

Preparing 2018 Business Tax Returns

Published and Distributed by
The CPE Store, Inc.
www.cpestore.com

Table of Contents

Module 1 – Chapters 1-3

Chapter 1 – Corporations	1
Learning Objectives	1
Introduction.....	1
Businesses Taxed as Corporations	1
Property Exchanged for Stock.....	2
Capital Contributions.....	4
Filing and Paying Income Taxes.....	4
Accounting Methods.....	8
Accounting Periods	9
Recordkeeping.....	9
Income, Deductions, and Special Provisions	9
Figuring Tax.....	17
Accumulated Earnings Tax.....	19
Distributions to Shareholders	19
Review Questions	24
Review Answers	25
Chapter 2 – Partnerships	27
Learning Objectives	27
Introduction.....	27
Forming a Partnership.....	27
Terminating a Partnership.....	29
Exclusion from Partnership Rules.....	30
Partnership Return (Form 1065).....	31
Partnership Distributions	31
Transactions Between Partnership and Partners	35
Basis of Partner’s Interest	40
Disposition of Partner’s Interest.....	43
Review Questions	48
Review Answers	49
Chapter 3 – Limited Liability Companies	51
Learning Objectives	51
Introduction.....	51
What is a Limited Liability Company?	51
Classification of an LLC.....	51
LLCs Classified as Partnerships.....	51
LLCs Classified as Disregarded Entities	52
LLCs Classified as Corporations	53
Subsequent Elections	54
Community Property	54
Review Questions	55
Review Answers	56

Module 2 – Chapters 4-6

Chapter 4 – Tax Exempt Organizations: Filing Requirements & Required Disclosures	57
Learning Objectives	57
Introduction.....	57
Types of Tax Exempt Organizations & Filing Requirements.....	57
Annual Information Returns.....	60
Unrelated Business Income Tax Return	63
Employment Tax Returns.....	64

Table of Contents

Donee Information Return	65
Information Provided to Donors	66
Report of Cash Received	70
Public Inspection of Exemption Applications, Annual Returns, and Political Organization Reporting Forms	70
Required Disclosures	73
Miscellaneous Rules	75
Review Questions	77
Review Answers	78
Chapter 5 – Tax Exempt Organizations: 501(c)(3) Organizations.....	81
Learning Objectives	81
Introduction.....	81
Contributions to 501(c)(3) Organizations	81
Application for Recognition of Exemption.....	83
Articles of Organization	86
Educational Organizations and Private Schools.....	87
Organizations Providing Insurance	92
Other Section 501(c)(3) Organizations	92
Private Foundations and Public Charities	96
Lobbying Expenditures.....	124
Review Questions	128
Review Answers	129
Chapter 6 – Tax Exempt Organizations: Excise Taxes	131
Learning Objectives	131
Introduction.....	131
Prohibited Tax Shelter Transactions.....	131
Excess Benefit Transactions	132
Excess Business Holdings	138
Taxable Distributions of Sponsoring Organizations.....	138
Taxes on Prohibited Benefits Distributed from Donor Advised Funds.....	139
Excise Taxes on Private Foundations.....	140
Excise Taxes on Black Lung Benefit Trusts.....	140
Excise Tax on Failure to Meet the Community Health Needs Assessment Requirements	140
Review Questions	141
Review Answers	142
Module 3 – Chapters 7-10	
Chapter 7 – Accounting Periods & Methods	143
Learning Objectives	143
Introduction.....	143
Accounting Periods	143
Accounting Methods.....	150
Review Questions	166
Review Answers	167
Chapter 8 – Business Expenses: Deducting Business Expenses	169
Learning Objectives	169
Introduction.....	169
What Can I Deduct?.....	169
How Much Can I Deduct?	173
When Can I Deduct an Expense?.....	174
Not-for-Profit Activities.....	175
Review Questions	179
Review Answers	180

Table of Contents

Chapter 9 – Business Expenses: Employees’ Pay 181
Learning Objectives 181
Introduction 181
Tests for Deducting Pay 181
Kinds of Pay 182
Review Questions 185
Review Answers 186

Chapter 10 – Business Expenses: Rent Expense 187
Learning Objectives 187
Introduction 187
Rent 187
Taxes on Leased Property 189
Cost of Getting a Lease 189
Improvements by Lessee 190
Capitalizing Rent Expenses 190
Review Questions 192
Review Answers 193

Module 4 – Chapters 11-14

Chapter 11 – Business Expenses: Interest 195
Learning Objectives 195
Introduction 195
Allocation of Interest 195
Interest You Can Deduct 198
Interest You Cannot Deduct 200
Capitalization of Interest 201
When to Deduct Interest 201
Below-Market Loans 202
Review Questions 205
Review Answers 206

Chapter 12 – Business Expenses: Taxes 207
Learning Objectives 207
Introduction 207
When to Deduct Taxes 207
Real Estate Taxes 207
Income Taxes 209
Employment Taxes 209
Other Taxes 210
Review Questions 211
Review Answers 212

Chapter 13 – Business Expenses: Insurance 213
Learning Objectives 213
Introduction 213
Deductible Premiums 213
Nondeductible Premiums 216
Capitalized Premiums 217
When to Deduct Premiums 217
Review Questions 219
Review Answers 220

Chapter 14 – Business Expenses: Costs You Can Deduct or Capitalize 221
Learning Objectives 221
Introduction 221
Carrying Charges 221

Table of Contents

Research and Experimental Costs	221
Intangible Drilling Costs.....	223
Exploration Costs.....	223
Development Costs.....	224
Circulation Costs.....	225
Business Start-Up and Organizational Costs.....	225
Reforestation Costs.....	226
Retired Asset Removal Costs.....	226
Barrier Removal Costs.....	226
Film and Television Production Costs.....	228
Repair and Maintenance Costs	228
Review Questions	229
Review Answers	230
 Module 5 – Chapters 15-18	
Chapter 15 – Business Expenses: Amortization.....	231
Learning Objectives	231
Introduction.....	231
How to Deduct Amortization.....	231
Starting a Business	231
Getting a Lease.....	235
Section 197 Intangibles.....	235
Reforestation Costs.....	241
Geological and Geophysical Costs.....	243
Pollution Control Facilities.....	243
Research and Experimental Costs	244
Optional Write-Off of Certain Tax Preferences.....	244
Review Questions	245
Review Answers	246
Chapter 16 – Business Expenses: Depletion	247
Learning Objectives	247
Introduction.....	247
Who Can Claim Depletion?.....	247
Mineral Property.....	247
Timber	255
Review Questions	257
Review Answers	258
Chapter 17 – Business Expenses: Business Bad Debts	259
Learning Objectives	259
Introduction.....	259
Definition of Business Bad Debt	259
When a Debt Becomes Worthless.....	261
How to Claim a Business Bad Debt.....	261
Recovery of a Bad Debt	263
Review Questions	264
Review Answers	265
Chapter 18 – Business Expenses: Other Expenses.....	267
Learning Objectives	267
Introduction.....	267
Reimbursement of Travel and Meals.....	267
Miscellaneous Expenses.....	272
Review Questions	280
Review Answers	281

Table of Contents

Module 6 – Chapters 19-22

Chapter 19 – Sales & Other Dispositions of Assets: Gain or Loss 283
Learning Objectives 283
Introduction 283
Sales and Exchanges 283
Gain or Loss from Sales and Exchanges 284
Abandonments 287
Foreclosures and Repossessions 288
Involuntary Conversions 290
Nontaxable Exchanges 299
Other Nontaxable Exchanges 314
Transfers to Spouse 317
Rollover of Gain from Publicly Traded Securities 317
Gains on Sales of Qualified Business Stock 318
Review Questions 319
Review Answers 320

Chapter 20 – Sales & Other Disposition of Assets: Ordinary or Capital Gain or Loss 321
Learning Objectives 321
Introduction 321
Capital Assets 321
Noncapital Assets 322
Sales and Exchanges Between Related Persons 323
Other Dispositions 325
Review Questions 333
Review Answers 334

**Chapter 21 – Sales & Other Dispositions of Assets: Ordinary or Capital Gain or Loss
for Business Property 335**
Learning Objectives 335
Introduction 335
Section 1231 Gains and Losses 335
Depreciation Recapture 337
Review Questions 349
Review Answers 350

Chapter 22 – Sale & Other Dispositions of Assets: Reporting Gains and Losses 351
Learning Objectives 351
Introduction 351
Information Returns 351
Schedule D and Form 8949 351
Form 4797 356
Review Questions 358
Review Answers 359

Module 7 – Chapters 23-24

Chapter 23 – Installment Sales 361
Learning Objectives 361
What Is an Installment Sale? 361
General Rules 361
Other Rules 364
Reporting an Installment Sale 385
Review Questions 387
Review Answers 388

Table of Contents

Chapter 24 – Passive Activity and At-Risk Rules..... 391
Learning Objectives 391
Introduction..... 391
Passive Activity Limits..... 391
At-Risk Limits..... 409
Review Questions 416
Review Answers 417

Module 8 – Chapters 25-27

Chapter 25 – Depreciation: An Overview..... 419
Learning Objectives 419
Introduction..... 419
What Property Can Be Depreciated?..... 419
What Property Cannot Be Depreciated?..... 422
When Does Depreciation Begin and End?..... 423
What Method Can You Use To Depreciate Your Property?..... 424
What Is the Basis of Your Depreciable Property? 428
How Do You Treat Repairs and Improvements?..... 429
Do You Have to File Form 4562? 430
How Do You Correct Depreciation Deductions? 430
Review Questions 432
Review Answers 433

Chapter 26 – Depreciation: Figuring Depreciation Under MACRS 435
Learning Objectives 435
Introduction..... 435
Which Depreciation System (GDS or ADS) Applies? 435
Which Property Class Applies Under GDS? 436
What Is the Placed in Service Date? 439
What Is the Basis for Depreciation?..... 439
Which Recovery Period Applies? 440
Which Convention Applies?..... 441
Which Depreciation Method Applies? 442
How Is the Depreciation Deduction Figured?..... 444
How Do You Use General Asset Accounts? 456
When Do You Recapture MACRS Depreciation?..... 461
Review Questions 463
Review Answers 464

Chapter 27 – Depreciation: Additional Rules for Listed Property 467
Learning Objectives 467
Introduction..... 467
What Is Listed Property?..... 467
Can Employees Claim a Deduction? 469
What Is the Business-Use Requirement? 470
What Records Must Be Kept? 475
How Is Listed Property Information Reported?..... 477
Review Questions 479
Review Answers 480

Glossary..... 481

Appendix..... 493

Index 519