments have been entered on the plan's records.	____	____	____________
.3) If any examination adjustments affect the sponsor's income tax returns, consider preparation of amended returns for all tax years affected, or advise preparer of recommended change.	____	____	____________
109) If the plan sponsor has changed its tax year-end, determine if the plan year has been, or should be, changed to correspond to the sponsor's new tax year.	____	____	____________

Page Completed ☐

	DONE	N/A	COMMENTS OR EXPLANATION
110) Determine if the employer is a member of a controlled group of corporations or a member of a group of businesses under common control.	____	____	____________
111) Determine if the plan is subject to the multiemployer or multiple employer plan filing requirements.	____	____	____________
112) Review the plan document or summary plan description to identify benefits provided by or allowed under the plan (i.e., welfare benefits, fringe benefits, or pension benefits, participant-directed account plans, master trust, or cash or deferred arrangements).	____	____	____________
113) Inquire if administrator of a pension benefit plan has a file of beneficiary designations and participant and spousal consent forms for benefit options. (I.R.C. § 417(e))	____	____	____________
114) Determine whether there are reporting requirements for investment arrangements filing directly with the Department of Labor:			
.1) Common/Collective Trust or Pooled Separate Account.	____	____	____________
.2) Master Trust.	____	____	____________
.3) 103-12 Investment Entity.	____	____	____________
115) Determine whether the plan holds assets that have a fair market value that is not readily determinable and, if so, whether an appraisal by an independent third party appraiser is appropriate.	____	____	____________
200) DETERMINE THE APPROPRIATE FORMS TO FILE			
201) Determine if the plan qualifies for exclusion from filing. Consider Department of Labor notification.	____	____	____________
202) If required to file, determine which one of the following to file:			
.1) Form 5500	____	____	____________
.2) Form 5500-C (first and final year and every third year)	____	____	____________
.3) Form 5500-R (can not be used if this is the plan's first or final year)	____	____	____________
.4) Form 5500-EZ.	____	____	____________
203) Determine if additional forms are required or would be beneficial such as:			

	DONE	N/A	COMMENTS OR EXPLANATION
.1) Schedule A - Insurance Information.			
.2) Schedule B - Actuarial Information.			
.3) Schedule C - Service Provider and Trustee Information.			
.4) Schedule E - ESOP Annual Information.			
.5) Schedule F - Fringe Benefit Plan Annual Info Return.			
.6) Schedule G - Financial Schedules.			
.7) Schedule P - Annual Return of Fiduciary of Employee Trust.			
.8) Schedule SSA - Annual Registration Statement Identifying Separated Participants with Deferred Vested Benefits.			
204) Determine if other attachments are required, such as:			
.1) Accountant's opinion, financial statements.			
.2) Form 5558 - Extension of Time to File (or sponsor's income tax extension form if the automatic extension provisions apply).			
.3) Department of Labor filing attachments.			
205) Determine that Pension Benefit Guaranty Corporation Form 1 has been filed for a defined benefit pension plan.			
.1) Determine the appropriate plan year for which the filing is made (Form 1 is filed for the current year; Form 5500 for the preceding plan year).			
.2) Determine the due dates for Form 1 and for installment premium payments.			
.3) Determine if plan is subject to variable rate premiums.			
300) SPECIFIC PLAN CHARACTERISTICS			
ALL PLANS			
301) Ascertain the plan's funding and benefit arrangements.			
302) Determine if the plan was established pursuant to one or more collective bargaining agreements, and if so, enter the appropriate six-digit LM number(s).			

	DONE	N/A	COMMENTS OR EXPLANATION
303) Determine if the plan is subject to bonding requirements, and if so, the amount of fidelity bond covering the plan and the name of the bonding surety company.	_____	____	______________
304) Determine if any person who rendered services to the plan received $5000 or more in compensation from the plan during the plan year, and if so, complete Schedule C.	_____	____	______________
305) Determine if any service provider was terminated during the plan year, and if so, provide the necessary information on Schedule C.	_____	____	______________
306) Consider preparing Schedule G if during the plan year the plan:			
.1) Had assets held for investment purposes, including those both acquired and disposed of within the plan year.	_____	____	______________
.2) Had loans or fixed income obligations in default or that were considered uncollectible.	_____	____	______________
.3) Had leases that were in default or that were considered uncollectible.	_____	____	______________
.4) Had transactions or a series of transactions in excess of 5% of the current value of plan assets.	_____	____	______________
.5) Engaged in nonexempt transactions with parties-in-interest.	_____	____	______________
307) Determine if the plan acquired individual whole life contracts during the plan year.	_____	____	______________
PENSION BENEFIT PLANS ONLY			
308) Determine coverage requirements.			
.1) Review the plan's § 410 coverage information.	_____	____	______________
(a) Determine that either the ratio percentage test or the average benefit test has been passed, or that an exception applies.	_____	____	______________
(b) Determine if the plan is passing coverage under the substantiation guidelines. If the coverage test date is the last day of the plan year, verify that the figure for employees participating at the end of the plan year is consistent with the year-end participant figure in the participant census question.	_____	____	______________
(c) Determine if all employees of the sponsor are included as the starting point for testing purposes.	_____	____	______________

	DONE	N/A	COMMENTS OR EXPLANATION
(d) Determine whether any employees may be excluded from testing consideration due to:			
(i) their failure to meet the plan's age or service requirements;	____	____	____
(ii) their being collectively bargained employees;	____	____	____
(iii) their being nonresident aliens who received no earned income from United States sources; or	____	____	____
(iv) their having terminated after working less than 500 hours during the plan year.	____	____	____
(e) Assure that leased employees have been properly considered.	____	____	____
(f) Determine whether highly compensated employees have been properly identified.	____	____	____
.2) Determine if separate lines of business, aggregation, disaggregation, or restructuring rules apply.	____	____	____
309) Determine if the plan contains a cash or deferred arrangement.	____	____	____
310) Determine if the plan is integrated with social security or railroad retirement, and if so, determine that permitted disparity requirements have been met.	____	____	____
311) Determine if the plan was involved in a merger or consolidation into another plan or an asset or liability transfer during the plan year. If so:			
.1) Determine the name of the other plan(s) involved, the EI number of the sponsor(s) and the plan number(s); and	____	____	____
.2) Determine whether Form(s) 5310-A was filed.	____	____	____
312) Determine if the plan was top-heavy at any time during the last five plan years:			
.1) Determine whether key employees have been properly identified.	____	____	____
.2) Determine whether the family attribution rules have been applied properly.	____	____	____
.3) If the plan is top-heavy, determine whether top-heavy minimum benefit provisions and top-heavy vesting requirements have been applied properly.	____	____	____

	DONE	N/A	COMMENTS OR EXPLANATION
313) Determine that annual compensation of each participant taken into account does not exceed current year limitation.	_____	_____	__________
314) Determine if the employer/sponsor maintains other qualified pension benefit plans.	_____	_____	__________
315) Determine if the plan is a master, prototype or regional prototype plan.	_____	_____	__________
316) Determine the number of participants as follows:			
.1) Fully vested, partially vested and non-vested.	_____	_____	__________
.2) Retired or separated receiving benefits or entitled to future benefits.	_____	_____	__________
.3) Deceased participants whose beneficiaries are receiving or are entitled to receive benefits.	_____	_____	__________
.4) Participants with account balances.	_____	_____	__________
.5) Participants who terminated employment before fully vested.	_____	_____	__________
400) REPORTING FINANCIAL ACTIVITY			
ALL PLANS			
401) Determine if the plan generates $1,000 or more of unrelated business income and must file Form 990T. Inquire whether unrelated business income has been earned by a pass-through entity in which the plan has invested.	_____	_____	__________
402) Determine if the plan is required to file information returns for distributions, retirement pay or P.S. 58 costs.	_____	_____	__________
PENSION BENEFIT PLANS ONLY			
403) Prepare a reconciliation of contributions made to the plan, deductions claimed on the sponsor's income tax return, and contributions recorded by the plan according to the trustee's records.	_____	_____	__________
404) Identify any contributions (designated as contributions for the plan year) made after the plan year end, but before the due date of the employer's income tax return, including extensions of time to file.	_____	_____	__________
405) In the case of a defined benefit plan:			
.1) Review Schedule B and determine whether there is a funding deficiency, and if so, advise the plan sponsor.	_____	_____	__________

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	DONE	N/A	COMMENTS OR EXPLANATION
.2) Confirm that the contributions shown on Schedule B correspond to the contributions made for the plan year.			
406) Prepare Form 5330 (relating to excise tax) if there is an accumulated funding deficiency or a nondeductible contribution to a qualified plan.			
407) Determine if there has been any reversion of plan assets to the employer, and if so, prepare Form 5330.			
408) Determine whether immediate distributions to plan participants and beneficiaries are in compliance with the $3,500 ($5,000 for plan years beginning after August 5, 1997) *de minimis* rules and related plan provisions.			
409) Determine that contributions made or benefits accrued during the plan year are in compliance with I.R.C. § 415 limits.			
410) Determine if the plan has made distributions of benefits to participants and beneficiaries as prescribed by the minimum distribution requirements of I.R.C. § 401(a)(9).			
411) Determine that, in the case of plan distributions with respect to married participants, the joint and survivor annuity requirements and preretirement survivor annuity requirements of I.R.C. §§ 401(a)(11) and 417 have been met.			
412) Determine that written explanations regarding rollover-eligible distributions have been provided in accordance with I.R.C. § 402(f).			
413) Determine that income tax withholding requirements of I.R.C. § 3405 (and applicable state or local income tax withholding requirements) have been met with respect to distributions not rolled over to an eligible retirement plan, and that Form 945 has been filed.			
414) Determine if refunds of contributions were required to pass the ADP/ACP test.			
.1) If so, determine if they were made within two and one half months after the close of the plan year.			
.2) If not, prepare Form 5330.			
500) PENALTIES			
501) Determine the correct due date of the return. Failure to timely file a return is subject to a penalty of $25 per day (up to $15,000).			
502) Consider other applicable penalties, such as:			

	DONE	N/A	COMMENTS OR EXPLANATION
.1) Failure to file a registration statement (Schedule SSA) ($1 per day up to $5,000).			
.2) Failure to file an actuarial statement (Schedule B) ($1,000).			
.3) Failure to file a complete return, such as failure to complete all applicable information (up to $1,000 per day).			
.4) Failure to report a change of plan status ($1 per day up to $1,000).			
600) OTHER REQUIREMENTS			
601) Consider notifying the Plan Administrator of requirements related to:			
.1) Distribution to participants of an appropriate summary annual report.			
.2) The availability of the current summary plan description and distribution to participants on a timely basis.			
.3) Preparation and distribution of the statements of participants' accrued benefits.			
.4) Preparation and distribution of statements of deferred vested benefits to separated employees.			
602) If the employer maintains a profit-sharing plan or stock bonus plan and has not made the maximum contribution for each year, calculate the unfunded pre-1987 contribution carryforward amount.			
603) In the case of a qualified plan with loan provisions, ascertain that all loans were made in accordance with plan provisions, and in particular were in compliance with:			
.1) the five year requirement (I.R.C. § 72(p)(2)(B));			
.2) the dollar limitations (I.R.C. § 72(p)(2)(A));			
.3) the quarterly amortization requirement (I.R.C. § 72(p)(2)(C));			
.4) the spousal consent requirement (I.R.C. § 417(a), ERISA § 205(c), Reg. § 1.401(a)-20, Q&A 24);			
.5) the reasonably equivalent availability requirement (I.R.C. § 4975 (d)(1)(A), ERISA § 408(b)(1)(A));			

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	DONE	N/A	COMMENTS OR EXPLANATION
.6) the reasonable rate of interest requirement (I.R.C. § 4975(d)(1)(D), ERISA § 408(b)(1)(D)); and	_____	_____	_____
.7) the adequate security requirement (I.R.C. § 4975(d)(1)(E), ERISA § 408(b)(1)(E)).	_____	_____	_____
604) Determine that plan loans were not made to sole proprietors, certain partners or shareholders unless the nondiscrimination requirements are met. (I.R.C. § 4975)	_____	_____	_____

COMMENTS OR PLANNING

MARKET SEGMENT SPECIALIZATION PROGRAM AUDIT TECHNIQUE GUIDE

INTRODUCTION

Market Segment Specialization Program Audit Technique Guides were developed by the Internal Revenue Service for reference by revenue agents and tax auditors. These guides contain examination techniques, common and unique industry issues, business practices and other information.

Guides currently available are listed subsequently. Guides available through the internet are indicated by (I) and are available at:

Internet address: http://www.access.gpo.gov/su_docs

E-mail address: gpoaccess@gpo.gov

Guides currently in print are available from the Superintendent of Documents and indicated by (S). These may be obtained as follows:

Physical address: Superintendent of Documents
P. O. Box 371954
Pittsburgh, PA 15250-7954
(202) 512-1800 (9 a.m. - 4 p.m., M-F, EST)
(202) 512-2250 - fax (24 hours a day)

Review and Revision: Items bearing the (*) notation are currently being revised or reviewed prior to issuance. All other documents are presently available from the Internal Revenue Service.

Air Charters (I) (S)
Alaskan Commercial Fishing
- Catcher Vessels (I) (S)
- Fish Processors and Brokers (I) (S)

Alternative Minimum Tax
Architects (I) (S)
Artists and Art Galleries (I)
Auto Body and Repair Industry (I) (S)
* Bail Bond Industry
Beauty Shops/Barber Shops (I) (S)
Bed and Breakfasts (I) (S)
* Car Washing and Detailing
Casino Gambling
Cattle Auction Barns
Check Cashing
Child Care
Citrus Industry
* Coal Mining (Excise)
* Commercial Banking
Construction, General Building Contractor
Construction Industry
Cooperative Housing Corp.
Eating Places/Restaurants/Bars (S)
Electronic Components
Emergency Care Clinics
Employment Tax - Pizza Driver
Entertainment Industry:
- Contracts - Audit Applications
- Foreign Athletes & Entertainers
- Important 1040 Issues (S)

- Motion Pictures/Television
- Music (I) (S)
- Theater - Live Performances

Extended Warranty Companies
* *Farming - Specific Issues*
Federal Excise Tax, Coal Mining
Foreign Tourism
* Furniture Manufacturing
Garment Contractors
Garment Manufacturing (I)
Gas Retailers (I) (S)
Grain Farmers (S)
Grocery Stores
* Hardwood Timber Industry
Health Care
Independent Used Car Dealers
Indian Assistance
Insurance Agencies
Intermodal Industry (Transport Containers)
Jewelry Dealers
Laundromats
Life Insurance
Low Income Housing Credits
* Manufacturing
Masonry and Concrete
Ministers (I) (S)
Mobile Food Vendors (I) (S)
Mortuaries (S)
Nursing/Rest Homes
Oil and Gas Industry (I)
Parking Lots
Passive Activity Losses (I) (S)
Pawn Shops
Pizza Restaurants (I) (S)
* Placer Mining
Plastic Surgeons
Port Project (I) (S)
Poultry
Recycling
Reforestation (S)
Rehabilitation Credit
* Retail Liquor Stores
RTC Project (Forgiveness of Debt) (S)
Scrap Metal
Seafood Purchases
Selling Door to Door/Telephone
Taxicabs (I) (S)
Tobacco Industry (I)
Tour Bus Industry (I)
Travel Agencies
Trucking Industry (I) (S)
W-8 Unreported Income
Wine Industry (S)

SAMPLE IRS CORPORATE AUDIT FORMAT

INTRODUCTION

The following questions are samples of those that may be asked during the interview and examination process of tax returns. They are not intended to be all inclusive. Tax examiners for the Internal Revenue Service are encouraged to use their own judgment. As a result, the scope of their examination may be expanded depending on the responses to these general questions. The purpose of these sample questions is to assist in the preparation for an examination. It is advisable that the tax practitioner determine the intent of the questions and prepare accordingly.

I. AGENT'S NOTIFICATION TO TAXPAYER/REPRESENTATIVE

Appeal Rights (Pub 1)
Privacy Act Notice (Pub 609)

II. INFORMATION THE REVENUE AGENT MAY REQUEST FROM THE TAXPAYER/REPRESENTATIVE

<u>GENERAL</u>:

Tax returns previously audited and results
Telephone numbers of corporate office and representative office
Properly executed Power of Attorney
Verification of TIN per return
Verification of address per return
Name of tax return preparer and fee charged
Extent services provided by preparer
Copies of tax returns from open tax years not under audit
Copies of externally and internally prepared financial statements
Copies of most recent IRS determination letter for all qualified retirement plans
Copies of any amendments or tentative carrybacks filed in the last three years
Corporate minute book and stock records
Currency Transaction Reports (Form 8300)

<u>CORPORATE OFFICER(S) AND SHAREHOLDERS(S)</u>:

Name(s)
Title(s)
Ownership %(s)
Recent changes in ownership
Copies of shareholder(s) individual tax returns for period under audit
S corporation shareholder basis computations.

III. QUESTIONS THE REVENUE AGENT MAY ASK THE TAXPAYER/REPRESENTATIVE

RELATED ENTITIES:

Does the corporation own stock in any other closely held corporation(s)?
Do any shareholders own stock in any other closely held corporations(s)?
Does the corporation own an interest in any other closely held business entity (e.g., partnerships and joint ventures)?

BUSINESS HISTORY:

What are the business activities of the corporation?
How long has the corporation been in operation?
When was the corporation formed - was it a new business or was it a continuation of a business conducted in another form?
What was contributed to capital at incorporation?
What are the duties of each officer and shareholder?
Does the corporation conduct operations at any location other than the address on the return? If yes, describe.
Have there been any unusual or extraordinary events during the last three years (e.g., reorganizations, acquisitions or dispositions, decline in income due to casualty, loss of prime supplier or customers, or other economic business conditions)?
Does the corporation anticipate any significant expansion or addition of capital improvements?
Has there been a major expansion or remodeling of the corporate building and/or facilities in recent years?
Are there any legal actions pending against the corporation?
What is the corporation's policy relative to dividends?
Has the corporation engaged in any bartering activity?
Did the corporation pay any kickbacks either directly or indirectly?

CORPORATE TRANSACTIONS:

Are sales cyclical?
Who are the corporation's major suppliers?
Who are the corporations's major customers?
Does the corporation extend credit? If so, what are the terms?
Does the corporation offer discounts? If so, how are they recorded?
Does the corporation purchase goods on credit?
Does the corporation normally take advantage of discounts? If so, how are they recorded?
Did the corporation sell any assets during the year under examination?

SAMPLE IRS CORPORATE AUDIT FORMAT

Are all fixed assets shown on the corporate books still in service? If not, what was the disposition of the asset(s)?

PAYROLL AND RELATED:

What are the company's payroll procedures (e.g., separate bank account, outside agency)?
How is the compensation of the officers and shareholders determined?
What method(s) of compensation does the corporation use (e.g., salary, bonus, commission)?
What is the company's policy relative to bonuses?
How many full time and part time employees does the corporation employ?
Have any employees performed personal services for any officers or shareholders?
To what extent does the corporation use contract labor?
Have all required information returns been filed?
Are any immediate family members or close relatives of the officers or shareholders employed by the corporation?
What fringe benefits are provided to the employees (e.g., health insurance, life insurance, reimbursed travel and moving expense, discount on purchases, profit sharing plan, 401(K) or other retirement plan qualified or unqualified, medical reimbursement plan, other)?
Do the fringe benefits provided to the rank and file employees differ from those provided for shareholders and officers?
Has the corporation filed all required retirement plan returns?
Has the corporation filed all applicable federal employment tax returns?

TRAVEL AND ENTERTAINMENT:

What is the company's policy regarding travel and entertainment reimbursement?
Does the corporation provide shareholders, officers, and/or related family members with any of the following:

- Credit cards?
- Club dues?
- Club memberships?

VEHICLES:

Does the corporation own or lease any automobiles, trucks, RVs, airplanes, boats, or other vehicles?
How are these vehicles used in the business?
Are vehicle usage logs maintained?
Does the corporation restrict the use of these vehicles?
How does the corporation account for personal use of company vehicles?
Does the corporation own any trucks that are subject to the highway use tax?

SAMPLE IRS CORPORATE AUDIT FORMAT

BANKING

Where does the corporation maintain bank accounts (e.g., checking, savings, certificates of deposit, foreign accounts, money market investments)?
What is the purpose of each account?
What loans were outstanding during the tax year? Describe the purpose(s), terms, and activity for each.

INVENTORY:

What method of valuation does the corporation use?
If required, is the corporation in compliance with section 263A?
How often is physical inventory taken and by whom?
Does the corporation maintain perpetual inventory records?
Is the cost system integrated into the accounting system?
Do any employees, officers, or shareholders make personal withdrawals from inventories?
To what extent is the company's inventory insured and with whom?
Does the company utilize receiving reports?
How are returned goods handled?
What was the basis for the write down of the company's inventory?
What length of time does it take to process goods from start to finish?

ACCOUNTING SYSTEM:

What type of books and records are maintained (e.g., general ledger, journals, subsidiaries, etc.)?
Who is responsible for the following activities:

- General bookkeeping?
- Cash receipts?
- A/R?
- A/P?
- Recording sales?
- Purchases?

Who is responsible for writing and endorsing checks? Are multiple signatures required?
What method of accounting is used?
Has there been a change in the company's accounting method within the last three years?

INTERNAL CONTROLS:

How are cash sales handled?
Who opens the mail?
Who reconciles the corporate bank accounts?
Who makes the deposits?

SAMPLE IRS CORPORATE AUDIT FORMAT

How often are deposits made?
What percentage of receipts are deposited?
Does the corporation keep any large amounts of cash on hand?
What percentage of the company's income is received in each of the following forms:

- Checks?
- Cash?
- Charges?
- Other?

At what point are company sales recorded (e.g., date ordered, date invoice cut, date shipped)?
How is a sale accounted for from initial contact with the customer through completion of the transaction?
How does the company record returns and allowances? Are debit memorandums issued?
Does the company maintain a petty cash fund? If yes,

- What is the normal balance in this fund?
- What type of disbursements are made from the fund?
- Who approves expenditures?
- How is the fund replenished?

How does the corporation record the expenses it incurs through payment?
Does the corporation make any cash expenditures?
What does the company do with voided checks?
What is the corporation's policy with regard to ageing accounts receivable?
What is the company's policy regarding the write off of uncollectible accounts?
Does the corporation have any scrap sales?
Who authorizes the purchase of major items?
What is the corporate policy for expensing vs. capitalizing items?
Did the corporation record any liabilities which were contingent on some future event?
What cut off procedures does the corporation perform at year end regarding accounts receivable, accounts payable, and inventory?

RELATED PARTY TRANSACTIONS:

Did the corporation have any transactions with a corporate shareholder, officer, or family member?
Did the corporation distribute any assets or liabilities to a corporate shareholder, officer or family member?
Were there any loans or advances to or from a corporate shareholder, officer, or family member?
If yes,

- Is there a signed note?
- What interest rate was charged?
- What repayments have been made?

If there were any loans or advances to or from any related entity, were the transactions handled at arms-length?
Are personal funds of shareholders and officers kept separate from corporate funds?

SAMPLE IRS CORPORATE AUDIT FORMAT

MINUTE BOOK:

Is a corporate minute book maintained? If so,

- Is it up to date?
- Who is responsible for updating?
- Do the minutes address pension plan contributions?

Are officers' compensation and bonuses approved in the minutes?
Are loans properly considered and approved in the minutes?
Do the minutes address employee bonuses?
Do the minutes address company expansion?

OTHER QUESTIONS:

Does the tax return include all income earned by the corporation?
After having had time to review the return since contacted by the IRS, is the taxpayer/ representative aware of any additional deductions, erroneous deductions or any omissions of income contained therein?
If this is an S corporation, which shareholders meet the material participation requirements?

OIL AND GAS PRACTICE GUIDE

This practice guide is intended to assist income tax return preparers in reporting the amounts included on Forms 1099 and K-1 with respect to individual taxpayers receiving income from the sale of oil and gas reserves. This guide is intended to benefit practitioners who have little working experience with the reporting of oil and gas income on individual tax returns, and as such does not necessarily include all issues that may arise.

This guide is segmented into two parts. The first is a narrative discussion of certain oil and gas definitions and tax concepts. The second contains specific return applications.

I. Types of Oil and Gas Interest and Payments

A. Non Operating Interests

1. Royalty Interests

A royalty interest holder possesses the right to a specific portion (generally expressed as a fraction or a percentage) of the revenue from the sale of oil and gas reserves. The holder of this interest generally is not required to bear any portion of the cost of development or operation of the oil and gas property. However, a royalty interest holder generally must bear his or her share of production taxes including such state and local severance taxes, ad valorem taxes, and gathering and handling charges. Generally, the production taxes assessed against a royalty interest holder are withheld by the purchaser of the oil and gas. Thus, the royalty interest holder generally receives payments from the purchasers which are net of production taxes.

2. Net Profits Interests

A net profits interest holder is entitled to a specific share of the gross production from the property measured by the net profits from the operation of the property. Generally, the costs considered in determining the "net profit" from a property can be distinctly defined with respect to each such interest. If there is no net profit (as defined) from the property, the holder of the net profits interest receives no payments; however, the holder is also not liable to pay for any share of the net loss. Once the property has a net profit (as defined), the holder of the net profits interest receives payments representing his or her share of that net profit amount.

B. Operating Interests

An operating interest (also known as a working interest) constitutes a right to the oil and gas reserves in place that entitles the holder to a specific portion of the revenue arising from the sale of the oil and gas reserves and that is also burdened with the costs of development and operation of the oil and gas property. In addition, like a non operating interest, an operating interest must bear its share of the production taxes. Thus, the operating interest holder generally receives payments from the purchaser which are net of production taxes. In most instances the operating interest holder pays the cost of operating the oil and gas property directly. However such operating costs may also be withheld by the disburser causing the payment to the operating interest holder to be net of such costs.

C. Other Payments

Several other types of payments are commonly made to the holders of oil and gas interests which are not directly made for the sale of oil and gas reserves. Included below is a short description of some of those payments.

1. Lease Bonuses

In many instances, operating interests are leased rather than acquired as a fee interest. Generally, the lessor receives an up-front payment (lease bonus) from the lessee for the right to enter into the lease.

2. Delay Rentals

Often oil and gas mineral interests are held in the form of a lease which has an expiration date. Delay rentals are paid for the privilege of holding the lease prior to the date of development of the underlying reserves. These payments are generally made by the operating interest owner to the lessor.

3. Damages

In some cases, payments (damages) are made to landowners for damages to the land surface or crops on that surface. These payments are generally made by the operating interest owner to the owner of the surface rights.

4. Shut-Ins

In some cases, leases provide for payments of shut-in royalties (shut-ins) where a producing well has been drilled but the underlying reserves are not being produced for some reason. These payments are generally made by the operating interest owner to the lessor.

II. The Depletion Concept

The removal of a mineral from its natural reservoir diminishes the quantity remaining in the reservoirs until the recoverable supply ends. Depletion, for Federal tax purposes, depends not upon production of a mineral but upon its sale. The legislative history of depletion indicates that percentage depletion is intended to allow a tax-free recovery of value (whether or not in excess of basis) so that incentives would exist for exploration and development of new oil and gas reserves.

Only the owner of an economic interest is entitled to depletion on the income derived from production and sale of minerals from a property. The owners of mineral interests, royalties, working interests, net profits interests or other production payments possess an economic interest and are entitled to depletion for tax purposes. The Code provides for two methods of computing the depletion allowance; cost and percentage depletion. The taxpayer is not given an election to compute his depletion one way or the other, but must compute depletion both ways and claim the larger of two sums. An example of a depletion schedule is included below. The following descriptions define various depletion terms:

A. Cost Depletion

Depletion computed on the units of production method and limited to the taxpayer's basis in the property. The cost depletion formula is:

$$\frac{\text{(Adjusted basis of mineral interest at end of period)}}{} \times \frac{\text{(Units sold during the year)}}{\text{(Units remaining at end of period + units sold during the period)}}$$

B. Percentage Depletion (sometimes called Statutory Depletion)

Depletion computed on a predetermined statutory percentage (currently 15%) of gross income according to the I.R.C. § 613A. The depletion allowance is subject to the 100% of net income limitation of the property and the 65% of taxable income limitation of § 613A(d). Treasury Reg. § 1.613-5 addresses the calculation of "net income" from the property for purposes of the 100% limitation. In addition, I.R.C. § 613A(d)(5) excludes amounts received as a lease bonus from eligibility for percentage depletion.

C. Tentative Depletion

The greater of cost or percentage depletion on a property by property basis after the application of the per barrel limitation of I.R.C. § 613A(c) but before the 65% of taxable income limitation of I.R.C. § 613A(d).

D. Allowable Depletion (sometimes referred to as sustained or tax depletion)

The greater of percentage depletion after the application of the 65% of taxable income limitation of I.R.C. § 613A(d) or cost depletion. The amount of depletion deductible on the face of the tax return. The amount serves to reduce the taxpayer's basis in the mineral interest to zero. The deduction is not limited to the basis in the mineral interest.

E. Percentage Depletion on Marginal Production

OBRA '90 increased the percentage depletion rate for qualifying interests in marginal oil and gas wells provided the reference price is less than $20 per barrel. Marginal production includes crude oil and natural gas produced from a domestic stripper well property and heavy oil from a domestic property. A stripper well property is any oil and gas producing property that produces a daily average of 15 barrels (6 MCF of gas = 1 barrel of oil) or less per well. Heavy oil is oil with a weighted average gravity of 20 degrees API or less, corrected to 60 degrees Fahrenheit.

The 100% taxable income limit for the deduction for percentage depletion on marginal properties is temporarily suspended for years after 1997 and before 2000. (TRA 1997)

Depletion Rates for Marginal Production have been as follows:

1992 - 18%
1993 - 19%
1994 - 20%
1995 - 21%
1996 - 20%
1997 - 16%
1998 - 17%

F. Example

Depletion Schedule
Operating Interests

Lease Name	Gross Income	Severance Tax	LOE	Depreciation	*Allocated Overhead	Net Income Before Depletion	Percentage Depletion (15%)	Cost Depletion	Allowable Depletion
Smith	2,000.00	141.70	250.00	100.00	277.77	1,230.53	300.00	250.00	300.00
Jones	4,000.00	283.40	450.00	125.00	555.56	2,586.04	600.00	700.00	700.00
Russell	10,000.00	708.50	650.00	300.00	1,388.89	6,952.61	1,500.00	1,100.00	1,500.00
Johnson	20,000.00	1,417.00	1,500.00	450.00	2,777.78	13,855.22	3,000.00	4,000.00	4,000.00
Totals	36,000.00	2,550.60	2,850.00	975.00	5,000.00	24,624.40	5,400.00	6,050.00	6,500.00

Overhead Expenses	
Rent	2,500.00
Legal & Professional	350.00
Supplies	250.00
Utilities	1,500.00
Insurance	100.00
Auto	300.00
Total	5,000.00

* Overhead allocated = (Total Overhead ÷ Total Gross Income) x (Gross Income from Property)

III. Tax Credits

A. Nonconventional Fuel Credit (I.R.C. § 29)

This non-refundable income tax credit of $3 per barrel of oil equivalent is available for sales of qualified fuels. The intent of the credit is to give producers of alternative fuels some protection against significant decreases in the average well head price with which alternative fuels typically compete. Thus, the credit is based on the qualified fuels barrel-of-oil equivalence, and phases out as the average wellhead price of domestic oil rises from $23.50 to $29.50, adjusted for inflation. This credit is limited to regular tax reduced by other tax credits. It may not be carried forward or back to another year if unused. However, if the allowable credit is limited because of alternative minimum tax, the unused portion may increase the carry forward of credit for prior year's minimum tax as provided by I.R.C. § 53(d). Qualified fuels generally include oil produced from shale and tar sands; gas produced from geopressurized brine, Devonian shale, coal seams, or a tight formation, or biomass; and liquid, gaseous, or solid synthetic fuels produced from coal (including lignite), including such fuels when used as feedstocks. The $3 per barrel amount is adjusted for inflation each calendar year with one exception. In the case of gas from a tight formation the $3 amount is not adjusted. The adjusted per barrel credit amount was $5.76 in 1994, $5.83 in 1995, $5.95 in 1996 and $6.10 in 1997. The preceding calendar year's inflation adjustment is required to be published not later than April 1 of each calendar year. Both operating and non operating interest owners may claim this credit.

B. Enhanced Oil Recovery Credit (EORC) (I.R.C. § 43)

Section 43 currently provides a 15% tax credit for certain costs paid or incurred in a qualified enhanced oil recovery project. Only taxpayers owning an "operating interest" in the project may claim the credit. Any deduction allowable for costs taken into account in computing the credit is reduced by the amount of the credit attributable to such credit. This credit is a component of the general business credit and as such may be carried back three years and carried forward 15 years.

IV. Intangible Drilling Costs (IDC)

The major portion of the costs incurred in drilling an oil and gas well do not result in the acquisition of tangible property having a salvage value. These expenditures are classified as intangible drilling costs. The Code requires the Treasury to issue regulations to grant taxpayers the option of deducting as ordinary and necessary business expenses the IDC for oil, gas, or geothermal wells. Under Reg. § 1.612-4(a), only owners of operating interests may take advantage of this option if such owners actually bear such costs. When a taxpayer deducts such expenses on his or her return he or she is deemed to have made the election. This is a once in a lifetime election and is effective for all subsequent years with regards to a specific property, as it is a property by property election. With respect to "prepaid IDC," certain conditions must be met before deducting such payments if the drilling activity does not commence until a subsequent tax year. A taxpayer may generally deduct only the IDC applicable to the taxpayer's working interest revenue share during the full pay out period; any excess must be treated as additional lease acquisition rent. Partnerships and special allocation provisions are often used to avoid this capitalization.

Return Applications

I. Informational Return - Form 1099 MISC

A. Royalties & Net Profits Interest (Non-operating interests)

1. Criteria:

Every person who receives royalties (or similar amounts, including amounts from net profits interest) aggregating $10 or more during any calendar year should receive an information return.

2. Forms:

Form 1099-Misc, Statement for Recipients of Miscellaneous Income, is used to report the required information and the gross aggregate amount of payments before deduction of withheld tax. Royalty payments should be recorded in box number 2 marked "Royalties." Net profits interest are often reported in the Royalties box.

3. Federal Income Tax Return Reporting

a. Schedule E Reporting

Generally, all income reported on Forms 1099 MISC Box 2 with respect to non operating oil and gas interests held directly by individual taxpayers should be reported in Part I of Schedule E (Form 1040). (In cases where an Individual also holds a significant number of operating interest and actively conducts a trade or business in the oil and gas industry, there is some justification for reporting non operating interest income on Schedule C, however, the income would then be subject to self-employment tax. See the discussion below for the treatment of operating interest income.)

b. Computation of Depletion

The recipient of income from oil and gas non operating interests should generally record a deduction for depletion computed under either the cost depletion method or the percentage depletion method. Note that only certain producers and only certain production quantities qualify for percentage depletion deductions. Also, percentage depletion is subject to several computed limitations. I.R.C. § 613A should be consulted to determine if the taxpayer is eligible for percentage depletion deductions. The computed depletion deduction should be reported on Line 20 of Schedule E.

c. Passive Income (Loss) Rules

Oil and gas royalties and net profits interests will generally constitute portfolio income unless the trade or business exception applies.

d. Self Employment Taxes

Generally, income or losses arising with respect to non operating interests are not considered for purposes of computing self employment taxes.

B. Operating Interests And Other Payments

1. Criteria:

Any Individual who holds an oil and gas operating interest and who receives, in a calendar year, $600 or more from the sale of oil and gas reserves from a single payor with respect to that interest should receive a Form 1099 from each such payor. Also, Individuals who receive, in a calendar year, $600 or more from payments of Delay Rentals, Lease Bonuses, Damages or Shut-Ins should receive a Form 1099 from each such payor.

2. Forms:

The required information is to be reported on Form 1099-MISC. The aggregate gross amount of payments before deduction of withheld tax to each recipient must be reported. The proper box on Form 1099 in which to record payments depends on the type of payment being made. Reporting of the oil and gas payments discussed in this section should be reported in box number 7 labeled "Nonemployee Compensation." However, Delay Rental payments may be recorded in box number 1 labeled "Rents."

3. Federal Income Tax Return Reporting

a. Schedule C & E Reporting

Generally, all income reported on Forms 1099 with respect to operating oil and gas interests held directly by individual taxpayers should be reported on Schedule C (Form 1040), with gross income and withheld expense amounts reported in the appropriate lines on the form.

The proper place to report receipts for Lease Bonus, Delay Rentals, Shut-Ins and/or Damages generally depends on the Individual's particular situation. In general terms, if the Individual actively conducts a trade or business in the oil and gas industry, these payments should be reported on Schedule C. Alternatively, Schedule E reporting would most likely be appropriate (except for Damages) in cases where the individual is not an active participant in the oil and gas industry. Damages should be reported in the same manner that other non oil and gas income from the surface rights would be reported (e.g., ordinary income, capital gain or non-taxable reduction of basis depending on the nature of the damage payment).

b. Computation of Depletion

The recipient of income from oil and gas operating interests generally should record a deduction for cost or percentage depletion. See the discussion under non operating interests for additional information. The computed amount should be reported on line 12, Part II of Schedule C.

c. Self Employment Taxes

Generally, income or loss reported with respect to an oil and gas operating interest directly held by an individual is considered self-employment income or loss and should be included in the computation of self employment taxes on Schedule SE (Form 1040). Taxpayers have argued against this presumption in the courts with limited results.

d. Passive Income (Loss) Rules

The passive income (loss) rules provide that income or loss arising from oil and gas operating interests held directly by individual taxpayers generally should not be treated as income or loss from passive activities.

C. Filing Dates:

Form 1099 copies to Individuals by January 31 of the following year.

Form 1096 and 1099 with the IRS by February 28 of the following year. State requirements vary.

II. Pass-Through Entities K-1s

A. Tax Only Partnerships

The large majority of oil and gas wells are drilled and operated in joint venture arrangements. Some of these joint ventures elect not to file partnership tax returns but others report income or losses for Federal income tax purposes as partnerships. Some of the partnerships are actual legal entities and some of the partnerships are "tax only" partnerships. "Tax only" partnerships are partnerships recognized for income tax purposes only and have no legal status as a separate entity. Hereinafter, legal and "tax only" partnerships will not be distinguished for purposes of this discussion. Various states now allow formation of limited liability companies which may qualify as a partnership for tax purposes.

B. Reporting of Income and Losses from Pass-Through Entities

Income or losses arising from oil and gas properties held by pass-through entities are recorded in returns filed with the IRS. The entity should supply each owner/beneficiary a schedule K-1 which reports his or her share of the total entity income or losses. Federal Income Tax Return Reporting is as follows:

1. Schedule E Reporting

Royalty income is reported on page 1 of Schedule E. Other items are reported on the Schedule E, page 2. The K-1 reports the necessary information to allow each owner/beneficiary to compute its' own allowable depletion. IDC's are passed through to allow each partner to make his or her own decision as to expensing options. Credit amounts are also passed through to be reported on each owner/beneficiary's return.

2. Passive Income (Loss) Rules

Royalty income constitutes portfolio income. General partners and members of LLCs must meet material participation standards to obtain active status. In general, other oil and gas items will be deemed to be passive.

3. Self Employment Taxes

General partners and active members of LLCs are subject to self-employment income on operating interests.

III. Tax Credits

A. Nonconventional Fuels Credit (I.R.C. § 29)

There is not an IRS form to be used to compute the section 29 credit. For individuals, there is not a separate line on Form 1040 to report the credit. According to the form 1040 instructions, the amount of the credit and "FNS" should be entered on the dotted line next to Line 45. The amount should be combined with the amounts on Lines 41 through 44 to arrive at total credits entered on Line 45.

B. Enhanced Oil Recovery Credit

This credit is entered on Form 3800.

IV. Alternative Minimum Tax (AMT) Preferences

The Comprehensive National Energy Policy Act of 1992 repealed the minimum tax preferences for depletion and IDCs of independent oil and gas producers and royalty owners for taxable years beginning after 1992. The repeal of the IDC preference may not, however, result in the reduction of the amount of the taxpayer's alternative minimum taxable income by more than 40% of the amount that the taxpayer's alternative minimum taxable income would have been had the IDC preference not been repealed. Therefore, a computation of "excess IDC" and any resulting tax preference under prior law is required in many cases. AMTI will need to be computed both with the IDC preference and without the IDC preference to determine if the taxpayer can benefit from the relief of the preference.

Excess IDCs were the excess of the taxpayer's regular tax deduction for such costs over the amount that would have been allowable for the taxable year, if such costs had been capitalized and amortized over a period of 120 months from the month in which production from the well commenced or, if the taxpayer so elected, over the period that could be used to determine cost depletion.

Intangible costs in drilling a non productive well were not included as IDCs. The Committee Reports state that a well is non-productive if it is plugged and abandoned without having produced oil and gas in commercial quantities for any substantial period of time.

The AMT preference amount was defined as the amount by which "excess IDC" paid or incurred during the taxable year exceeded 65% of the taxpayer's net income from oil, gas, and geothermal properties for the taxable year.

The net income from oil, gas, and geothermal properties for the taxable year was the excess of the aggregate amount of gross income (as determined for percentage depletion) from such properties over the amount of any deductions allocable to such properties reduced by the "excess intangible drilling costs." The deductions attributable to properties with no gross income are not taken into account.

Under I.R.C. § 59(e), a taxpayer may make a "normative election" to deduct IDCs ratably over a 60-month period beginning with the month in which the IDC was paid or incurred. If the taxpayer makes an election under section 59(e), no preference amount results from IDCs subject to the election. The election may be made for any portion of the IDC expenditure. For example, a taxpayer who incurs $100,000 of intangible drilling costs with respect to a single property may elect normative treatment for any dollar component of the expenditures. No other deduction is allowed for the item to the extent such an election applies. The election may be revoked only with the consent of the Secretary. In the case of a partnership or an S corporation, an election shall be made separately by any partner or shareholder with respect to such individual's allocable share of any expenditures.

IRS EXAMINATION GUIDE

This document is primarily intended for use in Office and Field Income Tax Examinations. Although portions may be applicable, this is not specifically intended for use in examinations of partnerships subject to §§ 6221 - 6233 Consolidated Audit Procedures. Additionally, this should not be construed to be a substitute for professional judgment or serve as a "strategy" guide.

The titles of Revenue Agent and Tax Auditor apply to distinguish IRS personnel as do the terms "audit" and "examination" to differentiate the scope and objective of what may best be considered a law enforcement "procedure." In this document, the term “agent” and “examination” will be used throughout as common terms that may apply to both types of personnel and classes of "procedure."

IRS EXAMINATION GUIDE

Client Name and Number: ______________________________

Prepared by: ____________ Date: ________ Reviewed by: ____________ Date: ________

	DONE	N/A	COMMENTS OR EXPLANATION
100) PRE-EXAMINATION ADMINISTRATION			
101) Determine from client communication or verbal contact the scope of the IRS representative's work which will be one of the following:			
.1) Compliance Check. The procedures will be limited to inspection of forms filed and inquiry related to information return filing(s). Since this does not include the examination of the taxpayer's books and records, the remainder of this guide will, generally, be inapplicable. Be aware of the point at which a compliance check becomes an audit or examination. See forthcoming IRS publication titled *"Compliance Check, Audit or Examination"* for particulars.	____	____	________
.2) Audit. (Generally, this will encompass review of issues or verification of return items that have been determined before assignment to a tax auditor in an office audit.) Since the scope of an office audit is normally restricted, items generally not inherent to an office audit are subsequently distinguished as field examination items in this Guide.	____	____	________
.3) Examination.	____	____	________
102) If you prepared or were associated with the return being examined:			
.1) Consider whether an independent review by someone not originally associated with the return preparation or review should be performed.	____	____	________
.2) Locate evidence of having provided a copy of the return to the client. This may be requested by the agent.	____	____	________
103) Locate or obtain copies of the following, if you do not already have them:			
.1) A copy of the return for the year being examined, including amended returns.	____	____	________
.2) A copy of the workpapers used to prepare the return.	____	____	________
.3) A copy of the returns, including amended returns, for the year preceding and following the year being examined.	____	____	________

	DONE	N/A	COMMENTS OR EXPLANATION
104) Review the return for the year being audited, including subsequent amended return(s), workpapers, and source documents provided to prepare the return, and determine if there are any errors.	____	____	__________
105) Consider reviewing the same information for the year preceding and following the return being audited to determine:			
.1) Whether there are errors related to those return years.	____	____	__________
.2) Whether there are carryover related errors that may affect other returns.	____	____	__________
106) Review correspondence in your files to determine whether there have been subsequent discoveries of errors or factual information omissions, changes, or corrections.	____	____	__________
107) In the event an error(s) is found, quantify the "net" potential:			
.1) Tax effect.	____	____	__________
.2) Client penalty and interest.	____	____	__________
.3) Preparer penalty amount.	____	____	__________
108) In conjunction with Item 107, determine whether it is in the firm's and the client's best interest to represent the client in this matter.	____	____	__________
109) In conjunction with Item 108, if you will continue representing the client, obtain client agreement as to how errors should be dealt with and a written conflict of interest waiver.	____	____	__________
110) Determine, if possible at this point, if there are any industry or tax issues to be raised for which you do not possess adequate experience or expertise. If so:			
.1) Determine whether needed research can be done "in house."	____	____	__________
.2) Consider retaining another practitioner with the requisite capability to assist you.	____	____	__________
.3) Consider withdrawing from the engagement.	____	____	__________

	DONE	N/A	COMMENTS OR EXPLANATION
111) Determine whether an original Form 2848, Power of Attorney, for the year being examined and the year preceding and following, has been filed with the IRS Service Center POA Unit where the return was originally filed and the Revenue Agent assigned to the examination.	____	____	____________
112) Retain at least one copy of the power of attorney with original signatures.	____	____	____________
113) Consider obtaining and holding, until needed, Powers of Attorney for the same tax periods for the following:			
.1) Payroll and excise tax returns, if any, required to be filed or that have been filed by the taxpayer.	____	____	____________
.2) Gift Tax Return, Form 709.	____	____	____________
114) For field examinations only, consider obtaining and holding, until needed, Powers of Attorney for the same tax periods for the following:			
.1) Each taxpayer that would be deemed to be a related party or affiliated group member with respect to the taxpayer being audited.	____	____	____________
.2) Each officer and officer stockholder listed on Form 1120 or 1120S Schedule E, if the taxpayer being audited is a corporation.	____	____	____________
.3) Each managing partner or member if the taxpayer being audited is a partnership or limited liability company.	____	____	____________
.4) Each partnership or corporation in which the taxpayer has more than a 10% interest.	____	____	____________
115) Determine whether documents exist that are subject to privilege of confidentiality, and consider appropriate treatment. (IRS 1998)	____	____	____________
200) PRE-EXAMINATION PLANNING AND ORGANIZATION			
201) Consider confirming, through an engagement letter, the role you will play in the examination, i.e.:			
.1) As the primary taxpayer representative in the examination.	____	____	____________

	DONE	N/A	COMMENTS OR EXPLANATION
.2) As "backup" and technical support with primary responsibility for representation belonging to another party such as the taxpayer, an employee of the taxpayer, or another, such as their attorney.	____	____	________
202) For an office audit, the identification of documentation will be related to predetermined issues and, in some cases, has been specifically identified by the tax auditor. In examinations where that has not been ascertained, determine location, availability and condition of, and be prepared to provide upon request the following client documents:			
.1) Bank statements for the year being examined and the year preceding and following including deposit slips, cancelled checks, copies of cashier checks, withdrawal advices, and wire transfers. This should be obtained for all taxpayer accounts including checking, savings, money market or other investment accounts, and accounts for which the taxpayer has a line of credit.	____	____	________
.2) General ledger, if any, including all ancillary journals, chart of accounts, and year end adjusting journal entries.	____	____	________
.3) For a field examination, consider providing the following:			
.a) Workpapers (or tax grouping sheets) used to prepare the return that reconcile the line items on the return to the financial statements and trial balance.	____	____	________
.b) A reconciliation of book and tax income.	____	____	________
.c) A reconciliation of Schedule M-1 "income per books" to financial statement income, if different.	____	____	________
.d) Adjusting entries prepared by independent accountants.	____	____	________
.e) Schedule of year end accruals.	____	____	________
.f) Schedule of "other current assets" and "other current liabilities."	____	____	________
.g) Depreciation schedule.	____	____	________
.h) Calculation of ending inventory, including § 263A calculations.	____	____	________
.i) Record retention agreement for computerized records with the IRS.	____	____	________

		DONE	N/A	COMMENTS OR EXPLANATION
	.j) A description of the system of internal controls.			
.4)	Documentation related to the following income or deduction items:			
	.a) Taxes and licenses.			
	.b) Legal and professional.			
	.c) Charitable contributions.			
	.d) Mortgage and other interest deductions.			
	.e) Business travel.			
	.f) Meals and entertainment.			
	.g) IRA or employee benefit plan contributions.			
	.h) Barter transactions.			
	.i) Foreign sourced income.			
	.j) For an individual taxpayer, provide support for exemptions claimed.			
	.k) Sales contracts, receipts or other documentation for the purchase or sale of business or personal property during the year.			
	.l) Purchases of materials and supplies included in cost of sales.			
	.m) Purchase invoices, receipts, and shipping documents related to the regular purchase and sale of merchandise or services in the normal course of business.			
	.n) All types of sales and promotional discounts.			
	.o) Copies of sales tax returns filed by the taxpayer for the year being audited.			
	.p) Copies of excise tax returns filed by the taxpayer for the year being audited.			
	.q) Insurance policies in effect during the year which may include health, life, accident, general liability, workers compensation, and auto and property coverage.			

	DONE	N/A	COMMENTS OR EXPLANATION
.r) Lease agreements in force during the period under examination.	_____	_____	_____________
.s) Payroll journal and copies of federal and state payroll tax returns, including Form 940 and state and local equivalent unemployment tax returns, for all quarters of the year being audited and the quarter preceding and following the year being audited, if applicable, and documentation of associated tax payments.	_____	_____	_____________
.t) Copies of loan documents for loans outstanding during the year.	_____	_____	_____________
.u) For a corporation or limited liability company, documentation related to each officer, shareholder, or member for the following:			
(i) Accounts receivable.	_____	_____	_____________
(ii) Loans.	_____	_____	_____________
(iii) Compensation accrued and paid.	_____	_____	_____________
.v) Logs or other documentation to support business use of listed property.	_____	_____	_____________
.w) Determination of bad debts including proof of collection process (e.g. collection demands by attorney or collection agency).	_____	_____	_____________
.x) Repairs and maintenance.	_____	_____	_____________
.5) Copies of state and local tax returns for the year being audited and documentation of associated tax payments.	_____	_____	_____________
.6) Copies of Forms 1096 and 1099 filed for the year being audited.	_____	_____	_____________
.a) Determine whether these agree to related records.	_____	_____	_____________
.b) Determine whether independent contractor agreements exist and, if so, consider obtaining copies.	_____	_____	_____________
.c) Proof that payments were timely made.	_____	_____	_____________
.7) Copies of Forms W-3 and W-2 filed for the year being audited.	_____	_____	_____________
.a) Determine whether these agree to related records.	_____	_____	_____________

	DONE	N/A	COMMENTS OR EXPLANATION
.8) If qualified employee benefit plans exist, obtain:			
.a) Copies of series 5500 forms filed for the year being audited.	____	____	____________
.b) The determination letter for each qualified plan.	____	____	____________
.c) Proof that payments were timely made.	____	____	____________
.9) Forms 8300 provided or received for cash transactions of $10,000 or more.	____	____	____________
.10) Copies of financial statements, including client prepared forms submitted to bank or other creditor.	____	____	____________
.11) If applicable, copies of loan amortization schedules or other information that details and supports the amounts claimed as interest.	____	____	____________
.12) Copies of minutes for a corporation or limited liability company (if required by law or the limited liability company's regulations).	____	____	____________
.13) With respect to a field examination of a business entity, consider preparation of background information for the agent that provides:			
.a) Current ownership.	____	____	____________
.b) Changes in ownership within the last five years.	____	____	____________
.c) Reorganizations and acquisitions within the last five years.	____	____	____________
.d) Organizational chart.	____	____	____________
.e) Results of prior examinations (including copies of prior audit reports).	____	____	____________
.f) For S corporation - schedules of shareholder basis and AAA.	____	____	____________
.14) Consider the application of taxpayer protections related to trade secrets, computer software and source code. (IRS 1998)	____	____	____________
203) If the records listed under Item 202 had not previously been reviewed in connection with preparing the tax return, consider scanning or reviewing to determine that there are no inconsistencies in the return.	____	____	____________

	DONE	N/A	COMMENTS OR EXPLANATION
204) If any of the aforementioned are not available or usable, determine what can be done to restore or recreate the original documents in either "paper" or electronic form.	____	____	________
.1) If microfilm records are provided, see Rev. Proc. 81-46, 1981-2 C.B. 40 for form and content.	____	____	________
.2) If computer records are provided, and the taxpayer has assets of $10,000,000 or more, see Rev. Proc. 91-59 for form and content.	____	____	________
.3) Determine a firm deadline for when the records can be produced.	____	____	________
205) Should the client be unable to recreate or obtain copies of the missing documents:			
.1) Consider providing approximations through secondary sources and/or collateral evidence under Internal Revenue Manual (IRM) 4244 and Policy Statement P-4-39.	____	____	________
.2) Consider offering oral statements and affidavits under IRM 403(25).	____	____	________
.3) Determine a firm deadline for when the substitute can be produced.	____	____	________
206) Determine if the client has been notified of summons being served on any third party. (IRS 1998) If so:			
.1) Determine if legal counsel has been retained.	____	____	________
.2) If legal counsel has not been retained inform the client of its entitlement to a motion to quash and discuss retention of counsel.	____	____	________
207) If you had not previously spoken with the examining agent, contact him or her to determine:			
.1) If this is a specialized audit under the following:			
.a) For individuals - "financial status" type audits.	____	____	________
.b) For all taxpayers -			
(i) International Enforcement Program	____	____	________
(ii) Industry Specialization Program	____	____	________

	DONE	N/A	COMMENTS OR EXPLANATION
(iii) Non-filer Program	____	____	________
(iv) Return Preparer Program	____	____	________
(v) Classification Settlement Program	____	____	________
.c) For corporate taxpayers only - Coordinated Examination Program.	____	____	________
.2) If determined to be a specialized audit, consider reviewing relevant portions of the Internal Revenue Manual and, if applicable, Market Segment Specialization Program (MSSP) and Industry Specialization Program (ISP) papers and handbooks which are listed at XIV-11.	____	____	________
.3) If determined to be a "financial status" audit, discuss with client the retention of legal counsel and ongoing representation. (IRS 1998)	____	____	________
.4) The reason this return was selected for examination.	____	____	________
.5) Issues or particular concerns the agent is aware of at this time. (If unreported income or any other potential for civil fraud or criminal investigation is raised, discuss with client the retention of legal counsel and ongoing representation.)	____	____	________
.6) An appropriate start and completion date for the examination.	____	____	________
.7) That information or documents they wish to inspect at the initial meeting is specified through Form 4564, Information Document Request (IDR) or other written form.	____	____	________
208) Determine what will be the best location to conduct the audit. If:			
.1) An office audit - this should either be the IRS office closest to the taxpayer or its representative.	____	____	________
.2) A field examination - the determination should be based on location of the underlying records and documentation and whether the potential for disruption to the client's business warrants operating out of your office. Generally, this should be done at the CPA's office.	____	____	________

	DONE	N/A	COMMENTS OR EXPLANATION
209) Determine if the same issues were examined in either of the two years preceding the audit year with no changes or small tax changes reported. If so, discuss with the agent the potential for suspending the audit on the basis of a "repetitive examination" under IRM 4241 policies or "confining" the scope of the examination to new or different issues from those that have previously been audited. Note: the repetitive examination exception does not apply to a business return or an individual return with a Schedule C or F, scanning of returns in an office audit without questions being asked by the tax auditor, or a compliance check.			
210) Consider applying for repetitive examination treatment where the auditor has surveyed or examined a return of the same taxpayer for any of the three preceding tax periods unless there was an intervening survey or examination by another auditor.			
211) If you have missing or unusable records, consider disclosing that information and an alternative timetable, if necessary, in accordance with what you determined under Item 203 or 204.			

300) DURING THE AUDIT

	DONE	N/A	COMMENTS OR EXPLANATION
301) For field examinations, establish the following with the agent at the initial meeting:			
.1) If you do not personally know the agent, ask for identification to verify that he/she is not a "special agent."			
.2) A place where he/she may work.			
.3) Set hours in which he/she will have access to the office and any other relevant items such as parking and transportation and areas that are off-limits, etc.			
.4) Identify the primary contact person that the agent will deal with. If possible, a secondary contact with client familiarity should be designated.			
.5) Reconfirm the timetable for the audit.			
.6) Agree to information and document requests being made in writing on Form 4564, Information Document Request, with mutually agreeable deadlines for production of information that will conform with the prior timetable.			

	DONE	N/A	COMMENTS OR EXPLANATION
302) Consider requesting that the agent save information requests and questions until they have completed the review of information you provided (unless the issue or information is so significant that it impedes further work by the agent).	____	____	________
303) Maintain a chronological log or other record of all records, files, and workpapers provided to the agent. Consider having agent provide written indication for receipt of documents.	____	____	________
304) Obtain a copy of items the agent photocopies. In the case of a field examination, consider designating a copy person through whom the agent may make his/her copy requests. (You should continue to review and approve these copies prior to their release.)	____	____	________
305) Consider discussing the manner in which the agent would prefer the records and information be organized. (At a minimum, all records agreed to be provided should be assembled in good order and available at the agreed upon time.)	____	____	________
306) If the agent has requested a personal interview, determine the reason that the agent feels this is justified. (Under the Taxpayer Bill of Rights, taxpayers are not required to appear for an interview unless a summons has been issued.)	____	____	________
.1) Consider whether you can provide (or obtain) any information required without the need for the agent's personal interview with the taxpayer and so inform the agent.	____	____	________
.2) Consider if justification for the interview warrants retention of legal counsel.	____	____	________
.3) If an interview is to be held, request that it be conducted prior to the start of the audit.	____	____	________
.4) Review with the client questions to expect and appropriate responses.	____	____	________
.5) Consider recording the interview. Notice under § 7521(a)(1) should be given the IRS agent.	____	____	________
307) Based on previous agreement with the client, consider disclosing to the agent significant and/or obvious errors present in the return.	____	____	________

	DONE	N/A	COMMENTS OR EXPLANATION
308) Consider a case transfer:			
.1) Based upon the agent having a conflict of interest with the taxpayer (see IRM 4015.3(2)).			
.2) Due to location of taxpayer's current residence.			
.3) Due to the location of the taxpayer's current principal place of business.			
.4) Due to the location of the taxpayer's books, records and source documents.			
.5) Due to the location where the IRS can perform the examination most efficiently.			
.6) Due to other factors which indicate that conducting an examination at a particular location could pose an undue inconvenience to the taxpayer.			
309) If a summons is issued during the examination, consider retaining legal counsel on behalf of yourself and recommending that the client retain legal counsel.			
310) In order that there be a mutual understanding, request that proposed adjustments be provided in writing and that the agent explain them to you by:			
.1) Showing the relevant factual information.			
.2) Providing the mechanical calculations.			
.3) Citing or stating the technical authority or basis for the position.			
311) Quantify the tax, penalty, and interest associated with:			
.1) Issues on which the agent is correct and to which you agree.			
.2) "Non-interpretive" issues that benefit the taxpayer.			
.3) "Interpretive" issues on which the IRS and taxpayer may disagree.			

	DONE	N/A	COMMENTS OR EXPLANATION
312) If there has been a protracted amount of time between contacts by the agent:			
.1) Determine whether the case has been suspended under IRM 4559.11 by the National Office pursuant to pending litigation on a relevant issue.	____	____	____
.2) Determine if the agent might have referred the case for possible criminal investigation.	____	____	____
313) If the case has been suspended, consider whether you should concede the issue and file a claim for refund.	____	____	____
314) Evaluate the potential for settling the controversial or interpretive issues and costs to pursue.	____	____	____
315) Consider the effect that tolling statutes of limitation may have with respect to the audit.	____	____	____
316) If the agent requests that a series 872 Form, Consent to Extend the Time to Assess Tax, be given, evaluate the consequences of not consenting.	____	____	____
317) Evaluate the effect of taxpayer concessions on subsequent tax years.	____	____	____
318) Discuss the proposed adjustments and examination results with the client and obtain agreement and approval for settlement of issues and amount.	____	____	____
319) Request a follow-up meeting with the agent to provide a response to the proposed adjustments.	____	____	____
320) Consider if it is in the client's best interest to provide the agent with a written response to support your position(s).	____	____	____
321) If discussions with the agent are not productive with respect to reasonable positions, consider requesting a meeting with the agent and his/her group manager to resolve the issues at the examination level.	____	____	____
322) Request that a draft of the Revenue Agent's Report (RAR) be provided to confirm that the issues are consistent with prior discussions and agreement.	____	____	____
323) If discrepancies exist with the RAR, bring them to the attention of the agent prior to his/her submission for review, preferably, in writing.	____	____	____
400) WRAP UP AND CONCLUSION			
401) Review the "issued" Revenue Agent's Report for accuracy and consistency.	____	____	____

402) Consider whether Form 870, Waiver of Restrictions on the Assessment and Collection of Deficiency in Tax and Acceptance of Overassessment, should be executed:

.1) For all adjustments, or ____ ____ __________

.2) For some of the adjustments. ____ ____ __________

403) Consider preparing a memorandum outlining issues, associated outcome, recommendations to be made to the client, and summation of the results of the audit. ____ ____ __________

404) Review the RAR and recommended actions related to Form 870 with the client. ____ ____ __________

405) If changes are proposed with which the taxpayer disagrees, consider communicating alternative courses of action, associated costs, and probability of success to the client. ____ ____ __________

406) If changes should be implemented by the client as a result of the examination, consider communicating recommended actions. ____ ____ __________

COMMENTS OR EXPLANATIONS

NOTES

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Income Tax Division
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Montgomery, AL 36132-7410
(334) 242-1000
E-mail: henningen@alalinc.net
www.ador.state.al.us/

Alaska
Department of Revenue
State Office Building
P.O. Box 110420
Juneau, AK 99811-0420
(907) 465-2320
www.revenue.state.ak.us

Arizona
Department of Revenue
Attention: Forms
1600 West Monroe Street
Phoenix, AZ 85007-2650
(602) 542-4260

Arkansas
Department of Finance and Administration
Revenue Division
P.O. Box 3628
Little Rock, AR 72203-3628
(501) 682-1100
www.state.ar.us/revenue/rev1.html

California
Franchise Tax Board
Tax Forms Request
P.O. Box 942840
Sacramento, CA 94240-0070
(800) 852-5711
www.ftb.ca.gov

Colorado
Colorado Department of Revenue
1375 Sherman Street
Denver, CO 80261
(303) 232-2416
www.state.co.us

Connecticut
Department of Revenue Services
25 Sigourney Street
Hartford, CT 06106
(860) 297-4900
www.state.ct.us/drs

Delaware
Department of Finance
Division of Revenue
Delaware State Building
820 N. French Street
Wilmington, DE 19801
(302) 577-3300
www.state.de.us/govern/agencies/revenue/revenue.htm

Florida
Department of Revenue
Supply Department
168-A Blounstown Highway
Tallahassee, FL 32304
(805) 488-8422

Georgia
Georgia Income Tax Unit
Department of Revenue
P.O. Box 30334
Atlanta, GA 30334
(404) 656-4293 *or* -4071*or* -4674
www.state.ga.us/Departments/DOR

Hawaii
First Taxation District
P.O. Box 259
Honolulu, HI 96809
(800) 222-3229
www. hawaii.gov/icsd/tax/tax.htm

Idaho
Idaho State Tax Commission
P.O. Box 36
Boise, ID 83722
(208) 334-7660
www.state.id.us/tax/taxforms.html - Forms only
www.state.id.us/index.html - State Home Page

Illinois
Illinois Department of Revenue
101 W. Jefferson
Springfield, IL 62794
(800) 356-6302 or (217) 782-3336
www.revenue.state.il.us

Indiana
Indiana Department of Revenue
Taxpayer Services Division
Indiana Government Center, North
100 N. Senate Avenue
Indianapolis, IN 46204
(317) 232-2240
www.ai.org/dor

Iowa
Iowa Department of Revenue and Finance
Hoover State Office Building
P.O. Box 10457
Des Moines, IA 50306
(515) 281-3114
E-mail: iadrf@iadrt.e-mail.com
www.state.ia.us/government/drf/index.html

Kansas
Department of Revenue
Division of Taxation
Taxpayer Assistance Bureau
P.O. Box 12001
Topeka, KS 66612-2001
(785) 296-4937
www.ink.org/public/kdor

Kentucky
Revenue Cabinet
Property and Mail Service
200 Fair Oaks Lane
Building 2
Frankfort, KY 40602
(502) 564-3658
www.state.ky.us/agencies/revenue/revhome.htm

Louisiana
Department of Revenue
P.O. Box 201
Baton Rouge, LA 70821
(504) 925-7532
www.rev.state.la.us

Maine
Maine Revenue Service
Income Tax Division
State Office Building
Station 24
Augusta, ME 04332
(207) 626-8475
www.state.me.us/revenue

Maryland
Comptroller of the Treasury
Revenue Administration
110 Carroll Street
Annapolis, MD 21411
(410) 260-7980 ***or*** 800-MDTAXES
www.comp.state.md.us

Massachusetts
Massachusetts Department of Revenue
Customer Service Bureau
P.O. Box 7010
Boston, MA 02204
(617) 887-6367
www.magnet.state.ma.us/dor/dorpg.htm

Michigan
Michigan Department of the Treasury
Revenue Administrative Services
The Treasury Building
430 W. Allegan Street
Lansing, MI 48922
(800) 367-6263 or (517) 373-3200

Minnesota
Minnesota Department of Revenue
Mail Station 4450
St. Paul, MN 55146-4450
(800) 652-9094 or (612) 296-3781
www.taxes.state.mn.us

Mississippi
Mississippi State Tax Commission
Print Shop
1577 Spring Ridge Road
Raymond, MS 39154
(601)923-7880

Missouri
Missouri Department of Revenue
P.O. Box 3022
Jefferson City, MO 65105-3022
(800) 877-6881 or (573) 751-5337
www.state.mo.us/dor/tax

Montana
Montana Department of Revenue
Income Tax Division
P.O. Box 5805
Helena, MT 59604
(406) 444-2837
www.mt.gov/revenue/rev.htm

Nebraska
Nebraska Department of Revenue
Box 94818
Lincoln, NE 68509-4818
(800) 742-7474/Jo Voelker or (402) 471-2971
www.nol.org/revenue

Nevada
State of Nevada
Department of Taxation
Capitol Complex
Carson City, NV 89710-0003
(702) 687-4892

New Hampshire
Department of Revenue Administration
State of New Hampshire
61 South Spring Street
Concord, NH 03301
(603) 271-2191
www.state.nh.us/

New Jersey
NJ Division of Taxation
P.O. Box 269
Trenton, NJ 08646-0269
(609) 292-7613
www.state.nj.us/treasury/taxation/

New Mexico
Taxation and Revenue Department
Revenue Division
P.O. Box 630
Santa Fe, NM 87504-0630
(505) 827-0700
www.state.nm.us/tax

New York City

YC Department of Finance
Bureau of Tax Collection
25 Elm Place
Brooklyn, NY 11201
(718) 935-6739 or 6000 -- Tax Fax (718) 935-6114
www.ci.nyc.ny.us

New York State
Department of Taxation and Finance
Taxpayer Services Division
W. Averell Harriman Campus
Building 9, Room 104
Albany, NY 12227
(800) 462-8100
www.tax.state.ny.us

North Carolina
NC Department of Revenue
P.O. Box 25000
501 N. Wilmington Street
Raleigh, NC 27640
(919) 733-4684
www.dor.state.nc.us/dor/

North Dakota
Office of State Tax Commissioner
State Capitol
600 East Boulevard Avenue
Bismark, ND 58505-0599
(701) 328-3017

Ohio
Department of Taxation
Income Tax Division
P.O. Box 2476
Columbus, OH 43216-2476
(614) 433-7750
www.state.oh.us/tax/

Oklahoma
Oklahoma Tax Commission
Income Tax Division
2501 Lincoln Boulevard
Oklahoma City, OK 73194
(405) 521-3108

Oregon
Oregon Department of Revenue
955 Center Street, N.E.
Salem, OR 97310
(503) 378-4988
www.dor.state.or.us.

Pennsylvania
Commonwealth of Pennsylvania
Department of Revenue
Strawberry Square, 11th Floor
Harrisburg, PA 17128-1100
(717) 787-8201
1-888-PATAXES - Fact & Information Line (automated)
1-800-362-2050 - 24-Hour Tax Form Ordering
www.revenue.state.pa.us

Rhode Island
Rhode Island Division of Taxation
1 Capitol Hill
Providence, RI 02908-5800
(401) 222-3934
www.tax.state.ri.us

South Carolina
South Carolina Tax Commission
Individual Income Tax Division
P.O. Box 125
Columbia, SC 29214
(803) 898-5000
www.dor.state.sc.us

South Dakota
South Dakota Department of Revenue
445 E. Capitol Drive
Pierre, SD 57501-3185
(605) 773-5141
www.state.sd.us/state/executive/revenue/revenue.html

Tennessee
Department of Revenue
Andrew Jackson State Office Building
500 Deaderick Street
3rd Floor
Nashville, TN 37242
(615) 741-2594
www.state.tn.us/revenue

Texas
Comptroller of Public Accountants
State of Texas
111 West 6th
Starr Building
Austin, TX 78701
(512) 463-4600
www.window.state.tx.us

Utah
Utah State Tax Commission
210 North 1950 West
Salt Lake City, UT 84134
(801) 297-2200
www.tax.ex.state.ut.us

Vermont
Vermont Department of Taxes
109 State Street
Montpelier, VT 05609
(802) 828-2515

Virginia
Department of Taxation
Taxpayers Assistance
P.O. Box 1880
Richmond, VA 23282-1880
Attn: Forms Division
(804) 367-8031
www.state.va.us/tax/tax.html

Washington
Department of Revenue
P.O. Box 47478
Olympia, WA 98504-7450
(360) 786-6100
(360) 753-5574 - Director's Office
(800) 647-7706 - Taxpayer Info
www.ga.gov/dor/wador.htm

Washington, DC
Government of District of Columbia
Department of Finance and Revenue
441c Forth Street, NW
550N
Washington, DC 20001
(202) 727-6170

West Virginia
West Virginia Department of Tax & Revenue
Taxpayer Services Division
P.O. Box 3784
Charleston, WV 25337-3784
(304) 558-2051
www.wvweb.com/taxrev

Wisconsin
Wisconsin Department of Revenue
Shipping and Mailing Section
P.O. Box 8908
Madison, WI 53708-8908
(608) 266-1961
www.dor.state.wi.us

Wyoming
The State of Wyoming
Revenue Department
Herschler Building
122 West 25th
Cheyenne, WY 82002
(307) 777-5200
www.state.wy.us

Puerto Rico
Commonwealth of Puerto Rico
Department of the Treasury
Internal Revenue Collections Area
Bureau of Income Tax
P.O. Box 2501
San Juan, PR 00902-2501
(787) 721-2020

1998 GUIDES BY STATE AND LOCAL TAXATION COMMITTEE

CONTENTS

STATE AND LOCAL TAX PRACTICE GUIDES

Introduction

This guide should provide tax practitioners with information they should be aware of and consider when preparing individual and corporation state tax returns. The laws and policies of each state should be verified for application to specific cases. It is not authoritative and should not be relied upon for a specific taxpayer. Practitioners need to research issues identified in this checklist.

Acknowledgements

The State and Local Tax Practice Guides and Checklists were developed by the following members of the State and Local Taxation Committee of the Tax Division of the American Institute of Certified Public Accountants:

State and Local Taxation Committee (1997-98)

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Mary Dally, South Dakota Society of CPAs State Tax Committee Chair
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We hope this publication is informative. If you have any comments or additional items or suggestions for next year's state tax return preparation guide/checklist, please fax your comments to Eileen Sherr at 202-638-4512, or send an e-mail message to Esherr@AICPA.org.

UNIQUE STATE BY STATE CONSIDERATIONS FOR STATE

CORPORATION TAX RETURNS

Table of Contents

UNIQUE STATE BY STATE CONSIDERATIONS FOR STATE

CORPORATION TAX RETURNS

ALABAMA

1. Alabama allows a federal income tax deduction for regular tax; however, federal AMT tax is not deductible.

2. For corporate apportionment purposes, the sales factor includes the gross proceeds from the sale of fixed assets, rather than the gain/loss on the sale of fixed assets.

3. For foreign franchise tax purposes, **short-term** debt between brother - sister corporations is excludable from the franchise tax base; however, all long-term debt is includable in the base.

4. Alabama does not impose a limit on the amount of capital loss claimed during any particular year.

ALASKA

1. Multi-state corporations apportion income to Alaska under a "water's edge" apportionment method which is based on domestic operations. Oil and gas corporations apportion income based on worldwide operations.

2. Corporations with oil & gas activities are required to file an Oil & Gas return rather than the standard income tax return.

3. Subchapter S Corporations doing business in Alaska are required to file a return with their federal 1120S attached.

4. The starting point for computing Alaska taxable income for a member of a federal consolidated group is federal taxable income on the consolidated return. Adjustments are then made to arrive at taxable income of the unitary group.

ARIZONA

1. Taxpayers confuse the full combination method of filing with filing a consolidated return. If filing a consolidated return make sure to make a proper election.

2. If reducing taxable income by income not subject to AZ tax, make sure to add back or properly compute expenses related to this nontaxable income.

3. If using state tax credits to reduce AZ tax actually due, accrual basis taxpayers must reduce the deduction claimed for AZ taxes paid.

4. If allocating income to other states, exclude the related property from the apportionment factor.

ARKANSAS

1. Corporations filing a consolidated return must complete a separate AR1100CT and Schedule A, if applicable, for each member with gross income from sources within Arkansas and consolidate the applicable taxable income on a Consolidated Group AR1100CT and attach a copy of the federal return. Each member's Arkansas Business and Incentive Tax Credit may be combined to reduce the consolidated group's total tax liability without separate entity restrictions except for the Arkansas Economic Development Credit.

2. Determine whether the corporation qualifies for any of Arkansas' 12 tax credits.

3. For 1997 and forward, dividends are excluded from Arkansas taxable income if a least 80% of the subsidiary's capital stock is owned by a corporation doing business within Arkansas. Prior law required a 95% ownership test.

UNIQUE STATE BY STATE CONSIDERATIONS FOR STATE
CORPORATION TAX RETURNS

CALIFORNIA

1. Members of a combined unitary group must compute credits and apply the credit carryovers on a separate company basis.

2. Gain or loss on intercompany sales of business fixed assets or capitalized intercompany charges and expenditures between members of a combined group will not be recognized as long as both the seller and the purchaser remain in the combined group and the asset is not sold to outsiders.

3. Intercompany sales and other intercompany revenue items are eliminated in computing the numerator and denominator of the sales factor. Intercompany rent charges are also eliminated from the property factor computation.

4. The immunity provided by Public Law 86-272 is expressly limited to interstate commerce and will not be applied to foreign commerce. Accordingly, analysis for nexus purposes on sales made to foreign jurisdictions should not be established under the parameters of Public Law 86-272.

5. California does not conform to the provisions of Internal Revenue Code Sec. 957. A state adjustment is necessary to eliminate the Subpart F deemed dividend income and to include the actual dividend distributions in income when paid.

6. R&T Section 24344 provides a method for assigning interest expense between apportionable and allocable income.

7. Corporations that are subject to the California franchise tax must include in gross income all interest received from federal obligations. In addition, interest income from state, municipal, or other bonds must also be included in gross income for franchise tax purposes.

8. The State Board of Equalization has held that the Michigan SBT is deductible by all corporations.

9. A combined report is mandatory if two corporations are unitary and the unitary group does business within and without California.

COLORADO

1. Apportionment options: Colorado provides both the MTC three factor or a statutory two factor apportionment method (which eliminates payroll). The election is made on an annual basis.

2. Business v. nonbusiness: Under the two factor statutory apportionment method, all income is considered business.

3. NOLs carried forward can only be offset by income apportioned in the same apportionment method as the method utilized when the NOL was created (i.e., 2 factor NOLs can be used against 2 factor income, etc.)

4. There is no throwback for sales factor purposes under the statutory two factor apportionment method.

5. Definition of members who can be included in a combined report: Required three of six statutory unitary tests for the current tax year and the two prior years.

UNIQUE STATE BY STATE CONSIDERATIONS FOR STATE

CORPORATION TAX RETURNS

CONNECTICUT

1. Connecticut's taxable capital base includes the FAS109 deferred tax liability and other "surplus reserves". It is reduced by stock holdings, including treasury stock.
2. Connecticut's property apportionment fraction is measured by average monthly net book value of total tangible property held.
3. The first corporate estimate is due 3/15 (not 4/15) for calendar year corporations.
4. Prior year overpayments may not be applied to estimates until the date that the prior year return is filed.
5. Safe harbor amount for corporate estimates is 100% of prior year income in 1998 and thereafter.
6. There is no annualization safe harbor for estimates for 1988 tax year but will be allowed for tax years beginning in 1999.
7. S corporations--corporate income tax is being phased out 1997-2000. For 1997, 90% of net income is taxed, 75% in 1998, 55% in 1999 and 30% in 2000. Net income will not be taxed beginning in 2001. The capital base tax will remain as is through 2000 and will be repealed, effective for tax years beginning in 2001.
8. Dividends received deduction must be reduced by "related expenses".
9. The first $25,000 of combined return tax savings is added to tax.
10. Numerous tax credits are available.
11. Corporations that derive income not primarily from manufacture, sale or use of tangible personal property can apportion using single (gross receipts) factor.
12. The Commissioner has very broad "Sec. 482-type" powers.
13. S Corporations must file two income tax returns, both due the 15th day of the fourth month following year-end—Forms CT1120S and CT-1120SI

DELAWARE

1. If the corporation is incorporated in Delaware but does not conduct business in Delaware, it is not required to file a Delaware income tax return.
2. Delaware Intangible Holding Company (DIHC) qualifications are outlined in Tit. 30, §1902(b).
3. If a taxpayer has nexus for gross receipts tax, then it will have nexus for income tax.
4. The property factor in the apportionment formula includes beginning of the year rent expense (prior year's capitalized rent expense).
5. The payroll factor in the apportionment formula excludes officer compensation.
6. The receipts factor in the apportionment formula excludes allocable receipts.
7. Allocable income includes rent income, gains/losses from real and depreciable property, and expenses directly associated with the income.
8. Delaware does not allow a deduction for interest paid to affiliated companies.
9. Delaware taxable income is federal taxable income after NOLs.
10. Delaware S corporations are required to withhold and remit income taxes on behalf of all nonresident shareholders at the highest Delaware individual income tax rate.
11. Delaware S corporations are required to complete Sch. A-1 for every resident and nonresident shareholder. Federal Sch. K-1 is not acceptable.
12. C corporations claiming a net operating loss must carry back/forward the federal NOL amount. Delaware has no provision for allowing the carry back/forward of a calculated Delaware NOL.

CORPORATION TAX RETURNS

DISTRICT OF COLUMBIA

1. Although S Corporations are treated the same as C Corporations for DC franchise tax purposes, S Corporations are not allowed a net operating loss deduction (NOLD) on its DC Form D20.

2. A corporation that files as part of a federal consolidated return is only allowed a NOLD if it claims a NOLD on its actual federal return for the same tax tax year.

FLORIDA

1. Emergency Excise Tax Errors: computing the tax on non-ACRS property and failing to claim a credit for tax paid in prior years.

2. Passive income should not be treated as non-business income.

3. There is only one NOL for Florida purposes (i.e., do not calculate a separate NOL for regular and AMT purposes).

4. Certain amounts should not be subtracted from federal taxable income unless specified by statute (i.e., federal research expenditures added back on the federal return).

5. Include apportionment factors from partnerships, even if they are not controlled by the taxpayer.

6. Being exempt under Public Law 86-272 does not necessarily exempt a company from filing a Florida Intangible tax return

7. Intangibles tax return is reported as of January 1st and is due June 30. There is a sliding scale of discount (4% to 1%) if return is filed before June 1. There is a minimum total penalty of 40% if return is filed after June 30th and additional penalties and interest based on further delay in filing.

8. Florida has a business tangible personal property tax return that is due April 1.

9. Corporations operating in Florida must file a profit corporate report and pay a filing fee by May 1.

GEORGIA

1. Initial net worth tax return must be filed for the first year of incorporation even if a short year.

2. Georgia taxpayer must add back state taxes that are measured by net income.

3. Consent to file a consolidated Georgia tax return must be requested annually unless the group's income is 100% Georgia source income, whereby the group must file a consolidated return with Georgia.

4. Replacement property must be located in Georgia for tax free treatment to apply in an exchange or replacement situation.

5. Georgia has several tax credits available to companies doing business in the state, including flow through entities.

6. If taxpayer makes quarterly estimated payments of $10,000. or more to Georgia, payments should be made via electronic funds transfer.

7. If taxpayer is a party to state contracts, it may subtract 10% of qualified payments to minority subcontractors on state construction projects or $100,000, whichever is less, per year.

8. All nonresident stockholders of a Georgia S-Corp must execute a consent agreement whereby they agree to pay Georgia income tax on their share of the S-Corp income. This requirement may be eliminated by the S-Corp filing a composite Georgia return. Attach copy of each Form 600S-CA to Form 600S.

9. Distributions from Georgia S-Corps & Partnerships to nonresidents are subject to withholding requirements, with certain exceptions.

10. Georgia doesn't have a throwback rule for domestic corporations.

UNIQUE STATE BY STATE CONSIDERATIONS FOR STATE
CORPORATION TAX RETURNS

HAWAII

1. A combined return vs. a consolidated return should be filed if any subsidiaries within group are not incorporated in HI.

2. The three factor formula is to be used in apportioning business income to Hawaii. If the taxpayer feels that the specific allocation rules do not fairly reflect its activity in Hawaii, then a petition for a different method, including separate accounting is to be filed with the Director of Taxation.

3. If client does business in Hawaii, verify filing of Hawaii general excise and use tax returns.

IDAHO

1. Corporations are required to add back state and local income taxes deduction to federal income to arrive at Idaho income.

2. Net Operating Loss deduction claimed on the federal return must be added back to arrive at Idaho income.

3. Any dividends received deduction claimed on the federal return must be added back to arrive at Idaho income.

4. There is a deduction for donation of technology equipment.

5. $10 per corporation is charged for the permanent building fund tax.

6. A tax is reported and paid on the corporate return for Idaho compensation of non-resident officers and directors that is not reported to Idaho, if the apportionment factor is 50% or greater.

7. There are credits available for contributions to educational entities and to youth and rehabilitation facilities.

ILLINOIS

1. Certain credits (e.g., ITC, R&D, Training expense credit, etc.) that are often missed are available to taxpayers.

2. Adjustments to the tax base (e.g., foreign dividends, FSC adjustments, etc.) are often missed.

3. Incorrect throwback and numerator computation under Joyce rules. (Note that if the legislature overrides the governor's veto of the bill in the Fall of 1997, for future years the throwback issue may become moot since the proposed law does not have throwback but does use 100% sales apportionment).

4. Taxpayers should be aware of 80/20 exclusions (particularly FSCs and CFCs).

5. If the taxpayer is electing to forgo the Illinois NOL carryback period, check box (a) net to line 1 of Part IV.

7. All taxpayers are allowed a partial credit against the Illinois income tax for Illinois replacement tax paid. Review calculation carefully.

INDIANA

1. Gross receipts used in computing state gross income tax should reconcile to gross receipts on the federal return.

2. Bad debt expense and returns/allowances are overlooked as deductions in computing state gross income tax.

3. Determine whether the tax credit for contributions to Indiana colleges/universities is available.

IOWA

1. Iowa allows a corporation to deduct 50% of federal taxes paid or accrued. Review calculation of federal tax for a single return filed in Iowa by a member of a consolidated group.

2. Add back Iowa tax expense on the other additions schedule.

3. Review the definition of non-business income because it is often miscalculated (as it is a very limited concept).

4. The election regarding items in the business activity ratio is binding and must be followed consistently.

5. Separately calculate a separate basis net operating loss while the corporation is doing business in Iowa.

6. Only members of an affiliated group which have Iowa nexus are allowed to be included in an Iowa consolidated return.

7. Income from intangible assets, if considered business income, is required to be included in the calculation of the business activity ratio (i.e., the single-factor apportionment formula).

8. Iowa does not require throwback of sales which are shipped from Iowa to states where a corporate taxpayer is not taxable.

9. Under Iowa's rules, sales of other than tangible personal property are sourced to where the benefit of those services is derived, rather than where the costs to perform the services are incurred.

10. Iowa's research and development credit is refundable.

11. According to regulations, Iowa nexus can be created based solely upon the presence of intangible assets within the state.

KANSAS

1. If two or more corporations file federal income tax returns on a consolidated basis, and if each of such corporations derive all of their income and expenses from sources within Kansas, they must file a consolidated return for Kansas income tax purposes.

2. Any taxpayer having income from business activity taxable both within and without Kansas, shall allocate and apportion net income by the single entity apportionment method. The business income is apportioned by multiplying the business income by a fraction, the numerator of which is the property factor plus the payroll factor plus the sales factor, and the denominator of which is three.

3. The property factor consists of an average of the original cost of owned real and tangible personal property used in the business and the net annual rents for property multiplied by 8.

4. State and municipal interest is an add back to federal taxable income on line 2 of Form K-120. The portion that is non-taxable to Kansas should be deducted on line 9.

5. Other additions to federal taxable income include business expense deductions claimed on your federal return for making your business accessible to the disabled for which a Kansas tax credit is available and for charitable contributions claimed that are used as the basis for computing Kansas community service contribution credit.

6. A Kansas net operating loss carryforward schedule should be attached to keep track of loss years.

7. Taxpayers should make themselves aware of the different kinds of nonrefundable credits available.

8. Other income (losses) and deductions that are added to federal ordinary income from federal Schedule K should not include items that would affect the itemized deductions of the shareholders.

9. Corporations with nonresident shareholders and with income derived from sources within and without Kansas are to complete Part I, page 2 of Form K-120S or provide a substitute schedule for the allocation. If all income is from Kansas then this part does not need completed.

10. There is a box in Part II, page 2 to check if the shareholder is a nonresident. Since modifications for nonresident income are included in the allocation from Part I, no further modification to Subchapter S income is needed on the Kansas individual income tax return.

11. See instructions for the nonrefundable credits available that flow through to the shareholder and are not shown on the Form K-120S.

12. Have you completed Part III and Part IV of the Kansas tax return showing the following items:
    - Taxes deducted on the Federal return?
    - Interest income included on the Federal Return?

KENTUCKY

1. S corporations must apportion 100% of income to KY if 100% of tangible personal business property and 100% of payroll is in KY. Payroll is not considered to be outside of KY if the activity of the employee does not exceed the threshold of P.L. 86-272.

2. For entities that may apportion income outside of KY, the standard apportionment methodology does not contain a throwback rule.

3. When apportioning income to nonresident owners of pass-through entities, a single factor gross receipts formula is used instead of the standard three factor apportionment method.

4. Consolidated income tax reporting must be affirmatively elected and is binding for a 96 month period. The election is available for tax years ending on or after 12/31/95. For periods prior to this date, it may be possible to assert that unitary reporting more clearly reflects income than separate reporting. Generally, separate entity reporting is required for license tax purposes. However, certain corporations (holding companies domiciled in Kentucky) may elect to file a consolidated license tax return, This is an annual election and is made separately from the election for consolidated income tax reporting. These corporations (holding companies domiciled in Kentucky) may also use separate entity reporting for license purposes and reduce the license tax base by its book value of investments in any corporation in which it owns more than 50% of the corporation's outstanding stock.

5. Generally, the same method used to apportion total income to Kentucky should be used to apportion the total license tax base to Kentucky. Debt incurred to purchase inventory may be excludable from the license tax base if strict documentation requirement are satisfied. Certain liabilities, such as deferred tax liabilities, may be excludable from the license tax base to the extent they can be netted against a corresponding asset such as deferred tax asset. The number of such liabilities that may be excluded is limited.

6. There is no prior year safe harbor with respect to C corporation estimated tax payments. At least 70% of current year income tax must be paid as estimated tax payments for every corporation whose income exceeds $5,000. The due dates are the 15th of the 6th, 9th, & 12th months of the corporate year with 50% of the total estimated tax due on the 15th day of the 6th month of the corporate year.

LOUISIANA

1. LLCs are not subject to Louisiana franchise tax.

2. There is no business/non-business distinction in Louisiana. Allocable income is defined in the law.

3. Ownership of a partnership interest, limited or general, or LLC interest, will subject a corporation to Louisiana franchise tax.

4. Double-weighted sales factor for manufacturing businesses for franchise tax years beginning 1/1/97, which is reported on the income tax return beginning 1/1/96. Double-weighted sales factor for manufacturing businesses for income tax years beginning 1/1/97.

5. IRC §311(b) gain added back if deferred for federal purposes under IRC §1502.

6. Certain Industrial Revenue Bonds should not be included in the franchise tax base, for years ending before 1/1/97.

7. Revenue from a partnership means the partner's share of net income of the partnership, not the partner's share of gross receipts from the partnership for franchise tax revenue factor purposes.

8. All debt from an affiliate is included in the franchise tax base, regardless of its length outstanding, unless the debt is the result of normal trading accounts.

9. No federal income tax deduction allowed if no Louisiana income tax paid in the current year, for instance, if the corporation has a Louisiana net operating loss.

10. When a corporation has deferred tax assets and deferred tax liabilities, the net is included in the franchise tax base.

MAINE

1. Maine has updated its conformity to the Internal Revenue Code.

2. Maine follows the Joyce rule (i.e., sales into jurisdictions where a taxpayer is not subject to tax, but where a unitary member is subject to tax, are thrown back to Maine) for purposes of calculating the sales factor.

3. The statutory requirement to add back to taxable income research expenses included in the basis for the Research Expense Tax Credit has been repealed.

MARYLAND

1. Consider the statutory modification in net operating loss years, and carryback and carryforward years.
2. Consider sourcing of gross business for financial institutions franchise tax.
3. Consider the new regulations regarding sourcing of receipts for banks under the corporate income tax.
4. Consider the apportionment and sourcing of receipts under the market sourcing rule for service businesses and the two-factor (receipts and property) for rental and leasing businesses.
5. Consider sourcing of interest, capital gains, and other income from intangibles.
6. The administrative position is to follow the federal due date for short period returns.
7. Consider the electronic funds transfer (EFT) payment requirements.
8. Maryland does not have a separate NOL provision. However, Maryland's starting point for determining Maryland taxable income is federal taxable income after NOL and special deductions (i.e., line 30). However, line 1 of the Maryland return may not be less than zero except to report an NOL incurred in the current year.

MASSACHUSETTS

1. For tax years beginning before January 1, 1999, there is no dividends received deduction allowed for financial institutions.
2. The Massachusetts sales factor for manufacturing corporations is currently 70% of the apportionment percentage, but will increase by 10% each year until the single sales factor is fully phased in (after January 1, 2000).
3. In the context of a combined return, NOL carry forwards may only be used by the company that generated the losses. Loss carryover is allowed for all corporations; however, they may only offset the income of the corporation sustaining the loss. They may not use the carryover loss to offset the income of other members of the group.
4. Continuing research credit, calculated on Schedule RC, must be added back as income on Schedule E.
5. The Perini case extended the deduction for investment in subsidiaries to include 80% owned foreign corporations. This deduction is available in calculating the Net Worth Tax of a foreign intangibles company (Form 355B, Sched. D, Line 4). However, in determining whether a company is classified as tangible or intangible, only investment in foreign corporations that are not doing business in Massachusetts are counted. (Form 355B, Sched. B, line 11)
6. MA recognizes the flow through of S-corps but requires the filing and paying of the property measure of the tax and at least the minimum excise of $456.00 for S-corps doing business in MA. S-corps with gross receipts over $6 million must pay a tax at the corporate level on income earned by the S-corp. In addition, the income flows through and is taxed at the individual level. S-corps with receipts over $6 million pay a tax of 3% and S-corps with receipts over $9 million pay a tax of 4.5% of taxable income.
7. MA has passed into law a single factor formula (sale only) for defense contractors so electing, manufacturing companies as defined in statute (phased in over the next 4 years), and certain mutual fund companies.
8. Two or more members of a corporate group filing a consolidated return may file a combined MA return. All members that are taxable in MA must participate. Each member separately apportions their income then all members are combined thereafter.
9. MA has taken the position that corporations are taxable where their only connection with MA is the ownership and use of intangibles in the state.
10. MA throwback rules are based on where the property is sold from. Called the "sales office origination" test the effect is that a sale is a MA sale if sold to a customer in a state where the taxpayer is not subject to tax and the sale was made from an office owned or rented by the taxpayer in MA. This throwback rule is very different from most states who generally use a "shipped from" test.
11. The tax is based on two measures; a property measure and an income measure. The property measure is $2.60 per $1,000.00 of net worth or tangible property in state, whichever is applicable. The income measure is equal to 9.5% of the MA taxable income. The total of the two measures equals the tax. The tax will be equal or exceed the minimum of $456.00.

MICHIGAN

1. Written authorization is required before filing on a consolidated basis. See RAB 89-49 for requirements that must be met before Department will grant permission.

2. Taxpayer must determine whether an entity is a financial or non-financial organization based on nature of entity, assets, or gross receipts (see §208.10(4) for definition). Non-financial organizations include the following in gross receipts: sales, gross rents, and other income. Financial organizations include the following in gross receipts: sales, dividends, interest, gross rents, and other income.

3. Business income is based on taxable income as computed under IRC in effect as of January 1, 1987.

4. Salaries, wages, and other payments to employees must be computed on the cash basis, i.e., Form 941.

5. Pension, retirement, and profit sharing plans include employer portion of 401(k) contributions.

6. Depreciation and other write-off of tangible assets does not include software which is not a tangible asset for Michigan purposes.

7. Non-financial organizations subtract interest income from the tax base and include interest expense as an add-back to the tax base.

8. Income and losses from partnerships or other pass-through entities are excluded from the SBT, as these entities are subject to tax on a separate entity basis.

9. Failure to take the compensation or gross receipts adjustments to the tax base.

10. Nexus standards differ significantly in Michigan, P.L. 86-272 does not apply. See Michigan Revenue Administrative Bulletin 1998-1, February 24, 1998.

MINNESOTA

1. Adjustments are required for ACRS/MACRS depreciation for property placed in service before 1988.

2. Contributions to charitable organizations that do not perform substantially all of their activities in Minnesota are not deductible.

3. Contribution carryovers are not allowed.

4. Minnesota capital loss deduction may be different than federal amount.

MISSISSIPPI

1. When making adjustments as instructed to in the Mississippi income tax returns to back-out any gains and/or losses from the Federal schedule D of from Form 4797, a taxpayer needs to be sure to use the Mississippi Forms 83-135, 83-140 and/or 83-145 to add Mississippi's share back to Mississippi taxable income or loss.

2. An LLC will report it's income to Mississippi in the same manner as it does for Federal.

3. If a corporation or other entity sales the stock of a Mississippi domestic corporation or interest in a Mississippi LLC, LLP or limited partnership that it has held for a year or more then any gain from the sale is exempt from Mississippi income tax.

4. Construction contracts, oil and gas production, and other natural resources except timber must be accounted for by using separate accounting.

5. Franchise Tax- For tax returns for tax years ending on or after 1/1/99, the Mississippi gross receipts for franchise taxes will be the same as that used in the receipts or sales ratio as contained in the apportionment formula used to apportion the income tax. This will effect each multistate manufacturing company filing in Mississippi. If the apportionment formula for income tax does not contain a receipts of sales ratio then the method will remain as before.

6. Ownership of a partnership interest, limited or general, or LLC interest, will subject a corporation to Mississippi franchise tax.

7. If a LLC files as a corporation for federal purposes then it will be subject to Mississippi franchise tax. If a single member LLC is treated as being liquidated into its parent for income taxes then the LLC will not be subject to Mississippi franchise taxes.

UNIQUE STATE BY STATE CONSIDERATIONS FOR STATE
CORPORATION TAX RETURNS

MISSOURI

1. Missouri allows a C corporation to deduct 1/3 of federal tax (amount from Federal tax return).

2. Missouri C corporation rules generally follow federal taxation. However, the beginning amount on the Missouri return (federa taxable income) cannot be less than $0.

3. Missouri law provides a credit for the creation of certain new jobs within an enterprise zone.

4. Missouri allows a deduction for the same net operating losses as is allowed under federal rules for C corporations, apportioned to represent losses sustained in Missouri in the business of the corporation.

5. To file a Missouri consolidated return for a C corporation, the corporation must be part of a consolidated federal return and derive 50% or more of its income (for the first consolidated Missouri return) from sources within Missouri. (The Dept. of revenue has been known to challenge the filing of a consolidated return in future years if the percentage falls below 50%. However, technically a taxpayer cannot change without approval of the Department.)

6. Withholding is required for non-resident S corporation shareholders.

7. Corporations entitled to apportion their income that do not file a consolidated return may annually elect to use the single factor formula or the three factor Multistate Tax Compact formula to determine its Missouri taxable income.

MONTANA

1. Capital losses are deductible as incurred without being subject to the federal limitation.

2. A financial institution may not use a reserve method in computing its deduction for loan losses; it must use the specific charge-off method.

3. If desired, the waters' edge election is due within the first 90 days of the taxable year for which the election is to be effective.

4. In the event of a merger of corporations, the net operating loss carryovers of both the target and the survivor are lost.

5. Montana does <u>not</u> exempt from taxation interest earned from investments in state, municipal and federal government obligations.

6. Prior to 1997, financial institutions were not allowed to join in the filing of a consolidated Montana corporate license tax return. However, beginning in 1997, this provision is repealed resulting in the ability to include banks and thrifts in consolidated Montana returns.

NEBRASKA

1. Nebraska recently passed a statute repealing the throwback rules in connection with corporations doing business in states other than Nebraska where the corporation does not have nexus. Sales in these non-nexus states are no longer "thrown back" into the numerator of the Nebraska apportionment factor.

2. Determine whether the taxpayer qualifies for the Nebraska incentive credits under LB 270. In general, if a business adds two full time employees and fixed assets of $75,000, the business may qualify for incentive credits of $1,500 per employee and $1,000 per $75,000 of investment. The credits are reported on Form 3800N.

3. Determine whether the taxpayer qualifies for the Nebraska incentive credits under LB 775. In general, a qualifying business must file an application and invest $3,000,000 in qualifying assets and hire at least 30 employees over a seven year period.

4. Consider claiming fuel tax credits and community development act credits.

5. Be aware that Nebraska net operating losses only carry forward -- they cannot be carried back.

6. If there are no non-Nebraska shareholders for an S Corp, the Form 1120SN does not need to be filed with the Nebraska Dept. of Revenue. Thus, only the federal return needs to be filed in that instance.

7. Withholding is required for an S Corp if there is no Form 12N received by the corporation from a nonresident shareholder.

8. In doing the calculation of investment credit on Form 3800N for companies that are renting real estate properties rather that owning them, rent expense is capitalized by taking the rent expense paid in the last month of the year times 12 (to arrive at the annualized years' rent expense) and then multiply that amount by 8 (to arrive at the capitalized amount).

9. If a company has filed the Form 3800N to claim investment and/or employment credits in prior years, the form also needs to be filed the next two years because part of the tax will be subject to recapture if investment and employment levels are not maintained.

NEVADA

1. Nevada does not impose a corporate income tax.

NEW HAMPSHIRE

1. The Business Enterprise tax is assessed on .25% (.0025) of the taxable enterprise value tax base, which is the sum of all compensation paid or accrued, interest paid or accrued, and dividends paid by the business enterprise after special adjustments and apportionment.
2. The business profits tax is imposed at 7% of taxable business profits of every business organization.

3. A credit is available for Business Enterprise Taxes paid.

4. NOLs are apportioned for each year they are used, effectively decreasing the NOL by a function of the apportionment percentage each year.

5. No deduction is available for NOLs incurred before January 1, 1989.

6. Foreign corporations doing business in New Hampshire are required to pay an annual franchise tax of $300. Domestic corporations pay this tax based on the amount of authorized capital stock.

NEW JERSEY

1. Consider the proper filing and completion of Schedule N for foreign corporations seeking immunity from income taxation pursuant to PL 86-272.

2. Consider making an election to be treated as a New Jersey S Corporation.

3. Consider reporting changes or corrections made by the IRS to taxable income within ninety days.

4. Consider the incorrect calculation of net operating loss carryovers for corporations entitled to dividend exclusions.

5. Consider the incorrect utilization of net operating loss carryovers of corporations merged out of existence.

6. See revised N.J.A.C. 18:7-8.10 for rules regarding sourcing receipts from services.

NEW MEXICO

1. Consider the correct filing method (e.g., taxpayers often select federal consolidated for ease of filing, without realizing this is a permanent election or that they may file under a different method).

2. Consider whether income is business or nonbusiness, and therefore apportionable or allocable (New Mexico's form is confusing in this matter and leads to mistakes).

3. Consider the subtraction of expenses from allocated income.

4. Overnight repurchase accounts should not be treated as income from U.S. obligations.

5. Review NOL limitations as both the New Mexico form and the regulations are confusing.

NEW YORK

1. New York State and City ("NYS/C") have specific rules for corporations that calculate expenses disallowed as attributable to investment and subsidiary capital. Both interest and non-interest expenses may be disallowed using a direct or indirect approach. While the direct approach may be more difficult to determine, it may result in NYS/C corporate tax savings.

2. Where two corporations have more than 80% common ownership and are unitary, it will be presumed that they should file on a combined basis for NYS/C corporate tax purposes where the corporations have substantial (greater than 50%) intercorporate transactions.

3. Consider special NOL rules: (1) NYS/C NOLs cannot exceed federal NOLs. (2) A non-combined filer computes NOLs on a hypothetical separate company federal basis. (3) NOLs originating after 6/30/89 can only be carried forward.

4. There are limitations on different categories of income and capital in NYS/C. By statute, pre-apportionment investment income cannot exceed pre-apportionment entire net income. In practice, the same rule has been extended to apply to any category of income, as well as any category of capital (e.g., pre-apportionment business capital is limited to pre-apportionment entire capital).

NORTH CAROLINA

1. Corporations are eligible for a tax credit for investing in business machinery and equipment placed in service in NC after 8/1/96.

2. NC does not have a throwback rule for multistate corporations.

3. The franchise tax calculation base for "Capital Stock, Surplus and Undivided Profits" allows a deduction for tax accumulated depreciation in excess of book depreciation.

4. NC does not allow NOL carrybacks. It allows a five year carryforward for "NC net economic losses."

NORTH DAKOTA

1. A deduction calculated on Schedule E is allowed for federal taxes.

2. Tax credits are allowed for contributions to nonprofit private colleges and high schools.

3. An exemption is available for new and expanding businesses from the State Board of Equalization.

4. Various tax credits are allowed and are computed on Schedule TC.

5. North Dakota income tax statutes did not allow for the use of ACRS depreciation on assets placed in service between January 1, 1981 and the end of the 1982 tax year. These assets must be depreciated using methods allowed under the Internal Revenue Code provisions in effect as of December 31, 1980. Income must be adjusted for the difference in these two methods.

UNIQUE STATE BY STATE CONSIDERATIONS FOR STATE

CORPORATION TAX RETURNS

OHIO

1. There is no designation of business v. non business income in determining taxable income. The determination as to whether income is to be apportioned v. allocated is based upon the income classification.

2. The apportionment formula utilized to compute the net worth tax is based on a business "done" and property factor, which are both different than the net income apportionment factors. Business Done includes items treated as allocable for income tax purposes and the property factor is based upon total assets as reported on the GAAP balance sheet of the taxpayer. Different situsing rules exist for each of these factors.

3. In computing the net worth tax, certain assets are considered exempted including appreciation and goodwill as recorded on the balance sheet. Mark to Market adjustments are considered as appreciation. Any net depreciation in any specific asset does not necessarily require net reduction in the appreciation adjustment. Appreciation is not defined, and has been the subject of many issues over the last several years.

4. There are no estimated payments required in Ohio. Tax is remitted first by January 31st, March 31st and May 31st. Extended return is due either on May 31st or one month past the extended federal return due date. There is no short period return in Ohio.

5. Combined returns can be filed for just the net income tax. Any member included in the combined return must have income tax nexus with the state, must timely elect to be included in the return, must be considered to be part of a related group with 50% common control and ownership, and will be difficult to break the combined filing without significant changes in the factual situation.

6. Adjustments to the net income tax base may be required in cases where royalty, interest and other intangible expenses are deducted on a taxpayer's Ohio return when the payor is not incurring a tax liability for the corresponding income.

7. Net foreign source income is deducted from the net income tax base to the extent of 85%. Expenses must be attributed to the foreign income in order to compute the net deduction.

8. When a taxpayer is reorganizing its group of affiliates an adjustment to the net income tax may be required to the extent income is earned within the tax year prior to the reorganization by a corporation no longer considered to be conducting business operations on Jan. 1st of the tax year.

OKLAHOMA

1. The three factor formula is applied to each corporation in a consolidated group, not on a consolidated basis.

2. The State tax is deductible in computing state taxable income.

3. There is no 65% limitation for Oklahoma oil and gas depletion deduction as there is for federal purposes.

4. The Oklahoma depletion rate is 22% and major oil companies are limited to 50% of taxable income from an oil and gas property.

5. An officer's compensation is backed out in determining the payroll factor in Oklahoma.

OREGON

1. Consider the unitary versus separate filing issues, including the treatment of passive holding companies in the unitary group (the state has been reluctant to allow inclusion).

2. Complete both methods of calculating the Oregon R&E credit. The alternative method may result in higher credit.

3. Complete both methods of calculating the Oregon R&E credit even when the taxpayer is in an NOL position because a carryover provision exists.

4. Review how Oregon defines receipts for apportionment purposes and how it specifically addresses the throwback rule.

5. An out of state company may also be required to file the Portland/Multnomah County Business License Return.

UNIQUE STATE BY STATE CONSIDERATIONS FOR STATE

CORPORATION TAX RETURNS

PENNSYLVANIA

1. Determine whether the most advantageous apportionment method is chosen in determining the Capital Stock/Franchise (CS/F) Tax and Corporate Net Income (CNI) Tax as several methods exist.
2. Determine whether separate returns were filed for each entity(PA does not allow consolidated tax reporting).
3. PA requires the payment of quarterly estimates for both the Capital Stock/Franchise Tax as well as the Corporate Net Income Tax. Determine whether all quarterly estimated tax payments have been claimed.
4. PA S corps, partnerships & individuals are allowed to deduct meal and entertainment expenses at 100%.
5. Determine whether dividend income was included in the average income when computing the Capital Stock/Franchise tax.
6. Determine whether the amounts used on the RCT-101, Sec. A agree with the amounts on the Federal 1120, Sch. L and M-1 (which need to be attached). If not, include sub-schedules to reconcile any differences.
7. Review whether the CS/F tax is properly prorated for short tax years.
8. CS/F Tax - Review whether book income amounts excluded equity in subs and included dividends from subsidiaries.
9. CS/F Tax - Review whether the manufacturing exemption was properly taken or calculated.
10. CNI - Review whether reinstated NOL deductions were properly taken.

RHODE ISLAND

1. Multistate credit card banks may elect to apportion net income to RI based on income derived from customers domiciled in RI.
2. S corps are subject to the franchise tax.
3. RI does not have a throwback rule, which creates the possibility of "nowhere" sales for purposes of the sales factor.

SOUTH CAROLINA

1. Review state law concerning filing consolidated or separate returns.
2. If filing a consolidated return, check for proper calculation of franchise fee.
3. If filing an S Corp return, note that disability insurance payments are not deductible.
4. Layout of corporate return does not allow for combining income tax and corporate license before application of payments to get to net refund due.
5. If client has NOLs, review tracking of SC NOLs.

SOUTH DAKOTA

1. South Dakota does not impose a corporate income tax.

TENNESSEE

1. Franchise Tax - Review the calculation of adequacy of capital.
2. Franchise Tax - Review the types of reserves included in capital base.
3. Franchise Tax - Review the calculation of franchise tax for unitary group of financial institutions.
4. Review the calculation of estimated tax payments.
5. Review the calculation of net operating loss.

UNIQUE STATE BY STATE CONSIDERATIONS FOR STATE
CORPORATION TAX RETURNS

TEXAS

Regarding Corporate Franchise Tax and Taxable Capital:

1. Solicitation by independent representatives may create nexus and a filing obligation.

2. Reserves such as inventory obsolescence, warranty reserves, reserves for lawsuits, writedowns of assets, etc. must be included in surplus. To be excluded, the reserves must meet the definition of debt (time certain, sum certain, and contractual).

3. Investments in subsidiaries must be reported at their cost basis. Equity reporting is not allowed. Therefore, if the subs are kept on the books on the equity method of accounting, an adjustment will need to be made to deduct the S Corporation earnings and add back any dividends that have been adjusted in the records.

4. Consolidated reporting is not allowed. Intercompany eliminations such as deferred intercompany profits are included in surplus as if the sale was made to an outside third party.

5. Texas has a throwback rule, however, solicitation is enough in another state to not "throwback" the other states sales. There will generally be different percentages of Texas business for the taxable capital and the earned surplus piece of the franchise tax.

6. Interest on federal obligations is included in the gross receipts denominator.

7. Dividends from affiliates are included in the gross receipts denominator. There is no dividend received deduction for the taxable capital.

Regarding Earned Surplus:

8. Public Law 86-272 protects solicitation activities in Texas. As a result, most companies will have a different percentage of Texas business for the taxable capital component and the earned surplus component of the franchise tax.

9. Interest on federal obligations are not included in the federal income tax base or in the gross receipts denominator.

10. Except for banks, officer and director compensation addback had included all officers of the company by title. However, proposed changes to 34TAC Sec. 3.558 would require an addback only for persons who hold an office created by the board of directors or articles of organization AND have the legal authority to bind the corporation with third parties by executing contracts or other legal documents. Exemptions from this compensation addback are provided for S corporations and other corporations with less than 36 shareholders.

11. Compensation includes all benefits reported on Forms W-2 and 1099.

12. A business loss carryover created by a company that is a nonsurvivor of a merger does not carryforward to the survivor (Note: This issue is currently in litigation at the District Court level).

UTAH

1. Determine whether the $1,000,000 limitation on NOL carryback applies to the taxpayer.

2. Taxpayer should use the Finnigan method for sales factor purposes (as opposed to the Joyce method).

2. Utah now follows IRC §338(h)(10), including a one day return to be filed when one is required by the I.R.S.

3. Determine whether the deduction for R&E expenses or other expenses which may have been reduced, due to claiming a federal tax credit applies to the taxpayer (it is disallowed on the federal return).

4. Utah requires a "Water's Edge" combined return to be filed. A world wide election can be made by the taxpayer. For non-unitary corporations which have a parent sub relationship doing business in Utah can elect to file an elected combined return which includes those corporations doing business in the state.

UNIQUE STATE BY STATE CONSIDERATIONS FOR STATE

CORPORATION TAX RETURNS

VERMONT

1. S corporations, LLCs and partnerships are required to withhold income tax on Vermont taxable income allocable to non-Vermont residents (new for 1997).

2. Vermont does not allow NOL carrybacks.

3. Only entities with Vermont nexus are allowed to file consolidated Vermont corporate tax returns.

4. Vermont uses an equal weighting of each of the three factors (sales, payroll & property).

5. Each registered corporation must file an annual report with the Vermont Secretary of State's office, which is due at the same time as the corporate income tax return. A fee is due with this annual report.

VIRGINIA

1. Returns may be filed by one of three different methods: separate, combined or consolidated. An election must be made to file a consolidated return in the first full year in which two or more affiliates are subject to Virginia tax.

2. Once an election is made to file separate, combined or consolidated, it is a binding election that may only be changed with written permission from the department. Only those corporations having Virginia nexus may join in a combined or consolidated filing, and the original election is binding on any affiliates which in the future may incur a Virginia tax liability.

3. Corporations filing on a combined or consolidated basis, or as a multistate corporation, should refer to Title 23 Virginia Administrative Code 10-120-320 through 327 for additional modifications.

4. Virginia does not have a separate NOL provision. However, Virginia's starting point for determining Virginia taxable income begins with federal taxable income after federal net operating losses have been deducted. However, line 1 of the Virginia return may not be less than zero except to report an NOL incurred in the current year.

5. There is no throw-back rule for the Virginia sales factor.

6. Virginia law does not provide for the allocation of any income other than dividends. Virginia recognizes that some taxpayers may be entitled to an alternative method of allocation and apportionment if they can demonstrate that the application of Virginia's apportionment law to their particular facts for the taxable year would be contrary to the provisions set forth in Allied Signal, Inc. v. Director, Division of Taxation, 112 S. Ct. 2251 (1992).

7. Only certain passive types of income (interest, dividends, rents & royalties, etc.) qualify for the Foreign Source Income Subtraction.

8. The Foreign Source Income Subtraction is computed net of related expenses.

WASHINGTON

1. Washington does not impose a corporate income tax.

WEST VIRGINIA

1. Out-of state financial organizations that are part of an affiliated group of corporations that file a consolidated federal return, may elect to file consolidated West Virginia BFT & CNIT returns. (SB129)

2. West Virginia has a liberal definition of U.S. Government Obligations for form A-1 exclusions (includes agencies such as FNMS, GNMAs, etc.).

WISCONSIN

1. Income from obligations of the U.S. government is included in income when subject to the franchise tax (most corporate taxpayers), but not included when subject to income tax.

2. Corporations may deduct from income, dividends received from a corporation with respect to its common stock if the corporation receiving the dividends owns, directly or indirectly, during the entire taxable year at least 70% of the total combined voting stock of the payor corporation.

3. Some taxpayers have been successful in taking a more aggressive approach in classifying nonapportionable income. (See Agricultural Building Co. vs. Wisconsin Department of Revenue, Wisconsin Department of Revenue vs. Citizen Publishing Co. of Wisconsin Inc., and Hercules Incorporated vs. Wisconsin Department of Revenue)

4. The payroll factor includes wages, salaries, commissions and any other form of remuneration paid to employees for personal services including amounts contributed to a qualified cash or deferred arrangement under IRC §401(k). The payroll factor also includes management or service fees paid to a related corporation for the performance of personal services.

5. Foreign sales do not get thrown back to Wisconsin.

WYOMING

1. Wyoming does not impose a corporate income tax.

UNIQUE STATE BY STATE CONSIDERATIONS FOR STATE

INDIVIDUAL TAX RETURNS

Table of Contents

UNIQUE STATE BY STATE CONSIDERATIONS FOR STATE

INDIVIDUAL TAX RETURNS

ALABAMA

1. An Alabama resident who is a 100% shareholder of a foreign S corporation does not have to report the earnings from the S corp on the Alabama return; however, any dividend/distribution from the foreign S corp is taxable to the shareholder on the Alabama return.

2. Alabama allows an itemized deduction for federal FICA tax paid during the year.

ALASKA

1. Alaska does not impose an individual income tax.

ARIZONA

1. For multiple state tax returns, determine the proper amount of income taxed by all states, since this is the amount used in calculating the credit for taxes paid to other states.

2. For multiple state tax returns, determine the proper credit for taxes paid to other states. For example, AZ residents cannot take a tax credit for taxes paid to CA on their AZ return; instead, the credit for AZ taxes paid must be claimed on their nonresident CA return.

3. Nonresidents with capital gain on AZ real property must report that gain to AZ.

4. Nonresident partners and S corp shareholders of entities doing business in AZ are required to file a nonresident return and report their portion of the AZ sourced income.

5. A nonresident beneficiary of a trust must report any income, distributed or distributable, from the trust generated from sources within AZ.

6. AZ residents receiving private pensions from employment in other states are taxable on the full pension income.

7. Installment sale income originating from a non-AZ source at a time when the taxpayer was a nonresident is taxable to AZ when the taxpayer becomes an AZ resident.

8. NOLs incurred by a nonresident from activities occurring outside AZ are not deductible in arriving at AZ income after the taxpayer becomes an AZ resident. If these NOLs were included in federal adjusted gross income, the taxpayer must add the amount of the NOL back to AZ income.

9. Being a community property state, a problem arises when one spouse is an AZ resident and the other spouse is a resident of another community property state. At issue is what income is reported to each state; what deductions are allowed by each state; and on which return should credits be claimed. All of the AZ source income must be reported to AZ along with half of all other income.

UNIQUE STATE BY STATE CONSIDERATIONS FOR STATE

INDIVIDUAL TAX RETURNS

ARKANSAS

1. Social Security is not taxable for Arkansas.

2. The first $6,000.00 of military service pay is tax exempt for Arkansas.

3. The first $6,000.00 of retirement income is tax exempt for Arkansas.

4. NOL's maybe carried forward 5 years, NOL carrybacks are not allowed

5. Interest from Arkansas municipal bonds is tax exempt. All other states' municipal bond interest is included in Arkansas taxable income.

6. The other state's tax return must be attached to the Arkansas return when claiming the other state tax credit.

7. Part year and nonresident filers must include a complete copy of their federal return.

8. Taxpayers may be able to itemized deductions for Arkansas purposes, even though they did not itemize on their federal return, due to the smaller Arkansas standard deduction.

CALIFORNIA

1. Nonresidents are taxed on income from a California source. Taxable income and tax are first computed as if the nonresident was a full year resident, and then the California tax is determined by multiplying the total tax by the ratio of California source adjusted gross income to total adjusted gross income.

2. A part-year resident is taxed on income regardless of source during the period of California residence.

3. Income of nonresidents from stocks, bonds, notes, or other intangible personal property is not income from sources within California unless the property has acquired a business situs in the State. A business situs is acquired in this State if the property is employed as capital in California. Generally, the situs of an intangible asset is the state of residence of the owner.

4. For taxable and income years before January 1, 1997, California conformed to the Internal Revenue Code as enacted as of January 1, 1993 with certain modifications. For taxable or income years beginning on or after January 1, 1997, California conforms to the Internal Revenue Code enacted as of January 1, 1997 with certain modifications.

5. Interest income earned on municipal bonds issued by a municipality or State other than California is taxable to California.

6. California's general net operating loss provisions allow for 50% of the business loss to be carried forward for five years, or if a shorter period, until exhausted. Certain activities qualify for a 100% carryover for an 8 to 15 year period.

7. California lottery winnings are exempt from California taxation. Remember to add back any gambling losses deducted due to the lottery winnings.

8. Pension income paid on or after January 1, 1996, to a nonresident from a qualified pension plan that was earned from California sources or while a California resident may be excluded from income.

COLORADO

1. The definition of a resident vs. nonresident is based on the intent of the individual.

2. The filing status for the Colorado return must conform to the federal filing status.

UNIQUE STATE BY STATE CONSIDERATIONS FOR STATE
INDIVIDUAL TAX RETURNS

CONNECTICUT

1. Dividends from mutual funds comprised of U.S. Treasury interest are deducted from Connecticut adjusted gross income only if the fund contains greater than 50% U.S. Treasury obligations.

2. Connecticut AGI is reduced by gain/increased by loss from sale of a Connecticut municipal bond, including sales of CT muni bond funds.

3. The property tax credit against the personal income tax is available only to residents, not nonresidents.

4. Underpayment of estimated tax interest charges will not be applied to underpayments less than $500.

5. S corporation loss (income) is added back to (subtracted from) AGI to the extent apportioned to CT and to the extent of percentage taxed at the corporate level.

6. An alternative minimum tax applies ONLY IF federal AMT is incurred and is the lesser of 19% of adjusted federal tentative minimum tax or 5% of adjusted federal AMTI. An AMT credit is allowed in subsequent years in limited circumstances.

7. Taxable lump sum distributions not included in federal AGI is an addback.

8. Statutory residents (non-domiciliaries spending 183 days or more in CT) are entitled to credit for taxes paid to other state(s) on income from intangible personal property, as well as on earned income.

9. If one spouse is not a CT resident, resident spouse may file a separate CT return, OR both spouses are also allowed to file jointly if joint federal return was filed.

10. An entry must be made on Form CT-1040 or CT-1040NR/PY for individual use tax, even if zero.

11. Use CT AGI, not source income, unless source income is greater. For nonresidents or part-year residents, CT income tax is calculated on the higher of CT AGI or CT source income.

12. Beginning in 1998, CT will tax a maximum of 25% of social security benefits.

UNIQUE STATE BY STATE CONSIDERATIONS FOR STATE

INDIVIDUAL TAX RETURNS

DELAWARE

1. The income tax addback does not include city taxes, but includes only state taxes for which a credit is claimed.

2. There are deduction limitations for IRAs.

3. There are three limitations for the credit for taxes paid to other states.

4. Self-employed health insurance deduction - allowed 100%; additional 70% is itemized deduction.

5. If filing a joint federal return but separate Delaware returns, be sure to recompute your itemized deductions for state purposes using the phase-out rules "as if" separate federal returns had been filed.

6. If federal itemized deductions were subject to phase-out, Delaware itemized deductions should only be reduced by the pro-rata amount of state taxes that was not disallowed by the federal phase-out.

7. If filing a joint federal return but separate Delaware returns, the $25,000 rental real estate allowance under the passive loss limitation rules must be recomputed for state purposes □as if□ separate federal returns had been filed.

8. If a part-year resident, the taxpayer can elect to file as either a full year non-resident, or a full year resident.

9. An IRA deduction for a non-working spouse is not allowed if separate Delaware returns are being filed.

10. An IRA deduction for a working spouse is not allowed when separated Delaware returns are filed and the spouse's AGI is over $10,000. A phase-out is computed for AGI between $0 and $10,000.

DISTRICT OF COLUMBIA

1. DC does not require that interest earned on other states' obligations be included in DC taxable income.

2. Married couples filing separately on a combined return must report income as if separate returns were being filed. However, the deductions may be apportioned in whatever way the couple mutually agrees.

3. Individuals that are part of an unincorporated business are allowed to subtract on DC Form D-line 52 their share of income reported and taxed on a DC franchise or fiduciary tax return.

4. Individuals that are part of an unincorporated business must add back on DC Form D-40, line 46 their respective share of deductions (i.e. salary expense) taken by the unincorporated business in calculating its franchise tax.

5. DC imposes a franchise (income) tax on unincorporated businesses. Members and partners are required to report their portion of the unincorporated business's net income on DC Form D20, line 9. The members and partners are allowed a deduction on DC Form D20, line 24 for their portion of the unincorporated business's income that was subject to DC franchise taxation.

6. The salary expense deduction on DC Form D30, line 30 cannot be in excess of 30% of the unincorporated business's net income not including the salary expense deduction.

7. DC does not impose a personal income tax on nonresident individuals.

UNIQUE STATE BY STATE CONSIDERATIONS FOR STATE
INDIVIDUAL TAX RETURNS

FLORIDA

1. Florida does not impose an individual income tax, but does impose an intangibles tax.

2. Intangibles tax return is reported as of January 1st and is due June 30. There is a sliding scale of discount (4% to 1%) if return is filed before June 1. There is a minimum total penalty of 40% if return is filed after June 30th and additional penalties and interest based on further delay in filing.

3. Florida has a business tangible personal property tax return that is due April 1.

GEORGIA

1. Georgia allows for a different residing status for a husband and wife. Separate tax returns can be filed with Georgia only if one spouse is a Georgia resident and the other is a nonresident.

2. Georgia taxpayers must attach pages 1 & 2 of their federal returns to Georgia IT-500 if AGI is greater than $40,000.

3. Georgia taxpayers must add back the state income tax deduction for taxes paid to states other than Georgia. An adjustment is allowed for the effect of the 3% AGI limitation.

4. Georgia allows taxpayers age 62 and older to exclude up to $12,000 of retirement income.

5. Social Security is not taxable for Georgia purposes.

6. A part year resident has the option of either using the Sch. 3 ratio or a time ratio in computing the Georgia portion of his exemption amount and standard deduction. A nonresident must use the Sch. 3 ratio. A part year resident who itemizes may claim either a percentage of total itemized deductions or the Georgia itemized deductions actually paid while a Georgia resident.

7. Lottery prizes from the Georgia Lottery Corp. are taxable to nonresidents as well as residents of Georgia.

8. Prior year tax exception does not apply if the prior year tax was zero. The prior year exception is based on 70% of the prior year tax. If the 70% test is failed, the underpayment penalty is based on current year tax.

9. Georgia considers interest and dividend income from a Georgia partnership as "business income" subjecting nonresident partners to Georgia filing requirements. In addition, the partnership must generally withhold on distributions to nonresidents.

10. For years after 1991, gain may be deferred on the sale of a principal residence as long as the replacement residence is located in the United States.

HAWAII

1. Taxes paid to other states or foreign countries can be taken as a deduction as well as a credit (after federal limitation).

2. If the taxpayer owns a business in Hawaii, verify filing of Hawaii general excise and use tax returns.

3. Effective for taxable years beginning after 12/31/96 a nonresident or a part-year resident must calculate Hawaii income taxes as if they were a Hawaii resident. Then to determine Hawaii tax liability, the tax on total taxable income is multiplied by the ratio of Hawaii adjusted gross income to total adjusted gross income from all sources.

UNIQUE STATE BY STATE CONSIDERATIONS FOR STATE
INDIVIDUAL TAX RETURNS

IDAHO

1. Add back capital loss carryforward incurred outside the state before becoming an Idaho resident.
2. If a state income tax refund was included on the federal return, subtract this amount in arriving at Idaho income.
3. Check for taxpayers qualification for other subtractions to arrive at Idaho income.
4. There are credits available for contributions to educational entities and to youth and rehabilitation facilities.
5. A $15 per exemption grocery credit is available with an additional credit for those 65 and older.
6. There is a credit available for maintaining a home for a family member age 65 or older or developmentally disabled.
7. The filing requirement for nonresident and part year residents is $2,500.00 or more of Idaho gross income.

ILLINOIS

1. Compute the new property tax credit which replaced the property tax double subtraction modification from previous years (on the backside of the form).
2. Subtract eligible income streams from qualified plans, retirement income which is not taxed by Illinois.
3. Correctly compute limitations on Schedule CR, which does not allow adjusting from AGI states (like Illinois) to Taxable Income states.
4. Individuals with businesses often miss credits (e.g., inadvertent contributions, federal-state comparison errors, etc.).
5. Illinois does not tax any federally taxed portion of retirement pensions or annuities, which include payments from qualified employee benefit plans, social security, IRAs, Keogh plans, etc. Early distributions from qualified plans and IRAs are also exempt from Illinois income tax.
6. Do not subtract total military pay. Subtract only the amount of military pay received while an Illinois resident on active duty in the U.S. Armed Forces or Illinois National Guard.
7. Subtract only federally taxed Illinois state income tax refunds on this line. Refunds received from other states are not allowed as a subtraction.
8. If subtracting income from U.S. government obligations received from a money market or mutual fund, attach a copy of the statement received from the mutual fund along with any worksheet showing the calculation of the subtraction for U.S. government interest received from the fund.
9. Income from U.S. government obligations received from a partnership, an S corporation, an estate, or a trust should be reported on line 9 of Form IL-1040, not line 8. Attach to the return a copy of the notification furnished to the taxpayer (Form K-1, etc.) that specifically identifies and details the amount of the subtraction being claimed.
10. Specifically identify the name of the state or local government obligation(s) and the amount of interest received from the obligation for all tax-exempt interest being subtracted on this line. Any tax-exempt income received from a mutual fund is not exempt from Illinois tax. Illinois, with few exceptions, taxes interest received from Illinois municipal obligations.
11. The credit for Illinois Property Tax is allowed only if the taxpayer's principal residence during the prior year was in Illinois. Review the instructions for Form IL-1040, line 20 carefully to ensure that the taxpayer qualifies for this credit.
12. Review the list of required attachments to the return listed on page 2 (back side) of Form IL-1040. If you do not attach the required supporting documents, the entry will be disallowed.

INDIANA

1. Real estate taxes deducted in computing federal AGI must be added back in computing Indiana taxable income.

2. Take the tax credit available for contributions to Indiana colleges/universities.

3. Social Security income which was taxable for federal purposes is not taxable for Indiana purposes.

IOWA

1. Properly allocate income and deductions between spouses on a combined return (a combined return allows each spouse to utilize the Iowa progressive rates).

2. Include the Iowa tuition credit (the income limitation has now been removed).

3. Because Iowa tax is calculated utilizing the same rate table regardless of filing status, it is generally more beneficial for married taxpayers to use "married filing separately on combined return" rather than "married filing jointly".

4. Iowa allows a deduction for 100% of federal income taxes paid during the year.

5. Federal income tax refunds received during the year are taxable.

6. Although Iowa allows a deduction in computing net income for one half of self-employment tax paid, no self-employment tax is allowed in the Iowa federal tax deduction.

7. If utilizing the filing status "married filing separately on a combined return," an allocation must be made between spouses to calculate the proper deduction for federal taxes paid (utilizing federal taxes withheld and the ratio of each spouse's income not subject to withholding) and federal tax refunds received (based upon prior year Iowa net income).

8. Iowa allows a deduction for 100% of health insurance premiums paid; any premiums deducted in full (on the first page of the return) can not be included in medical expenses deducted as an itemized deduction.

9. Many taxpayers may be able to itemize deductions for Iowa purposes, even though not itemizing on the federal return, due to Iowa's small standard deduction.

10. Iowa allows an exclusion for pension income of $3,000. for individuals, including surviving spouses and other surviviors, or $6,000 for married couples filing jointly.

11. Iowa will only tax 50% of social security benefits, not the 85% taxed on the federal return.

12. Iowa allows a greater deduction for charitable mileage than is allowed on the federal return.

13. There are a number of other adjustments allowed in computing net income that are not allowed in computing federal adjusted gross income. See Iowa instructions.

KANSAS

1. A nonresident who receives income from Kansas sources must file a Kansas individual income tax return regardless of the amount of Kansas source income.

2. A part-year resident has the option of filing as a resident or a nonresident. Complete the part-year residency dates at the top of the K-40. Use the most beneficial method. If filing as a resident all income is taxed as Kansas and then a credit can be taken for taxes paid to another state. A nonresident will complete Schedule S, Part B to determine the nonresident allocation percentage to compute nonresident tax.

3. A military person stationed in Kansas (if not a Kansas resident) needs to file a nonresident Kansas return only if the person (or spouse if filing jointly) received income from Kansas sources.

4. A nonresident reports income form Kansas sources. This does not include interest, dividends, annuities or gains from the sales or exchange of intangible property (such as bank accounts, stocks or bonds) unless earned by a business, trade, profession or occupation carried on in Kansas.

5. A part-year resident filing as a nonresident includes income, gain, loss or deduction received while a Kansas resident (whether or not from Kansas sources), unemployment compensation derived from sources in Kansas, and any income from Kansas sources while a nonresident of Kansas.

6. Adjustments and modifications to Kansas source income on Schedule S, Part B are allowed only as they apply to income related to Kansas.

7. In the case of a deceased individual. (a)If a refund is due and the refund is less than $100.00, a surviving spouse is not required to submit documentation of death. (b) If the refund is greater than $100.00, documentation of death is required. (c)If the requester of the refund is a person other than the surviving spouse, documentation is required.

8. Consider the following items for which tax treatment varies between the federal return and the state return.

   I. State and municipal interest from states other than Kansas is not exempt, Kansas Municipal interest is exempt from Kansas income tax.
   II. Contributions to KPERS.
   III. Differences between Federal and Kansas NOL carryovers.
   IV. Interest from U.S. Government obligations? (Note: Dividend income from mutual funds could include U.S. Treasury interest that needs to be excluded.)
   V. Federal civil service annuity.
   VI. Kansas pension plans exempt from Kansas tax.
   VII. Railroad retirement benefits.
   VIII. Military Retirement Benefits are exempt from Kansas income tax.

9. Does client live in an area subject to the intangible tax? (There is a Senior Citizen exemption).

10. Determine the applicability of Kansas Tax Credits.

INDIVIDUAL TAX RETURNS

KENTUCKY

1. Retirement and pension income is partially or fully excludable for KY income tax purposes.

2. The KY estimated tax payment statutes do not appear to strictly require quarterly payments, although they are recommended. It may be possible to avoid estimated tax penalty to the extent the total estimated tax payments are made by January 15 for calendar year filers.

3. Although the foreign tax credit is not available, KY permits a deduction of foreign taxes paid by individuals.

4. KY has a reciprocity system that exempts compensation income earned in certain neighboring states from KY income tax. This exemption does not apply to income other than compensation.

5. KY credit for taxes paid to other states is available to Kentucky full-year and part-year residents but is applicable only to tax paid on income from non-Kentucky sources that is taxed in both KY and another state. When KY law exempts income from KY taxable income but another state does not exempt the income, no credit is available for the income tax paid to the other state that was excluded from KY taxable income.

6. Municipal interest income for sources outside of KY is taxable to KY residents.

7. A child care credit equal to 20% of the federal credit may be claimed by the resident taxpayer.

8. The resident taxpayer is entitled to a low income credit if adjusted gross income is $25,000 or less.

LOUISIANA

1. Consider deducting the optional federal income tax deduction which is increased by the amount of the foreign tax credit, rather than taking the credit on the Louisiana return (which will be limited to $25).

MAINE

1. The statutory requirement to add back to federal AGI research expenses included in the basis for the Research Expense Tax Credit has been repealed.

MARYLAND

1. Consider the application of IRC §911 - Foreign earned income and housing exclusions for expatriates.

2. Consider the non-applicability of the annualization method for estimated tax payments.

3. Review the domicile rules and the definition of a Maryland resident.

4. Consider the electronic funds transfer (EFT) payment requirements.

5. Consider the nonresident withholding requirements for partners, S-Corporation shareholders, and LLC members.

MASSACHUSETTS

1. With limited exceptions (e.g., certain medical expenses), there are no itemized deductions available for individuals.

2. Ordinary business gains (Part B income) cannot be offset by capital (Part C) losses, even if generated by the same trade or business.

3. The IRC is adopted as of January 1, 1988, so later occurring changes to the IRC are not followed by the commonwealth. For example, the depreciation expense for individual income recipients of flow through entities is limited to $10,000 in MA, under an older version of the IRC, despite the fact that the current IRC §179 limit is $17,500. Another example is the deduction for meals, which for federal purposes is limited to 50%, but 80% is allowed in MA.

4. Interest from Massachusetts banks is taxed at the rate of 5.95%, while all other interest is taxed at 12%.

5. There is no deduction or credit available for foreign taxes. However, a credit is allowed for taxes paid to other states or Canada.

6. A taxpayer who maintains a permanent place of abode in MA and spends 183 days or more in MA will be taxed as if they were a resident. This includes students who rent off-campus.

7. Sec. 1231 property is included as MA capital asset and is taxed on a sliding percentage based on holding period after January 1, 1995. The longer the property has been held the lower the percentage of tax. Also, the lower the allowable percentage of usable loss.

8. MA source income is any income effectively connected with any trade or business including employment carried on in MA, the MA lottery, and ownership of real and tangible property in MA.

9. A nonresident does not have a trade or business in MA including employment if their presence in MA is casual, isolated, or inconsequential, defined as (1) presence does not exceed 10 days (unless gross income exceeds $6,000.), (2) gross income from presence does not exceed $6,000., (3) the presence is ancillary to the primary business (i.e., an occasional presence for training, conferences, planning, etc.) Note: The business of the partnership is the business of the partner.

10. MA does not allow carryforward of NOLs. Carryforward of suspended passive activity losses are allowed and are computed using the federal rules as if the MA passive activities were the taxpayer's only passive activities. Thus the MA suspended passive activity losses can be greater or lesser for a nonresident than the federal amount.

11. MA does recognize LLCs and S corps as flow through entities. MA also recognizes the new S corps formed under the federal law changes of 1996.

UNIQUE STATE BY STATE CONSIDERATIONS FOR STATE

INDIVIDUAL TAX RETURNS

MICHIGAN

1. In order for tuition paid to qualify for the college tuition credit, the school must be a Michigan institution of higher education which certifies that tuition will not increase by more than 3% in the next academic year, and the taxpayer must be a Michigan resident with household income less than $200,000.

2. One-half of the self-employment tax that was subtracted from federal taxable income must be added back.

3. Income from private pensions or qualifying IRAs are deductible, but limited. In addition, benefits received from retirement annuity policies are deductible up to specified amounts if the payments are made for life to a senior citizen or spouse. However, pension benefits received from public sources are totally deductible.

4. Part year residents are required to pay Michigan income tax on wages earned while a Michigan resident. Deferred compensation and pensions are allocated to the state lived in when received, interest and dividends are allocated to the state of residence regardless of where earned, and moving expenses are allocated to the state of destination.

5. The taxpayer must own and occupy the property on which he claims a homestead property tax credit. A credit may be claimed only for one, primary property.

6. Income not subject to tax such as social security and disability income is included in household income when computing the allowable homestead property tax credit.

7. Contributions made to a homeless shelter or food bank only qualify for the credit if the payment is made in cash, and the primary purpose is to provide overnight accommodations or food to indigent persons.

MINNESOTA

1. For 1997 there is a one-time property tax rebate available.

2. Beginning in 1997, the Part II subtraction for the elderly and disabled is no longer available.

3. Starting in 1998 there is a deduction for a portion of school expenses for children in grades K-12.

MISSISSIPPI

1. Mississippi allows married individuals filing a joint return to split the exemption and itemized or standard between them in any manner so that they can take advantage of the lower rates.

2. Exemptions and standard deductions increases are being phased in for married individuals during the years 1998-2000 to increase these to double what single individuals are allowed.

3. Mississippi exempts retirement income and social security income.

4. National Guard pay is excluded up to $5,000 per taxpayer and spouse.

5. Sales of stock of Mississippi domestic corporations, sale of interest in Mississippi LLC's, LLP's and limited partnerships is exempt.

6. Federal itemized deductions are followed except that there is an add back of state tax deduction.

MISSOURI

1. Missouri is a low tax state that allows at least a partial tax deduction. If you have a choice (i.e., part year who resided in the state for more than 30 days) and the other state is not a no income tax state like Texas or Florida, it is usually an advantage to claim Missouri as your resident state.

2. The starting point for the Missouri individual return is federal adjusted gross income. Thus, the lower the federal AGI, the lower the Missouri tax.

3. Missouri avoids the marriage penalty by permitting spouses to apportion income. It is to your advantage to allocate as much income as possible to the spouse who did not have income from the state in the case of a nonresident return or to the spouse with the lower income in the case of a resident return. Investment income from jointly owned property is divided equally.

4. Like most other states, federal AGI is increased for state and local government bond interest (other than Missouri source) and decreased by state income tax refunds. Interest income from certain federal obligations such as U.S. Savings Bonds and U.S Treasury Bills is not taxable. This modification also applies to interest income from federal obligations passing through mutual funds. Be sure to attach federal interest 1099s and mutual fund year-end statements. Otherwise, Missouri will disallow the modification.

5. In calculating your Missouri itemized deductions, Missouri allows the deduction of Social Security and Medicare withholdings, Railroad retirement tax, and self-employment tax (less the federal deduction of one-half the self-employment tax). A taxpayer cannot itemize on the Missouri return unless they itemized on the federal return. Because of this sizable deduction, it sometimes makes sense to itemize on the federal return even though they would normally claim the standard deduction.

6. Missouri allows a deduction for federal income tax reported on the federal return, including alternative minimum tax and excise taxes on retirement plan distributions. This deduction is limited to $5,000 ($10,000 for married filing jointly filers).

7. Nonresidents may reduce their Missouri-source income by an allocable portion of federal adjustments, such as IRA and Keogh contributions and alimony paid.

8. Taxpayers amending Missouri returns should use the regular MO-1040 form for the year being amended. There is no MO-1040X form.

9. Investment income from jointly owned property is divided equally. However, income from a business venture would be allocated only if both persons were subject to self-employment taxes, or in the case of a loss, if both persons' names were registered for the business.

10. A taxpayer must decrease the itemized deductions by the proportional amount thereof representing any income taxes imposed by Missouri or another state of the US or a political subdivision thereof or the District of Columbia.

MONTANA

1. Currently, the Dept. of Revenue allows considerable flexibility when allocating itemized deductions between spouses filing separately on a single form. Preparers should consider appropriate allocations that minimize the tax liabilities of married couples.

2. Taxpayers are allowed a deduction in arriving at Montana AGI for all health insurance premiums paid by an employer if reported as income to an employee under federal law. Thus, insurance amounts included in the wages of 2% or greater S Corporation shareholders reduce Montana AGI.

3. Elderly taxpayers (62 years or older) are entitled to a refundable credit related to property taxes or rent paid if certain conditions are met.

4. Montana allows an itemized deduction for 100% of the health insurance premiums and long term care insurance premiums for Montana resident beneficiaries. The premiums deductible include those paid for the taxpayer, the taxpayer's dependents, and the taxpayer's parents and grandparents. The premiums are allowed without application of the percentage limitation on medical expenses.

5. Montana allows an itemized deduction for federal income taxes paid (excluding self-employment tax) in arriving at taxable income.

6. Montana residents may claim a credit for income taxes paid to another state or foreign country.

7. Nonresidents and part-year residents are taxed as if they were residents in determining taxable income. To arrive at Montana taxes, the tax on the total taxable income is prorated by the ratio that the Montana income bears to the total income.

9. Montana is not tied to the federal filing status. If both spouses have income it is usually advantageous to use the filing status "Married filing separate on the same form".

10. An exemption is allowed for the taxpayer, their spouse, and their dependents even if the dependent files and claims themselves.

NEBRASKA

1. If the taxpayer is subject to federal alternative minimum tax, lump sum distributions, or has paid tax on early distributions, the taxpayer may also be subject to Nebraska minimum tax on these items.

2. Consider claiming Nebraska AMT credits.

3. Nebraska residents may elect to deduct from their AGI capital gains on the sale of stock of a qualified corporation acquired while the taxpayer was employed by that corporation. This is a one time election during their lifetime for stock of the one qualified corporation that can be used on all sales of that corporation's stock. A qualified corporation is a Nebraska corporation with more than five shareholders, two of which must be unrelated and each shareholder holding at least 10 percent of the outstanding stock.

4. Nebraska allows for the deduction of U.S. interest, including that derived for regulated investment companies (mutual funds).

5. Nebraska allows for the exclusion of all non-Nebraska S corporation and LLC income.

6. If the taxpayer has a refund from a prior year Nebraska return shown as income on the federal return, the amount can be deducted on the Nebraska return. If the taxpayer has no other adjustments increasing or decreasing its Federal AGI, it can deduct this amount on Line 13 of the Form 1040N (and check the box next to it), resulting in not having to attach Sch. 1 to their return.

7. If the client has a business, consider if LB270 or LB775 credits have been earned and, if so, Form 3800N should be filed.

8. Railroad Tier 1 and Tier 2 benefits are allowed as a deduction decreasing federal AGI on the Nebraska return.

9. Total Nebraska tax liability is limited to the federal income tax liability. If federal and Nebraska income taxes are zero, check the box between line 4 & 5, attach a copy of page 1 & 2 of Form 1040 & do not complete Form 1040N line by line.

10. Nebraska standard & itemized deductions are limited when federal AGI is more than $124,500(or $62,250 for married filing separately). There is also an additional tax to be calculated when AGIs are over these amounts. The above threshold AGI amounts are for 1998 and are adjusted each year.

11. Nebraska personal exemption credits are subject to an income phase out.

12. If the child care credit is claimed on the federal return, a Nebraska nonrefundable credit of 25% of the federal credit is allowed for returns reporting federal AGI exceeding $29,000. For returns with federal AGI of $22,000 or less, a refundable credit is allowed equal to 100% of the federal child care credit. Where federal AGI is from $22,001 to $29,000, a refundable credit is allowed in the amount of the federal child care credit reduced by 10% for each $1,000 or fraction thereof by which federal AGI exceeds $22,000.

13. If a credit for the elderly or disabled is claimed on the federal return, a nonrefundable Nebraska credit in the same amount is allowed.

NEVADA

1. Nevada does not impose an individual income tax.

UNIQUE STATE BY STATE CONSIDERATIONS FOR STATE

INDIVIDUAL TAX RETURNS

NEW HAMPSHIRE

1. Although no traditional individual income tax is imposed in NH, NH imposes an Interest and Dividends Tax. Any gross interest and dividends in excess of $2,400 for each individual, partnership or fiduciary are taxed at a rate of 5%. For years after 1994, all bank interest is taxable.
2. There is an exemption of $1,200 each for individuals 65 and over or disabled. There is an additional exemption of $1,200 each for blind taxpayers.
3. Individuals conducting business in New Hampshire must file Proprietor business tax returns.
4. LLCs are subject to the Interest and Dividends tax at the entity level; individuals are not subject to tax on dividends received from an LLC

NEW JERSEY

1. Consider the calculation of a property tax deduction or credit.
2. Consider the proper determination of the tax exempt portion of income from regulated investment companies.
3. Consider including the pro-rata share of a non-New Jersey S corporation's income allocated outside of New Jersey on the resident's tax return.

NEW MEXICO

1. Determine the proper treatment of Partnership and S corporation income. New Mexico apportions the income at the entity level.
2. Individuals may be required to file a return in the year they move from the state.
3. Taxpayers (who are a resident for 6 months or more) may be eligible for a credit equal to 3% of the taxpayer's unreimbursed in-state purchases of prescription drugs.
4. Depending on income level, taxpayers who are 65 years old or more may be eligible for a deduction from taxable income of up to $8,000 per taxpayer. Lower-income taxpayers may also qualify for a property tax rebate, even if they rent their primary residence.
5. Consider how the NOL rules apply in New Mexico.
6. Individual returns can take a credit for taxes paid to another state, or allocate income to another state, but not both for the same income.
7. Limited partners may be liable for NM tax if the business activity is located in NM.
8. In NM, individuals can only be a resident or nonresident, which is determined by the state of residence at year end.
9. NM has restrictive rules for what cannot be allocated out-of-state on individual returns for full year residents.
10. Military personnel may need to file in NM, or their spouses may need to, if they derive income from NM.
11. There is no NM partnership return, but all partners that derive income from NM sources are required to file NM returns.
12. The NM Tax Dept. is tying Sch. C gross receipts to NM gross receipts tax reports.

UNIQUE STATE BY STATE CONSIDERATIONS FOR STATE
INDIVIDUAL TAX RETURNS

NEW YORK

1. NYS/C generally does not tax retirement payments received by nonresidents after 12/31/95 except for certain lump sum nonqualified plans, severance pay, and stock options.

2. Nonresident individuals must adopt the same filing status for NYS/C as was used for federal purposes when filing a nonresident return (Form IT-203). Specifically when a "married filing jointly" nonresident return is filed in NYS/C, even if only one spouse had NYS/C source income, total spousal income must be reported.

3. A nonresident individual must allocate compensation based on the ratio of days worked in NYS/C to total days worked everywhere. Any allowance for days worked outside NYS/C must be based upon necessity and not out of convenience to the employee.

4. An individual who is domiciled in NYS/C must file a NYS/C resident return (Form IT-201) unless subject to either the 30-day or 548-day rule exceptions. NY Tax Law Sec. 605(b). Domicile is the place that an individual intends to be a permanent home and return to whenever absent. Once established, a domicile continues until the person moves to a new location with the <u>intention</u> of making the new location a fixed and permanent home. Thus, both physical presence as well as intention are required to establish a new place of abode.

5. The statutory definition of resident requires that a taxpayer spend over 183 days in NYS/C and maintain a permanent place of abode in NYS/C for "substantially all of the taxable year." NYS/C Nonresident Audit Guidelines define "substantially all" as a period exceeding 11 months. A permanent place of abode can be a home, condominium, co-op, apartment, or other dwelling suitable for year-round use.

NORTH CAROLINA

1. Married nonresidents may not file jointly unless both spouses have income in NC. The spouse with the NC income must calculate his/her federal taxable income as a married person filing a separate federal return and use this as the starting point for the NC return.

2. Individuals are eligible for a tax credit for investing in business machinery and equipment placed in service in NC after 8/1/96. Business incentive credits are also allowable for (1) creating jobs, (2) research and development, (4) worker training, and (5) investing in central administrative office.

3. Effective 1/1/98 a taxpayer may get a valid extension without paying the full amount of the tax due with the return. This now conforms to federal treatment. Any amount due not paid by the due date is subject to a 10 % late payment penalty and interest.

4. Effective 1/1/97 taxpayers who claim the standard deduction are eligible for a credit for charitable contributions.

5. Nonresident partners and shareholders of S corporations may claim a credit for tax withheld as an "Other Tax Payment" on the return. They must include the information furnished by the partnership or S corporation with the return to verify the amount paid.

6. NC allows a deduction from federal taxable income for retirement benefits including IRA withdrawals. A person need not be retired to qualify for the deduction.

NORTH DAKOTA

1. North Dakota's two individual income tax forms represent two entirely different systems of computing an individual income tax that are governed by different statutory provisions. All individuals, whether residents or nonresidents of North Dakota, may use the form on which the lowest tax is computed. All individuals are advised to check out both forms before filing.

OHIO

1. Resident credit for taxes paid to other state tax jurisdictions: Tax must have been paid in other state in the year the credit is being taken and income included in the AGI. In addition, the tax paid in other jurisdiction must be a state income tax (net worth, franchise, MI SBT taxes are all not considered as creditable taxes).

2. Nonresident tax credit: Methodology in calculating income earned within Ohio is based on a single weighted sales factor vs. a 60% weighted sales factor for the corporate tax.

3. Consider utilization of a business income v. non business income analysis in determining the methodology of situsing income.

4. Residency is determined based upon a bright line test of contact periods within Ohio during the tax year. Status is only an issue if during the tax year the taxpayer maintains more than one domicile.

5. The state filing status is determined based on the federal return filed. As a significant marriage penalty may exist, a state return should always be filed to determine the net tax benefit of filing joint v. separate returns.

OKLAHOMA

1. Social Security income is not taxable in Oklahoma.

2. Out-of-state income is not taxable in Oklahoma. However, out-of-state losses must be added back to arrive at Oklahoma adjusted gross income.

3. Consider the Oklahoma interest income exclusion for interest from Oklahoma financial institutions or credit unions. ($200 - joint, $100 - single).

4. Consider the $5,500 exclusion on certain retirement benefits for U.S. and Oklahoma retired employees. Effective 1/1/97, consider the $1,100 exclusion for other retirement benefits.

5. Effective 1/1/96, residents are allowed a deduction, up to $10,000, for nonrecurring adoption expenses.

6. Effective 1/1/97, consider the exclusions and credit available for Oklahoma agricultural production.

7. The underpayment penalty is computed on full underpayment if at least 70% of this year's tax or 100% of last year's tax is not paid timely. This penalty is not limited to the prior year amount that should have been paid in.

OREGON

1. Review how the credit for taxes paid to other states and the reverse credits apply.

2. Determine whether the taxpayer is qualified to take the special Oregon Medical deduction.

3. Review the new Oregon deferral of reinvested gain, and determine what gains are subject to deferral, when that deferred gain is recognized, and qualified investments for the deferral.

UNIQUE STATE BY STATE CONSIDERATIONS FOR STATE

INDIVIDUAL TAX RETURNS

PENNSYLVANIA

1. Gains in one class of income cannot be offset with losses in another class of income.

2. Losses cannot be carried back or forward from year to year.

3. Employee contributions to retirement plans (e.g., 401(k)) are not excluded from taxation.

4. No rollover of gain is permitted on the sale of a personal residence.

5. The PA "55 and over" exclusion of gain on the sale of a principal residence differs slightly from the federal. Have all the PA qualifications been met? (Note that this does not take the Taxpayer Relief Act of 1997 into consideration).

6. Moving Expense Deduction. Did the taxpayer work for the same employer both before and after the move? Was the move required by the employer? Did the employer request the move?

7. Taxpayers may deduct meals and entertainment expenses at 100%.

8. Determine whether new residents have included all their installment sale income, including any sales initiated prior to PA residency?

9. Determine whether income items from any out-of-state partnership or S corps were reported in the correct income classes on the return. In the absence of a PA Sch. K-1, the tax preparer must determine the appropriate classes of income.

10. Determine whether a deduction for unreimbursed direct business expenses incurred by partners or S corp shareholders is appropriate.

11. On a joint return, compute the gains/losses of each spouse separately because the gains of one spouse cannot be offset with the losses from the other spouse.

12. Determine whether a "SP" tax credit for low income taxpayers is appropriate. Part year and nonresidents are permitted to claim this credit but they must use gross and/or annualized income in determining their eligibility.

RHODE ISLAND

1. Nonresident partners should be aware that certain provisions of partnership agreements which decrease RI sourced income will be disregarded.

2. Federal income tax credits enacted after January 1, 1996 may not be deducted from federal income tax liability for purposes of calculating RI personal income tax.

3. Individual business owners who are domiciled in, and operate a business in an enterprise zone are eligible for a $50,000 deduction.

SOUTH CAROLINA

1. Check into capital gain items that qualify for the 44% net capital gain deduction.

2. If the client has retirement income, consider making election as to treatment, but beware that election is irrevocable.

3. Determine the client's eligibility for various SC tax credits.

4. Individuals moving into SC need to calculate tax two ways: a) calculate income as if the individual was a resident for the entire year on all income, and take credit for tax paid to other state; and b) compute SC tax as a nonresident individual except that SC taxable income for the period when a resident, inclludes all items of income, gain, loss, and deductions that a resident must include. Use the calculation which produces lesser tax.

5. Schedule TC can be confusing if other state does not follow same rules in calculating taxable income.

6. New deduction for resident taxpayers age 65 or older, maximum $11,500 deduction reduced by a retirement deduction claimed or if married filing jointly income must be allocated if one spouse is not eligible.

SOUTH DAKOTA

1. South Dakota does not impose an individual income tax.

TENNESSEE

1. Taxpayers should be aware that Tennessee does have an individual interest and dividends tax.

2. Taxpayers should be aware that the income tax applies to partnerships.

TEXAS

1. Texas does not impose an individual income tax.

UTAH

1. Determine whether the deduction for adoption expenses applies to the taxpayer.

2. Determine whether the deduction for 1/2 federal tax liability applies to the taxpayer.

3. Determine whether the deduction for retirement income applies to the taxpayer.

VERMONT

1. Vermont has a simple piggyback system (percentage of federal tax), must recompute federal tax (and attach recomputations) for non-Vermont municipal bond interest.

2. Taxpayers may either recompute federal tax to exclude U.S. Government Interest or use the percentage method. Taxpayers must attach documentation to support the U.S. Government Interest excluded.

3. Where estimated tax payments do not equal lesser of 90% of current year tax or 100% of prior year tax, penalty is 5% per month up to a maximum of 25%.

4. Vermont residents may qualify for a rebate of property tax paid on homestead. The rebate claim form must be filed separately from the individual income tax return for claimants under age 62. Claimants age 62 and older may transfer rebate claim to the individual income tax return. This return is due June 1 for the previous tax year.

5. Vermont residents are required to disclose the property tax paid on their homestead, and up to two acres of land, on their Vermont income tax return.

6. Income from intangibles is deemed to be sourced in the state of a taxpayer's domicile. The domicile state may tax the income and Vermont will give the taxpayer a credit for tax paid on that income to the other state (but only if that state provides a similar credit to its residents for income sourced to and taxed by Vermont). This implements an agreement among eleven northeast states and the District of Columbia. (Effective 6/26/97)

7. Partnerships and LLCs are required to make mandatory payments of income tax on behalf of nonresident partners and members only.

VIRGINIA

1. The credit for taxes paid to other states by resident individuals is limited to earned or business income, or the gain on sale of a principal residence. No credit is available for franchise, license, excise, unincorporated business or occupational taxes.

2. Virginia may not allow a credit for taxes paid to Arizona, California, Oregon, and the District of Columbia (see tax return instructions). The gain on the sale of investment property having a situs outside of VA does not generate an out of state tax credit in Virginia unless the property is business property.

3. Resident S corporation shareholders include their entire distributive share of S corporation income in their Virginia taxable income. Relief from multiple taxation is provided through the credit for taxes paid to other states. (Resident shareholders of S-Corporations do not determine their Virginia taxable income by allocation or apportionment of the S Corporation's income.)

4. No Virginia partnership tax return is required.

5. The Virginia foreign source income subtraction includes certain passive types of income (interest, dividends, rents, royalties, etc.). The federal exclusion for foreign earned income is deducted in determining federal AGI, and thus allowed in determining the starting point for Virginia AGI. Generally, earned and business income does not qualify for the subtraction. However, an individual's share of net income attributable to a foreign source qualified business unit of an electing small business corporation would qualify for the foreign income subtraction.

6. If an individual itemizes deductions for federal purposes, he or she must itemize deductions for Virginia purposes. Because state income taxes are not allowed as a deduction in Virginia, itemizers who have a large deduction for state income taxes may pay more overall federal and Virginia taxes by itemizing, than if he or she had claimed the standard deduction. You must supply a copy of your federal schedule A with your state return.

7. Part Year Residents: Virginia source income of a part year resident is determined on a cash basis. Thus, if a new Virginia resident receives distributions from a retirement plan, vacation or severance pay, or other types of income after moving to Virginia, such income is taxable in Virginia even though it may have been earned or accrued prior to moving to Virginia. A subtraction, however, is allowed for certain pension and retirement distributions when the contributions to such retirement plans in prior years were exempt from federal taxation but subject to taxation in another state.

8. VA does not have a separate Net Operating Loss. VA follows the federal rules and a federal NOL carryback adjusts federal AGI which as adjusted, is the starting point for VA taxable income. Net addition and subtraction modifications for a loss year will follow the federal loss to the year in which the loss is utilized.

9. VA has completely revamped it's Business, Professional and Occupational License Tax effective for 1997. Any entity doing business in VA should review these BPOL tax changes.

WASHINGTON

1. Washington does not impose an individual income tax.

UNIQUE STATE BY STATE CONSIDERATIONS FOR STATE
INDIVIDUAL TAX RETURNS

WEST VIRGINIA

1. Consider certain credits that may be available to West Virginia noncorporate taxpayers (e.g., Military Incentive Credit, Qualified Rehabilitated Buildings Investment Credit, Capital Company Credit, Business Investment and Jobs Expansion Credit, etc.)

2. Interest or dividend income on state and local bonds other than bonds from West Virginia sources is not exempt from state tax.

3. Interest or dividends received on United States or West Virginia obligations includable in federal adjusted gross income are exempt from state tax.

4. Up to $2,000 in benefits received from certain West Virginia, federal, or military retirement systems may be exempt from state tax.

5. Refunds of state and local income taxes received and reported as income to the IRS may be exempt from state tax.

6. There may be deductions available for senior citizens (age 65 or older), individuals with disabilities, and surviving spouses.

7. A low income earned income exclusion is available for taxpayers with federal adjusted gross income of $10,000 or less.

WISCONSIN

1. The Temporary Recycling Surcharge does not apply to an individual who has less than $4,000 of gross receipts (review other exceptions as well). In addition, if an individual is subject to the surcharge, the minimum amount the individual should pay is $25 (regardless of whether the calculation of the surcharge is less than $25).

2. Interest income which is exempt for both state and federal tax purposes should not be included in Wisconsin income.

3. Wisconsin limits combined net losses from farming if nonfarm Wisconsin AGI is greater than $55,000 (Married filing jointly).

4. Self-employed medical insurance is 40% deductible for federal purposes and 100% deductible for Wisconsin purposes. If the taxpayer is an employee whose employer did not contribute toward the cost of your medical care insurance they my deduct 50% of the amount paid for medical care insurance.

5. Taxpayers may have a different amount of social security benefits taxable for Wisconsin and federal purposes.

6. Wisconsin allows a 60% long term capital gain exclusion but limits allowable capital loss deduction to $500.

7. Unemployment compensation may be partially exempt if certain income thresholds are met.

8. Nonresident - Amounts received while a nonresident of Wisconsin from a nonqualified retirement plan or a nonqualified deferred compensation plan must be included in Wisconsin income to the extent attributable to personal services performed in Wisconsin unless distribution is paid out in annuity form over life expectancy of individual or a period of not less than 10 years, or distribution is paid in either an annuity or lump sum from arrangements known as "mirror" plans.

9. Nonresident - Any interest or dividends passed through from an S corporation on a WI 5K-1 must be included on the nonresident return (even though there is a general exception to not include any interest/dividends in Wisconsin income).

WYOMING

1. Wyoming does not impose an individual income tax.

NEXUS, MULTISTATE TAX AND STATE NET OPERATING LOSS ISSUES PRACTICE GUIDES

INTRODUCTION

This practice guide was developed by the AICPA State and Local Taxation Committee to inform practitioners about state corporate tax issues, such as **nexus, multistate tax issues, and state net operating loss (NOL) issues**. This guide should be considered in connection with the checklist questions (particularly those in 600) and 700)) contained in the *State Corporation Income Tax Return Checklist* also included in this AICPA *Tax Practice Guides and Checklists* publication package. In addition, practitioners should refer to the *State Tax Return Preparation Guide For All States' CORPORATION State Tax Returns* (also included in this AICPA *Tax Practice Guides and Checklists* publication package) for common problems and unique tax issues concerning each of the states' corporate state tax returns.

Below in this practice guide is a state tax nexus checklist that contains a list of the most frequently asked questions appearing in states' nexus questionnaires. Practitioners should be aware that the weight of interpretation given to specific questions may vary from state to state. However, the list can serve as a practice tool for practitioners in soliciting information from clients and analyzing such information. This guide is intended to be a broad reference tool and an aid in addressing nexus (pages 1-7), multistate (pages 7-13), and state NOL tax issues (pages 13-14), and is not intended to answer the question of whether a specific company has nexus or certain tax obligations in a particular state. It should be noted that there are different nexus standards for the different types of taxes. The laws and policies of each state should be verified for application to specific cases.

STATE TAX NEXUS EXPLANATION

In July 1998, the AICPA State and Local Taxation Committee published an updated detailed nexus guide with a compilation of nexus checklist questionnaires utilized by each of the fifty states and a summary of specific nexus attributes unique to each of the states. If you would like a free copy of this package, please call the AICPA Order Department at 1-888 777-7077, Dept. #1 and identify yourself as a Tax Division member and request product #061058.

Nexus describes the amount and degree of business activity that must be present before a state can tax an entity's income. If a taxpayer has nexus in a particular state, the taxpayer must pay and collect/remit taxes in that state. In general, nexus is created for income tax purposes if an entity derives income from sources within the state, owns or leases property in the state, employs personnel in the state in activities that exceed "mere solicitation," or has capital or property in the state. The amount of activity or connection that is necessary to create nexus is defined by state statute or case law and/or regulation and, consequently, tends to vary from state to state. However, all states are limited by Constitutional principles, judicial doctrine and federal law.

Briefly summarized below are: the federal statute governing "protected" activities within a state, relevant issues from three key U.S. Supreme Court cases concerning nexus, and recent activities of the Multistate Tax Commission (MTC) in this area.

1. Public Law 86-272 (15 U.S.C. §381)

Nexus for net income tax purposes is not established merely because sales of tangible personal property are solicited within the states. The states are prohibited under Public Law 86-272 from imposing a tax on or measured by net income when an entity's only connection with the state is the solicitation of orders for sales of tangible personal property, and such orders are accepted and shipped or delivered from outside the state. The Virginia Supreme Court recently ruled (January 1997) in the *National Truck Council* case that delivery in company-owned trucks, standing alone, does not establish nexus for income tax purposes because of the protection afforded by Public Law 86-272. The immunity afforded by this statute does not apply, however, to any corporation incorporated within the taxing state. This immunity only applies for state income tax purposes and, consequently, does not apply to such taxes as sales/use, gross receipts, etc.

Under Public Law 86-272, the only immunity accorded is for the solicitation of orders for the sale of tangible personal property. Thus, the solicitation for the sale of real property, intangible property, or services is not provided immunity under Public Law 86-272 and may cause a taxpayer to have nexus in a state where such solicitation occurs. The issue of "economic nexus" in the case of service providers with no physical presence in the state remains unresolved.

For more information on the jurisdiction to tax, refer to State Taxation, by Jerome R. and Walter Hellerstein.

2. Physical Presence

Historically, cases brought before the U.S. Supreme Court relating to nexus involved factual situations in which the taxpayer had a degree of physical presence in the state seeking to impose its tax. In *Quill Corp. v. North Dakota*, 112 S.Ct. 1904 (1992), the U.S. Supreme Court ruled that the Commerce Clause mandated that, absent action by the U.S. Congress to the contrary, a taxpayer must have some physical presence in a state to be subject to collection responsibility for the state's use tax (*Quill* at 1914). Although *Quill* deals with use tax, the Court's discussion of the general Due Process and Commerce Clause Constitutional principles of nexus opinion sheds some light on their application to franchise and income taxes.

The Commerce and Due Process Clauses are generally considered to be the primary constitutional limitations on state taxation. The Commerce Clause provides that "Congress shall have the power to regulate Commerce with foreign Nations, and among the several states, and with the Indian tribes." The Commerce Clause has been interpreted as not only conferring power on the national government to regulate commerce but also as limiting the states' powers to interfere with commerce.

An analysis of whether a tax burdens interstate commerce involves the four prong test delineated in *Complete Auto Transit v. Brady*, 430 U.S. 274 (1977). The activities taxed must have a substantial nexus with the taxing state; the tax must be fairly apportioned; the tax must not discriminate against interstate commerce; and the tax must be related fairly to the services provided by the state.

The Due Process Clause prohibits states from denying any person "life, liberty, or property, without due process of law." Due process protects against unfair governmental interference or taking of property. A state whose laws provide protection, security, and opportunities to individuals, property, and business may exact a toll in the form of taxes to support the government but not without due process of law. Under the Due Process Clause, for a state to have jurisdiction to impose a tax on a taxpayer, there must be a minimal connection between the taxpayer's interstate activities and the taxing state.

The South Carolina Supreme Court, in *Geoffrey, Inc. v. South Carolina Tax Commission*, 437 S.E.2d 13 (S.C. 1993) held that a Delaware holding company that owned only intangible property used in South Carolina was subject to income tax. The court rejected Geoffrey's claim that it had not purposefully directed its activities toward South Carolina's economic forum and held that by licensing intangibles for use in the state and receiving income in exchange for their use, Geoffrey had the minimum connection and substantial nexus with South Carolina required by the Due Process Clause and the Commerce Clause of the U.S. Constitution. In addition, Geoffrey's receivables were found to have a business situs in South Carolina. The U.S. Supreme Court subsequently denied certiorari in *Geoffrey* (114 S.Ct. 50 - 1993), making the case applicable only in the state of South Carolina. Many states, however, have incorporated through statute or regulation the principles of economic nexus outlined in *Geoffrey* regarding intangibles in the nature of trademarks and trade names. Practitioners with clients having intangibles should review any recent changes in the applicable state laws and regulations in this area.

3. Solicitation

Under Public Law 86-272 (15 U.S.C. §381), an activity is immune from net income taxation if it consists merely of solicitation of sales of tangible personal property. The term "solicitation" is not defined by Public Law 86-272, however, the U.S. Supreme Court in *Wisconsin Dept. of Rev. v. William Wrigley, Jr. Co.*, 112 S. Ct. 2447 (1992) (Wrigley) interpreted this term. In finding that Wrigley's activities in Wisconsin exceeded the protection of Public Law 86-272, the Court held that the solicitation of orders includes "any explicit verbal request for orders and any speech or conduct that implicitly invites an order." The clear line is the one between those activities that serve no independent business function apart from their connection to the soliciting of orders and those that the company would have reason to engage in anyway but chooses to perform through its in-state sales force. The Court affirmed the *de minimis* principle of Public Law 86-272 in holding that to lose the immunity afforded by Public Law 86-272, the activity must establish a nontrivial additional connection with the taxing state. In the aggregate, though minimal in comparison to Wrigley's total solicitation activities in the state, the non-immune activities exceeded the *de minimis* standard in the aggregate. Practitioners should consider whether activities other than solicitation are more than *de minimis* in a particular state.

4. Multistate Tax Commission (MTC) Guidance to the States

The MTC has issued lengthy guidance under P.L. 86-272: Information Concerning Practices of Multistate Tax Commission States Under Public Law 86-272 (adopted 7/11/86), Statement of Information of Multistate Tax Commission and Signatory States Under Public Law 86-272 as Revised January 22, 1993, and Statement of Information of Multistate Tax Commission and Signatory States Under Public Law 86-272 as Adopted July 29, 1994. The MTC guidance provides a list of activities which it cconsiders protected under P.L. 86-272 and a list of unprotected activities which will cause sales to lose their protection under the Public Law.

Working together through the MTC, twenty-six states issued Nexus Program Bulletin 95-1 (12/20/95) targeting the computer direct marketing industry. The bulletin takes the position that because in-state repair services are not immune from taxation by reason of P.L. 86-272, the use of independent contractors or other representatives of a computer company to provide such repair services creates nexus for the computer company. Although the nature of the bulletin is informative and educational rather than regulatory, it has met much opposition from industry and mixed reaction from the states. In fact, California has rejected the bulletin as a policy statement. The California State Board of Equalization (BOE) voted on March 14, 1996 to rescind California's inclusion on the list of 26 states that have adopted MTC Bulletin 95-1.

In addition, the MTC is working on a draft Nexus Guideline for Application of a Taxing State's Sales and Use Tax to a Remote Seller. The AICPA State and Local Tax Committee commented on the 10/25/94 draft of these regulations on April 12, 1995. The committee objected to the concept of "deemed physical presence" and the notion that an interest in intangible property could create physical or deemed physical presence. Since then, the MTC has issued a new working draft that seeks to establish the constitutional nexus guidelines for application of a state sales and use tax to an out of state business (1/98). The MTC is forming a pilot group of states to prepare draft information guidelines that can be reported back to the MTC Uniformity Committee.

STATE TAX NEXUS EXPLANATION

The MTC also assists businesses involved in multistate commerce in voluntarily resolving potential state sales/use and income/franchise tax liabilities where nexus is the central issue. The program acts as a coordinator through which companies may approach 36 member states (AL, AK, AZ, AR, CA, CO, CT, DC, FL, HI, ID, IA, KS, KY, ME, MD, MA, MI, MN, MO, MT, NE, NH, NJ, NM, NC, ND, OH, RI, SC, SD, TX, UT, WA, WV, WI) anonymously and seek resolution of potential liabilities arising from past activities. It is the strict policy of the National Nexus Program member states and the MTC that they will not reveal the identity of a taxpayer to any state that does not accept the voluntary disclosure agreement. For further information on this program, refer to the AICPA *State Tax Nexus Checklist/Practice Guide*, or contact the MTC at 202-508-3800. We note that experience has shown that taxpayers may be able to negotiate a better arrangement directly with individual states.

Conclusion

The issue of nexus for sales/use and for income tax purposes is a complex one. As evidenced by the nexus questionnaires included in this checklist package, there is a tremendous degree of inconsistency among the states. The large number of court cases in this area highlight the fact that the Due Process and Commerce Clause analysis is largely dependent on the specific facts and circumstances of each case. Among the state court systems, emerging issues, such as agency nexus, affiliate nexus, electronic nexus, and economic nexus, evolve in the ever changing market place. This guide is meant as a broad reference tool in highlighting those areas that the individual states have deemed to create nexus within the state for purposes of subjecting the entity to taxation in the state.

		YES	NO	COMMENTS OR EXPLANATION
1)	Is the business qualified to do business in the state?	_____	_____	__________
2)	Is the business currently filing with the state (specify type of tax)?	_____	_____	__________
3)	Does the business have an office, agency, warehouse, or other business location owned or leased in the state?	_____	_____	__________
4)	Does the business maintain a telephone answering service in the state?	_____	_____	__________
5)	Does the business own or lease real property in the state?	_____	_____	__________
6)	Does the business own or lease tangible personal property located in the state?	_____	_____	__________
7)	Does the business rent or lease tangible personal property to others who then use the property in the state?	_____	_____	__________
8)	Does the business license intangible property for use in the state?	_____	_____	__________
9)	Does the business license software for use in the state?	_____	_____	__________
10)	Has the business ever executed contracts in the state?	_____	_____	__________
11)	Does the business have employees or representatives who perform any of the following activities in the state:	_____	_____	__________
	a) Solicit orders with or without authority to approve?	_____	_____	__________
	b) Engage in managerial or research activities?	_____	_____	__________
	c) Secure deposits on sales?	_____	_____	__________
	d) Make collections on regular or delinquent accounts?	_____	_____	__________
	e) Repossess items or property of the business?	_____	_____	__________
	f) Offer technical assistance and training to purchasers of its products before or after the sale?	_____	_____	__________

	YES	NO	COMMENTS OR EXPLANATION
g) Repair, service, or replace faulty or damaged goods?	_____	_____	_____________
h) Install or assemble its products?	_____	_____	_____________
i) Does the business license software for use in the state?	_____	_____	_____________
j) Inspect the installations of the business products by its customers or users of its products?	_____	_____	_____________
k) Pick up or verify destruction or damaged or returned merchandise from customers or users of the business products?	_____	_____	_____________
l) Coordinate delivery of merchandise, whether or not special promotions are involved?	_____	_____	_____________
m) Distribute replacement parts?	_____	_____	_____________
n) Conduct credit investigations or arrange for credit and financing for purchasers of its products?	_____	_____	_____________
o) Rectify or assist in rectifying any product, credit, shipping or similar complaint arising from the purchase or use of its products?	_____	_____	_____________
p) Service or maintain displays of its products?	_____	_____	_____________
k) Accept returned merchandise for customers?	_____	_____	_____________
r) Selling of tangible personal property?	_____	_____	_____________
s) Make "on the spot" sales of company products?	_____	_____	_____________
t) Carry out engineering or design functions?	_____	_____	_____________
u) Advise customers or distributors as to minimum inventory levels, remove obsolete, damaged or outdated goods?	_____	_____	_____________
v) Process complaints?	_____	_____	_____________
12) Does the business have a standard form of written agreement with sales representatives? If so, please enclose a copy.	_____	_____	_____________

	YES	NO	COMMENTS OR EXPLANATION
13) Is the business a member of an affiliated group of corporations?	_____	_____	__________
If so, does the business file a consolidated or combined return in the state?	_____	_____	__________
14) Does the business have display merchandise in leased space in the state?	_____	_____	__________
15) Do employees have samples in the state? If yes, then state the average value thereof.	_____	_____	__________
16) Does the business reserve the right of inspection of the customer's facilities or products after delivery?	_____	_____	__________
17) Does the business provide sales or service manuals to customers, distributors, or agents?	_____	_____	__________
18) Does the business advertise in the state? If so, list the different advertising media use.	_____	_____	__________
19) Does the business do any localized advertising (cooperative or otherwise) in the state?	_____	_____	__________
20) Does the business have any employees or representatives who use their home in state:	_____	_____	__________
a) As a business address?	_____	_____	__________
b) To receive business callers?	_____	_____	__________
c) To store inventory?	_____	_____	__________
d) To maintain books/records?	_____	_____	__________
e) To maintain company property?	_____	_____	__________
21) Are employees reimbursed for telephone, fax or utilities expenses?	_____	_____	__________
22) Are home numbers listed in local advertisements of the business?	_____	_____	__________
23) Do employees of the company solicit orders for the sale of:	_____	_____	__________
a) Real estate?	_____	_____	__________

	YES	NO	COMMENTS OR EXPLANATION
b) Services?	____	____	__________
c) Intangible property?	____	____	__________
24) Does the business perform construction contracts in the state?	____	____	__________
25) Is the business listed in any telephone directories in the state?	____	____	__________
26) Does the business have any consigned stock of goods in the state?	____	____	__________
27) Does the business operate a mobile store in the state?	____	____	__________
28) Has the business previously filed income tax returns in the state?	____	____	__________
29) Does the business maintain a security interest/mortgage in property until the contract price or amount borrowed has been paid?	____	____	__________
30) Do employees either investigate, recommend, or appoint potential dealers, agents, or distributors of the company in the state?	____	____	__________
31) Do employees ever check the inventories of customers or distributors in the state?	____	____	__________
32) Do employees authorize credits, warrant adjustments or repairs in the state?	____	____	__________
33) Does the business have agents or independent contractors selling products in the state? If so, are they forbidden from selling or promoting competitors' services?	____	____	__________
34) Does the business give approval to servicing distributors and dealers within the state where customers can have products serviced or repaired?	____	____	__________
35) Does the business participate in a partnership, as general or limited partner, which has operations, conducts business, or owns real property in the state?	____	____	__________

There are three methods of dividing the income tax base of a multistate corporation among the states in which it is taxable: (1) separate accounting, (2) specific allocation, and (3) formulary apportionment.

1. SEPARATE ACCOUNTING

Under the separate accounting method, the activities of a corporation within a state are considered separate and distinct from those outside the state. The corporation attempts to source each item of revenue and expense to the state where it was generated.

Because it has several major weaknesses, separate geographical accounting in the state tax area (once the preferable method for determining the income of a corporation) is now used only in limited instances. Its primary weaknesses are the lack of accuracy and ease of manipulation.

2. SPECIFIC ALLOCATION

Under the specific allocation method, while certain types of income are traced to their source or other connection with a state and attributed solely to that state, other types of income are apportioned among the states where the corporation is doing business. In most states, income that is classified as nonbusiness may be specifically allocated and income that is classified as business may be subject to apportionment.

A. Business v. Nonbusiness Income

The distinction between business and nonbusiness income is significant because while nonbusiness income is allocable to a specific state (either the taxpayer's state of commercial domicile or the situs of the property), business income will be subject to apportionment and will be divided among the states in which the multistate taxpayer does business based on a mathematical apportionment formula.

The three main methods used to determine whether income is business or nonbusiness are:
1) UDITPA Definitions of Business and Nonbusiness Income;
2) MTC Regulations (when adopted by a state); and
3) United States Supreme Court cases.

1) UDITPA Definitions of Business and Nonbusiness Income

Under UDITPA, business income is defined as income that arises from transactions and activities in the regular course of the taxpayer's trade or business and includes income from tangible and intangible property if the acquisition, management, and disposition of the property constitute integral parts of the taxpayer's regular trade or business operations. UDITPA §1(a). UDITPA defines nonbusiness income as all income *other than* business income. UDITPA §1(e).

Most states interpret the UDITPA (Uniform Division of Income for Tax Purposes Act) definition of business income as incorporating two tests for determining whether income is business income. The tests are referred to as the "transactional test" and the "functional test." Most states take the position that if income is classified as business income under *either* test, the income will be classified as business income. However, the courts of several states have interpreted the UDITPA language as requiring both tests be satisfied in order to classify income as business income.

a. Transactional Test

Under the transactional test, income is considered business income if it arises from "transactions and activities in the regular course of the taxpayer's trade or business." The focus is on the *type of transaction* giving rise to the income, and how the transaction relates to the taxpayer's regular trade or business.

Example: The sale of a factory by a manufacturer normally would be considered unusual, extraordinary, and occurring outside the normal course of business. As such, the gain would be considered nonbusiness income under the transactional test.

b. Functional Test

Under the functional test, income is considered business income if the acquisition, management, and disposition of the asset that generates the income constitute integral parts of the taxpayer's regular trade or business operations. The functional test focuses on the *relationship* between the asset giving rise to the taxable income, and the business itself.

Example: Gain or loss on the sale of a factory by a manufacturer likely would be considered business income under the functional test because the factory was acquired and used in the taxpayer's regular trade or business.

2) MTC Regulations

Under the Multistate Tax Commission (MTC) regulations, which interpret UDITPA, there is a presumption in favor of classifying income as business income. According to the MTC regulations, "the income of a taxpayer is business income unless clearly classifiable as nonbusiness income." MTC Reg. §IV.1.(a). The following are examples of business income under the MTC Regulations:

- Rents received from property "used" in or "incidental [to]" the taxpayer's trade or business.
- Gains and losses from dispositions of real or personal property if the property was used in the taxpayer's trade or business.
- Interest, if the intangible generating the interest is used or arose from the trade or business or where the purpose for acquiring and holding the intangible is related to or incidental to such trade or business operations.
- Dividends, if the stock arose out of or was acquired in the regular course of the taxpayer's trade or business operations or where the purpose for acquiring and holding the stock is related to or incidental to the taxpayer's trade or business.
- Patent and copyright royalties are business income if the patent or copyright arose out of or was created in the regular course of the taxpayer's trade or business operations or where the purpose for acquiring and holding the patent or copyright is related to or incidental to such trade or business operations.

3) The United States Supreme Court

In addition to the rules under UDITPA and the MTC regulations, the U.S. Supreme Court has adopted another test to determine whether income is subject to apportionment.

In *Allied-Signal, Inc. v. Director, Division of Taxation*, 504 U.S. 768 (1992), the Court held that only income from the taxpayer's unitary business is apportionable income. If the taxpayer's activities and properties are part of a unitary business, income from such activity or property is considered to be derived from the regular course of the taxpayer's trade or business and is deemed to be apportionable income. Income that is unrelated to the taxpayer's unitary business is considered to be income subject to allocation.

However, while affirming the unitary test for determining whether income is apportionable, the Court held that it is not the exclusive means of meeting the constitutional requirements for apportioning income.

The Court introduced the operational versus investment function test. Under this test, a transaction or activity may create apportionable income if it serves an operational, rather than an investment, function. By way of example, the Court pointed out that interest earned by a corporation on short-term bank deposits used as working capital may be apportionable even though the bank and corporation are not engaged in a unitary business. Likewise, income received from stock of a company held by a corporation to ensure a steady supply of raw materials for the corporation's production process would presumably constitute apportionable income even if the supplier was not part of the taxpayer's unitary business. Similarly, income from stock investments that constitute interim uses of idle funds accumulated for future business operations would apparently constitute apportionable income.

As in *ASARCO v. Idaho State Tax Comm'n*, 458 U.S. 307 (1982), the Court rejected a "business purpose" test, stating that the mere fact that an intangible asset was acquired pursuant to a long-term corporate strategy of acquisitions and dispositions does not convert an otherwise passive investment into an operational function.

B. Allocation Of Nonbusiness Income

Once income has been classified as nonbusiness, the next step is determining to which state it is allocated. Generally, the income is sourced to the state in which the property is located (for tangible assets) or to the taxpayer's commercial domicile (for intangible assets).

1) Commercial Domicile

Depending on the taxpayer, the identification of a taxpayer's state of commercial domicile can be a very simple or a more complex process. Under UDITPA §1(b), commercial domicile is defined as the "principal place from which the trade or business of the taxpayer is directed or managed." The criteria that are typically used to determine the commercial domicile of a taxpayer include:

- Site of board of directors' meetings;
- Location of stockholder meetings;
- Location and residence of the officers; and
- Location of corporate records and bank accounts, etc.

Although many states apportion business income and allocate nonbusiness income, not all states follow this practice. Some states specifically allocate only specified types of income (*e.g.*, interest, dividends, rents, royalties) and others apportion all types of income except that on which the state is prohibited under the U.S. Constitution from imposing tax - See *Allied Signal*.

3. FORMULARY APPORTIONMENT

As indicated above, certain states apportion income that is classified as "business" income. However, according to the U.S. Supreme Court, the Constitution requires that formulary apportionment be applied only to the income of a unitary business. As the Court states, "[t]he linchpin of apportionability in the field of state taxation is the unitary business principle." *Mobil Oil Corp. v. Commissioner of Taxes*, 445 U.S. 425 (1980).

A. Unitary Business

A number of requirements for determining the scope of a unitary business have developed. In addition to Supreme Court decisions addressing unitary business principles, the following tests devised at the state level have gained widespread applicability: (1) the three unities test, (2) the contribution and dependency test, (3) the Multistate Tax Commission test, and (4) the factors of profitability test. There may also be "unitary" implication for a single corporate entity in addition to "unitary" implications in relation to a unitary group of affiliated corporations

MULTISTATE TAX ISSUES - EXPLANATION

1) Three Unities Test

The three unities approach was developed in *Butler Brothers v. McColgan*, 111 P.2d 334, 341 (Cal. 1941), and provides that analytically "the unitary nature of a business is definitely established by the presence of the following circumstances: (1) unity of ownership; (2) unity of operation as evidenced by central purchasing, advertising, accounting, and management divisions; and (3) unity of use in its central executive force and general system of operation."

Unity of ownership refers to a common ownership structure of a business and its affiliates. Although the resolution of this test depends in large part on the particular provisions of each states' law, as a general rule, there must be greater than 50 percent stock ownership before a group of businesses satisfy the unity of ownership requirement.

Unity of operation is evidenced by centralized support functions such as:
- corporate accounting;
- legal;
- personnel;
- purchasing;
- advertising;
- selling; and
- research and development, or other like departments.

Unity of use is apparently shown by a central executive force, and a general system of operations. Although unity of use appears to require executive direction to achieve corporate goals, it is not clear as to what extent control must be exercised by the central executive force.

Although it is hard to differentiate between the unity of operation and unity of use tests, one California decision, *Chase Brass & Copper Co. v. Franchise Tax Board*, 10 Cal. App. 3d 496 (1970), attempted to reconcile the two tests. The unity of operation test refers to the personnel of an organization who furnish auxiliary and advisory services and do not directly participate in production. The unity of use test refers to the personnel who are directly responsible for manufacturing and assembling functions in the various stages of production.

2) Contribution and Dependency Test

The contribution and dependency approach was set forth in *Edison California Stores v. McColgan*, 183 P.2d 16 (Cal. 1947). The California Supreme Court stated that where "the operation of the portion of the business done within the state is dependent upon or contributes to the operation of the business without the state, the operations are unitary," 183 P.2d at 24-25.

This test is the one most widely used in determining whether a unitary business exists. Although it does not suffer from the narrow scope of the three unities test, its breadth is also the test's primary weakness because of its inability to identify what elements are important in making a unitary determination.

If any element of operational interdependence, however insubstantial, was sufficient to create a unitary business, then apparently any commonly controlled businesses would constitute a unitary business (*e.g.*, due to common accounting and reporting systems, common officers, common insurance plans) under this test. Thus, for the unitary business concept to have any meaning, some weight apparently must be given to the substantiality of the interdependence.

3) Multistate Tax Commission Test

The Multistate Tax Commission (MTC) has issued guidance on whether the activities of a taxpayer are to be regarded as a single trade or business or separate trades or businesses and, although the regulations speak of the operations of one taxpayer, many states have chosen to apply the rules across legal entities.

According to MTC Reg. §IV.1.(b), any of the following factors creates a strong presumption that the activities of the taxpayer constitute a unitary business:

- Same type of business;
- Steps in a vertical process; and
- Strong centralized management.

4) Factors of Profitability Test

In *Mobil Oil Corp. v. Vermont Tax Commissioner*, 445 U.S. 425 (1980), the U.S. Supreme Court held that the income of a multistate business can be apportioned if its intra-state and out-of-state activities from a part of a unitary business. In *Mobil*, the Court set out the following factors, which have become the basis of determining whether a business is unitary:

- functional integration;
- centralization of management; and
- economies of scale.

B. Apportionment Formulas

Under formulary apportionment, there is no attempt to trace items of income to the state in which the income was generated. Rather, a formula is used to arrive at an accurate approximation. Formulary apportionment divides a multistate corporation's tax base among the states in which it does business by applying a fraction representing the ratio of in-state factors to total factors. Formulary apportionment merely approximates the amount of income of a business that should be attributed to a particular state. Dividing the income of a corporation by the use of a statutory formula provides a rough approximation of the corporation's income that is reasonably attributable to the corporation's operations in the state.

The fact that a corporation has sales in other states does not automatically mean the corporation has the right to allocate and apportion its income. Most states do not permit a corporation to allocate or apportion its income to other states unless the corporation is taxable in another state. Some states require that the corporation actually file an income tax return with at least one other state before the corporation has the right to allocate and apportion its income.

The method most frequently used to apportion business income to a particular state uses a three-factor formula that compares the ratio of in-state to overall property, payroll, and sales.

Although most states use the standard evenly-weighted, three-factor formula, certain states incorporate formulas that deviate slightly from the standard formula. For example, a majority of states assign more weight to the sales factor than the other two factors (i.e., double weight the sales factor) or use a formula with less than three factors (two-factor or single-factor formulas). In addition, some states provide different formulas depending upon the taxpayer's industry.

MULTISTATE TAX ISSUES – EXPLANATION

Generally, in determining the apportionment formula, the sum of the factors is divided by no more than the number of applicable factors. Therefore, if one or more of the factors is not present for the total operations of a corporation (i.e., the denominator of the factor is zero), the average apportionment typically is determined by dividing the sum of the factors by the number of the factors present. For example, for a state that has adopted an evenly-weighted three-factor formula, if either the sales, property or payroll factors are not present, the apportionment formula is determined by dividing the sum of the remaining two factors by two.

In general, a taxpayer first ascertains the income that is to be apportioned (and then multiplies this amount by the arithmetical average of three ratios:

- in-state property to total property;
- in-state payroll to total payroll; and
- in-state sales to total sales.

1) Property Factor

In general, the property factor consists of the taxpayer's real and tangible personal property owned or rented and used during the tax period in the regular course of the taxpayer's trade or business. Intangible property is not usually included in the property factor. Additionally, only property used to produce business income, not property that produces nonbusiness income, is included in the property factor. Property owned typically is valued at its average (beginning of year and end of year) cost. Rented property usually is valued at eight times its annual rental.

2) Payroll Factor

In general, the payroll factor consists of compensation paid by the taxpayer in the regular course of its trade or business during the tax period. Compensation consists of:

- taxable wages
- salaries;
- commissions; and
- any other form of remuneration paid to employees for personal services, (but does not include amounts paid to independent contractors).

Some states exclude officers' compensation from the payroll factor.

3) Sales Factor

In general, the sales factor consists of all gross receipts from transactions and activities in the regular course of the taxpayer's trade or business. The sales factor normally includes, but is not limited to the following:

- gross sales (less returns and allowances)
- fees and commissions received from the performance of services;
- rents and lease payments received from renting real or tangible property;
- proceeds from the disposition of other tangible and intangible assets; and
- royalties and other payments received from the sale, assignment, or licensing of intangible personal property such as patents and copyrights.

In order to prevent certain receipts from escaping inclusion in any state's sales factor numerator, many states incorporate the "throwback" rule. Sales to a destination state where the seller is not taxable (*e.g.*, because its activities do not exceed solicitation under P.L. 86-272) are "thrown back" to the numerator of the state from which the goods were shipped.

NET OPERATING LOSSES (NOLs) STATE TAX ISSUES – EXPLANATION

Most states permit a deduction for NOLs. While some states explicitly adopt the federal NOL deduction by using line 30 of federal Form 1120 (taxable income after the NOL deduction and special deductions) without modification as the starting point for computing state taxable income, others use line 30 as the starting point of the state tax calculation, but add back the federal NOL deduction and provide a specific computation of the state NOL deduction. Still other states begin the tax calculation with line 28 of the federal return (taxable income before NOL deduction and special deductions) and provide their own set of rules for determining the NOL deduction. These states typically permit a state-level NOL deduction that generally parallels the federal approach.

The most common variation in determining state NOLs involves the determination of the period of carryback and carryforward. Many states do not follow the federal rules under I.R.C. §172. Approximately 15 states limit the carryforward period, while approximately 20 states do not allow NOL carrybacks at all. Note that federal and state NOL periods may not match because the taxpayer may not have been doing business in the state in the loss year, or because the NOL arose before the state began imposing the tax.

Regardless of conformity to line 28 or 30, the state NOL and the amount of carryback or carryover allowed may differ from the federal amount as a result of state adjustments (modifications), the application of apportionment factors, whether the corporation was subject to the state's tax in the loss year, and the segregation of business and nonbusiness income (*i.e.*, allocation of nonbusiness income and the apportionment of business income).

Some states require that the NOL be carried over from the loss year after allocation and apportionment. These states provide that the NOL deduction should be applied in the carryover year after allocation and apportionment. This permits only the loss attributable to that state to be carried over against income from that state.

In determining the amount of NOLs in states that compute NOLs on a post-apportionment basis, a state may use the apportionment factor in the loss year or the apportionment factor in the year the loss is utilized. Other states, however, allow the NOL computation to be made before apportionment and permit the deduction to be applied in the carryover year before apportionment.

A few states permit an affiliated group of corporations to file a consolidated state return rather than separate returns for each affiliated corporation if the requirements of the Internal Revenue Code and state law are satisfied. Even if consolidated returns are filed at both the federal and state levels, the calculation of the NOL deduction for federal and state purposes may differ markedly.

CONSOLIDATED RETURNS

Some states, even in the context of a consolidated filing, may require NOLs to be tracked on a separate company basis.

Some states add their own restrictions on the use of NOLs generated in separate return filing years. A number of states do not permit consolidated returns and hence require affiliated group members filing a consolidated federal return to compute their state NOL deductions on a separate company basis.

COMBINED REPORTING

Combined reporting may be elective or required by a state. States that provide for combined reporting differ as to how the NOL computation is to be made. If a state allows or requires a member of an affiliated group filing a consolidated federal return to file on a separate company basis, the NOL generally is computed as if the member filed on a separate company basis for federal income tax purposes. Thus, the NOLs available for state purposes may differ from those reported on the federal consolidated returns.

Note that each state's definition of consolidated versus combined reporting should be reviewed prior to preparing any state tax returns. Also note that the states vary in their treatment of NOL carryovers after corporate reorganizations, acquisitions, or liquidations.

STATE CORPORATION INCOME TAX RETURN CHECKLIST
1998

Client Name and Number:____

Prepared by:__________________ Date:______________ Reviewed by:______________ Date:__________

	DONE	N/A	COMMENTS OR EXPLANATION
100) GENERAL INFORMATION			
101) For comprehensive charts and lists of various items and requirements (e.g., tax rates, filing dates, extensions, estimated taxes, exemptions, reports, limitation periods, NOL deductions, etc.), refer to state tax reporter services such as the *All States State Tax Guide* or *Multistate Corporate Income Tax Guide* or *CCH State Tax Review* by Commerce Clearing House (CCH), or other publications by Tax Management, Inc./The Bureau of National Affairs, Inc., or the Federation of Tax Administrator's internet web page at http://sso.org/fta/fta.html	______	______	______
102) Obtain information concerning state tax audits and correspondence	______	______	______
103) If a federal audit has been settled, notify states properly.	______	______	______
104) Determine if the client has sufficient connection with any other state that may require an income and/or franchise tax return. Note that requirements for filing a franchise tax return may differ from requirements for filing an income tax return. If multistate, see items under 500) below.	______	______	______
105) Consult the *Unique State by State Considerations for State Corporation Tax Returns* (also in this AICPA *Tax Practice Guides and Checklists* publication package) for common problems and unique tax issues for each state tax return to be prepared. Also consult the various *Nexus, Multistate Tax and State NOL Issues Practice Guides* in this AICPA *Tax Practice Guides and Checklists* publication package for a discussion which may be helpful for further information relevant to the questions below in 109), 600), and 700).	______	______	______
106) Obtain and review information related to state statutory, regulatory or administrative changes since the filing of the prior return.	______	______	______
107) Review prior year returns.	______	______	______
108) Consider the impact of any acquisitions, divestitures and reorganizations on state income and franchise taxes.	______	______	______
109) Determine with the client the proper filing status (combined or separate reporting, unitary issues, consolidated) for multicompany entities. Check for election possibilities or a mandatory method	______	______	______
110) If an S corporation return is prepared, review S corporation provisions for each state and review taxation of S corporation shareholders, especially nonresidents, for each state. In addition, determine if any QSSS's exist.	______	______	______

STATE CORPORATION INCOME TAX RETURN CHECKLIST
1998

	DONE	N/A	COMMENTS OR EXPLANATION
200) INCOME			
201) If the state uses income on the federal return as a starting point, either before or after the net operating loss deduction or special deduction, transfer income information from the federal return.	______	______	______
202) Determine interest and dividends from bonds that are exempt from federal tax for possible add back. Check for possible offset of direct expenses against the tax-exempt income.	______	______	______
203) Determine each state's tax-exempt interest and dividends for possible deduction (i.e., home state interest if all states' interest was added back in item 202) above. Check for possible offset of direct expenses against the tax-exempt income.	______	______	______
204) Determine interest and dividends from U. S. government obligations for possible deduction. Check for possible offset of direct expenses against the tax-exempt income.	______	______	______
205) Check for any other income taxable on the state return that was not taxed on the federal return.	______	______	______
206) Check for any income taxable on the federal return that may not be taxable on the state return.	______	______	______
300) DEDUCTIONS			
301) Determine any differences between federal and state deductions (e.g., state tax deduction, dividend received deduction, depreciation).	______	______	______
302) Determine any differences between federal and state carryovers (e.g., capital loss, excess charitable contributions).	______	______	______
400) TAX COMPUTATION AND CREDITS			
401) Determine any state alternative minimum tax.	______	______	______
402) Compute any applicable tax credits (e.g., investment, jobs, enterprise, environmental, rehab) including carryovers.	______	______	______
403) Compute any credit recaptures.	______	______	______
404) Claim all estimated and extension tax payments.	______	______	______
405) Prepare estimated tax vouchers.	______	______	______
406) Compute tax underpayment penalties.	______	______	______

Page Complete ☐

	DONE	N/A	COMMENTS OR EXPLANATION
500) MULTISTATE ISSUES			
501) Determine in which states a multistate corporation is required to file income or franchise tax returns. Consult the *AICPA State Tax Nexus Checklist/Practice Guide* for guidance. See the *State Corporate Tax Issues Practice Guide* (also in this AICPA *Tax Practice Guides and Checklists* publication package) for an overview of nexus and details on ordering the AICPA *State Tax Nexus Checklist/Practice Guide.*	______	______	______
502) Consult the *State Corporate Tax Issues Practice Guide* (also in this AICPA *Tax Practice Guides and Checklists* publication package) for information on multistate allocation and apportionment and net operating loss issues.	______	______	______
503) If the corporation is not taxable in more than one state, determine whether the corporation is permitted to apportion its income.	______	______	______
504) Determine the available methods of dividing the income tax base of a multistate corporation for all states for which returns are required (i.e., separate accounting, specific allocation, formulary apportionment). Check for any states with special elections available.	______	______	______
505) If separate accounting method is available and beneficial, determine if necessary records for separate accounting are available.	______	______	______
506) Determine the need to distinguish between business income and nonbusiness income. Review the respective tests.	______	______	______
507) Determine if the corporation has income subject to specific allocation. If so, determine treatment of expenses directly or indirectly related to allocated income. (These are generally added back or netted against the applicable income.)	______	______	______
508) Determine whether the state in which you are filing requires or permits unitary, combined or consolidated reporting and if so, which test(s) applies.	______	______	______
509 Determine each state's restriction, if any, on the offset of capital gains against capital losses.	______	______	______
510) Determine the total income that is to be apportioned.	______	______	______
511) Determine each state's apportionment formula for business income.	______	______	______
.1) Check whether any of the states' formulas differ from the standard three-factor formula (e.g., double weighted sales factor, a formula with less than three factors or a specific formula based on the corporation's industry).	______	______	______
.2) Check the various states' rules that establish what items are included in the factors, the timing of entry and removal from the factors, the evaluation of items included in the factors, and how items are assigned to a particular state and included in that state's apportionment factor numerator.	______	______	______
512) Determine the amounts to be included in the property factor and check the various states' rules concerning the use of cost or adjusted book values in property values.	______	______	______

	DONE	N/A	COMMENTS OR EXPLANATION
513) Determine the amounts to be included in the payroll factor and check the various states' rules for treatment of special classes of compensation such as compensation of corporate officers, commissions and other compensation, or payments to independent contractors.	________	______	______________
514) Determine the amounts to be included in the sales factor considering each state's rules concerning "throwback" sales.	________	______	______________
600) STATE NOL ISSUES			
601) Determine each state's rules concerning calculation of net operating losses (NOLs) and any related carrybacks or carryforwards.	________	______	______________
602) Determine each state's starting point for calculation of an NOL, such as federal taxable income with or without NOL modification, or federal taxable income before the federal NOL deduction with a state specific NOL calculation.	________	______	______________
603) For multistate returns:			
.1) Determine each state's effect on the NOL and the amount of carryback or carryforward due to state modifications, apportionment factors, and the allocation of nonbusiness income.	________	______	______________
.2) Determine whether each state's loss can be carried back or carried forward only against income from that state.	________	______	______________
.3) Determine whether NOL carryforwards and carrybacks use the apportionment factor for the year of the loss or for the year the loss is utilized.	________	______	______________
604) For affiliated groups of corporations filing a consolidated return:			
.1) Determine whether state NOLs may be required to be tracked on a separate entity basis.	________	______	______________
.2) Check for state requirements concerning separate return filing years and effects on NOL carryforwards and carrybacks.	________	______	______________
605) If combined corporate reporting is allowed or required by a state, check if combined or separate method is used for calculating the NOL for that state.	________	______	______________
606) Check on the treatment of any NOL carryovers if a corporation has had a reorganization, acquisition, or liquidation.	________	______	______________
607) Consult the <u>*State Corporate Tax Issues Practice Guide*</u> (also in this AICPA *Tax Practice Guides and Checklists* publication package) for an explanation of state net operating loss issues.	________	______	______________
700) OTHER REQUIREMENTS			
701) Attach extensions and other required attachments.	________	______	______________
702) Identify planning opportunities for minimizing state taxes.	________	______	______________

STATE CORPORATION INCOME TAX RETURN CHECKLIST
1998

	DONE	N/A	COMMENTS OR EXPLANATION
703) Identify and report any out of jurisdiction purchases for use tax.	____	____	____
704) Determine if the corporation would gain any state tax advantages by changing its state of incorporation or principal office.	____	____	____
705) Consider preparing a note for the top of the file concerning state items to track, carryforward items, and any matters of future concern	____	____	____

COMMENTS OR EXPLANATIONS

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Page Complete ☐

STATE INDIVIDUAL INCOME TAX RETURN CHECKLIST
1998

Client Name and Number:____

Prepared by:________________ Date:__________ Reviewed by:__________ Date:________

	DONE	N/A	COMMENTS OR EXPLANATION
100) GENERAL INFORMATION			
101) For comprehensive charts and lists of various items and requirements (e.g., tax rates, filing dates, extensions, estimated taxes, exemptions, reports, limitation periods, NOL deductions, etc.), refer to state tax reporter services such as the *All States State Tax Guide* or *CCH State Tax Review* by Commerce Clearing House (CCH), or other publications by Tax Management, Inc./The Bureau of National Affairs, Inc., or the Federation of Tax Administrator's internet web page at http://sso.org/fta/fta.html			
102) Obtain information concering state tax audits and correspondence.			
103) If a federal audit has been settled, notify states properly.			
104) Determine if the client has sufficient connection with any other state that may require an income and/or franchise tax return (i.e., through the ownership of property, S corporation stock, partnership interests, etc.) Note that requirements for filing a franchise tax return may differ from requirements for filing an income tax return. If multistate, see items under 500) below			
105) Consult the *Unique State by State Considerations for State Individual Tax Returns* (also in this AICPA *Tax Practice Guides and Checklists* publication package) for common problems and unique tax issues for each state tax return to be prepared.			
106) Obtain and review information related to state statutory, regulatory or administrative changes since the filing of the prior return.			
107) Review prior year returns.			
108) Check the client's filing status for state purposes and any benefit from separate spousal income calculations where available.			
200) INCOME			
201) If the state uses income on the federal return as a starting point, transfer income information from the federal return			
202) Determine interest and dividends from bonds that are exempt from federal tax for possible add back. Check for possible offset of direct expenses against the tax-exempt income.			
203) Determine each state's tax-exempt interest and dividends for possible deduction (i.e., home state interest if all states' interest was added back in item 202) above). Check for possible offset of direct expenses against the tax-exempt income.			
204) Determine interest and dividends from U. S. government obligations for deduction. Check for possible offset of direct expenses against the tax-exempt income.			
205) Check for any other income taxable on the state return that was not taxed on the federal return.			

	DONE	N/A	COMMENTS OR EXPLANATION
206) Check for any income taxable on the federal return that may not be taxable on the state return (e.g., pensions, IRAs, state tax refund, Social Security, lottery winnings).			
207) Check for the client's qualification for any special income exclusion programs (e.g., senior citizen, low income, military).			
300) DEDUCTIONS			
301) Determine the state's treatment of standard or itemized deductions and personal exemptions			
302) Determine any differences between federal and state deductions (e.g., IRA, SEP, Keogh, state tax deduction, federal tax deduction, NOLs).			
303) Determine the client's qualification for any special state deduction program (e.g., adoption of special needs children, senior citizen, renter).			
400) TAX COMPUTATION AND CREDITS			
401) Determine any state alternative minimum tax.			
402) Compute any applicable tax credits (e.g., investment, jobs, enterprise, renter, senior citizen, rehab) including carryovers.			
403) Compute any credit recaptures.			
404) Claim all withholding, estimated and extension tax payments.			
405) Prepare estimated tax vouchers.			
406) Compute tax underpayment penalties.			
407) Determine the client's wishes concerning any refund checkoff programs.			
408) Determine the client's wishes concerning any overpayment (refund or carryover).			
500) MULTISTATE ISSUES			
501) Determine the source state of all sources of income.			
502) Calculate taxable income in each state based on applicable states' rules.			
503) For business returns, calculate the allocated income and apportionment factors for each state. (Note that states are not consistent in determination of these items.)			
504) For business returns, advise the client of their exposure to other tax programs (e.g., sales, license, employment, inventory, property).			
505) Determine if a credit for taxes paid to other states is available.			

STATE INDIVIDUAL INCOME TAX RETURN CHECKLIST
1998

	DONE	N/A	COMMENTS OR EXPLANATION
600) OTHER REQUIREMENTS			
601) Attach extensions, Forms W-2 and other required attachments.	______	______	______
602) Identify planning opportunities for minimizing state taxes.	______	______	______
603) Identify and report any out-of-state purchases if required to be reported for use tax purposes.	______	______	______
604) Consider preparing a note for the top of the file concerning state items to track, carryforward items, and any matters of future concern.	______	______	______

COMMENTS OR EXPLANATIONS

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1998 GUIDES BY S CORPORATION TAXATION COMMITTEE

CONTENTS

Subchapter S Related Elections

	Election	Manner of Making Election	Date for Making Election	Authority
1.	Election of S corporation status.	Form 2553 with signed consent of officer of corporation and of each shareholder.	Any time during preceding taxable year or by the 15th day of the third month of the taxable year.	Code Section 1362(a) and (b); Reg. Section 1.1362-6(a).
2.	Election to treat a wholly-owned subsidiary as a qualified subchapter S subsidiary ("QSub").	Form 966 signed by officer of parent S corporation.	For a prospective election, election may be made at any time. For a retroactive election, within 75 days of the desired effective date.	Code Section 1361(b)(3); Notice 97-4.
3.	Election to treat a trust as a qualified subchapter S trust ("QSST").	On Form 2553 or separate statement. Beneficiary must consent.	Within two months and 15 days after the first day on which the trust must qualify as a QSST.	Code Section 1361(d)(2)(D) and Reg. Section 1.1361-1(j)(6). See Reg. Section 1.1361-1(j)(6)(iv) regarding a protective QSST election available for certain grantor trusts.
4.	Election to treat a trust as an electing small business trust ("ESBT").	Separate election statement. Trustee must consent to election.	Within two months and 15 days after the first day on which the trust must qualify as	Code Section 1361(e)(3); Notice 97-12.
5.	Election to convert a QSST to an ESBT.	Separate election statement. Consent of beneficiary and trustee required.	Any time within the 12 month period prior to desired effective date or within two and one half months after desired effective date.	Rev. Proc. 98-23.

	Election	Manner of Making Election	Date for Making Election	Authority
6.	Election to convert an ESBT to a QSST.	Separate election statement. Consent of beneficiary and trustee required.	Any time within the 12 month period prior to desired effective date or within two and one half months after desired effective date.	Rev. Proc. 98-23.
7.	Successive income beneficiary affirmative refusal to consent to QSST election.	Separate election statement. Consent of successive income beneficiary required.	Within two and one half months after the date on which the successive income beneficiary becomes the income beneficiary.	Code Section 1361(d)(2); Reg. Section 1.1361-1(j)(10).
8.	Revocation of S corporation election.	Separate election statement. Consent of corporate officer and shareholders owning more than 50 percent of the corporation's outstanding stock required.	Any time on or before desired effective date; within first two and one half months of tax year to be retroactive to beginning of tax year.	Code Section 1362(d)(1); Reg. Section 1.1362-2(a) and 1.1362-6(a)(3).
9.	Recission of revocation of S corporation election.	Separate election statement. Consent of each person who consented to revocation is required. In addition, the consent of each person who became a shareholder after the revocation was made must consent.	Any time prior to the revocation becoming effective.	Reg. Section 1.1362-2(a)(4) and 1.1362-6(a)(4).

Election	Manner of Making Election	Date for Making Election	Authority
10. Election to allocate income during S termination year using other than pro rata allocation.	Separate election statement. Officer of corporation, each shareholder during S short year and each shareholder as of the first day of the C short year must consent.	Attach to tax return for the C short year.	Code Section 1362(e)(3); Reg. Section 1.1362-3(b) and 1.1362-6(a)(5).
11. Elective ordering rule for adjustments to basis.	Separate election statement.	Attach to shareholder return. Once election is made, IRS permission is required to change.	Reg. Section 1.1367-1(f).
12. Election to distribute earnings and profits first.	Separate election statement signed by officer of coporation. All affected shareholders must consent.	Attach to timely filed original or amended S corporation return.	Code Section 1368(e)(3); Reg. Section 1.1368-1(f)(2) and (5).
13. Election to make a deemed dividend.	Separate election statement signed by officer of coporation. All affected shareholders must consent.	Attach to timely filed original or amended S corporation return.	Reg. Section 1.1368-1(f)(3) and (5).
14. Election to forego previously taxed income.	Separate election statement signed by officer of coporation. All affected shareholders must consent.	Attach to timely filed original or amended S corporation return.	Reg. Section 1.1368-1(f)(4) and (5).
15. Election to terminate year for purposes of allocating S corporation income in the event of a qualifying disposition.	Separate election statement signed by officer of corporation and consented to by all affected shareholders.	Attach to timely filed original or amended S corporation return for the year in which the qualifying disposition occured.	Reg. Section 1.1368-1(g).

Election	Manner of Making Election	Date for Making Election	Authority
16. Election to distribute earnings and profits first during post-termination transition period ("PTTP").	Separate election statement signed by officer of corporation and consented to by all shareholders receiving distributions during the PTTP.	Attach to C corporation return for the taxable year in which the PTTP ends.	Code Section 1371(e)(2); Temp. Reg. Section 18.1371-1.
17. Election to terminate year for purposes of allocating S corporation income upon the complete termination of a shareholder's interest.	Separate election statement signed by officer of corporation and consented to by all affected shareholders.	Attach to timely filed original or amended S corporation return for the year in which the shareholder's interest terminated.	Code Section 1377(a)(2); Reg. Section 1.1377-1(b).
18. Election to use other than a required tax year.	Form 8716.	File by the earlier of the 15th day of the fifth month that includes the first day of the tax year the election will be effective, or the unextended due date of the income tax return for the tax year resulting from the election.	Code Section 444; Temp. Reg. Section 1.444-3T.
19. Termination of election to use other than a required tax year.	Statement with return for the short period resulting from the termination of the election to use other than a required tax year.	Due date of timely filed return for the short period resulting from the termination of the election to use other than a required tax year.	Temp. Reg. Section 1.444-1T(a)(5).