

# **Preparing 2025 Business Tax Returns**

---

Published and Distributed by  
The CPE Store, Inc.  
[www.cpestore.com](http://www.cpestore.com)

# Table of Contents

---

## Module 1: Chapters 1–3

<b>Chapter 1 – Corporations.....</b>	<b>1</b>
Learning Objectives .....	1
Introduction.....	1
Businesses Taxed as Corporations .....	1
Property Exchanged for Stock.....	2
Capital Contributions.....	4
Filing and Paying Income Taxes.....	5
Accounting Methods.....	8
Accounting Periods .....	9
Recordkeeping.....	10
Income, Deductions, and Special Provisions .....	10
Figuring Tax.....	17
Accumulated Earnings Tax.....	19
Distributions to Shareholders .....	19
Review Questions .....	24
Review Answers .....	25
<b>Chapter 2 – Partnerships .....</b>	<b>27</b>
Learning Objectives .....	27
Introduction.....	27
Forming a Partnership.....	27
Terminating a Partnership .....	30
Exclusion from Partnership Rules.....	31
Partnership Return (Form 1065).....	31
Partnership Distributions .....	31
Transactions Between Partnership and Partners .....	36
Basis of Partner’s Interest .....	40
Disposition of Partner’s Interest.....	43
Review Questions .....	48
Review Answers .....	49
<b>Chapter 3 – Limited Liability Companies.....</b>	<b>51</b>
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

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

## Table of Contents

Political Organization Income Tax Return .....	65
Reporting Requirements for a Political Organization .....	67
Donee Information Return .....	69
Information Provided to Donors .....	70
Report of Cash Received .....	74
Public Inspection of Exemption Applications, Annual Returns, and Political Organization Reporting Forms .....	74
Required Disclosures .....	77
Miscellaneous Rules .....	79
Review Questions .....	81
Review Answers .....	82
<b>Chapter 5 – Tax Exempt Organizations: 501(c)(3) Organizations.....</b>	<b>83</b>
Learning Objectives .....	83
Introduction .....	83
Contributions to 501(c)(3) Organizations .....	83
Application for Recognition of Exemption.....	85
Articles of Organization .....	88
Educational Organizations and Private Schools.....	89
Organizations Providing Insurance .....	94
Other Section 501(c)(3) Organizations .....	94
Private Foundations and Public Charities .....	98
Lobbying Expenditures .....	125
Review Questions .....	129
Review Answers .....	130
<b>Chapter 6 – Tax Exempt Organizations: Excise Taxes .....</b>	<b>131</b>
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 Resulting from Donor Advised Fund Distributions.....	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
Excise Tax on Executive Compensation.....	140
Excise Tax on Net Investment Income of Certain Colleges and Universities .....	140
Review Questions .....	141
Review Answers .....	142
<b>Module 3: Chapters 7–10</b>	
<b>Chapter 7 – Accounting Periods &amp; Methods .....</b>	<b>143</b>
Learning Objectives .....	143
Introduction .....	143
Accounting Periods .....	143
Accounting Methods.....	150
Review Questions .....	164
Review Answers .....	165
<b>Chapter 8 – Business Expenses: Deducting Business Expenses .....</b>	<b>167</b>
Learning Objectives .....	167
Introduction.....	167
What Can I Deduct? .....	167
How Much Can I Deduct? .....	172
When Can I Deduct an Expense?.....	172

## Table of Contents

Not-for-Profit Activities.....	173
Review Questions .....	176
Review Answers .....	177
<b>Chapter 9 – Business Expenses: Employees’ Pay .....</b>	<b>179</b>
Learning Objectives .....	179
Introduction.....	179
Tests for Deducting Pay.....	179
Kinds of Pay.....	180
Review Questions .....	185
Review Answers .....	186
<b>Chapter 10 – Business Expenses: Rent Expense.....</b>	<b>187</b>
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.....	191
Review Questions .....	192
Review Answers .....	193
<b>Module 4: Chapters 11–14</b>	
<b>Chapter 11 – Business Expenses: Interest .....</b>	<b>195</b>
Learning Objectives .....	195
Introduction.....	195
Allocation of Interest.....	195
Interest Expense Limitation .....	198
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
<b>Chapter 12 – Business Expenses: Taxes .....</b>	<b>207</b>
Learning Objectives .....	207
Introduction.....	207
When to Deduct Taxes.....	207
Real Estate Taxes.....	207
Income Taxes .....	209
Employment Taxes .....	210
Other Taxes .....	210
Review Questions .....	212
Review Answers .....	213
<b>Chapter 13 – Business Expenses: Insurance.....</b>	<b>215</b>
Learning Objectives .....	215
Introduction.....	215
Deductible Premiums .....	215
Nondeductible Premiums .....	217
Capitalized Premiums .....	218
When to Deduct Premiums.....	218
Review Questions .....	220
Review Answers .....	221

## Table of Contents

<b>Chapter 14 – Business Expenses: Costs You Can Deduct or Capitalize .....</b>	<b>223</b>
Learning Objectives .....	223
Introduction .....	223
Carrying Charges .....	223
Research and Experimental Costs .....	223
Intangible Drilling Costs .....	225
Exploration Costs .....	225
Development Costs .....	226
Circulation Costs .....	227
Business Start-Up and Organizational Costs .....	227
Reforestation Costs .....	227
Retired Asset Removal Costs .....	228
Barrier Removal Costs .....	228
Film and Television Production Costs .....	229
Repair and Maintenance Costs .....	230
Review Questions .....	231
Review Answers .....	232
<b>Module 5: Chapters 15–18</b>	
<b>Chapter 15 – Business Expenses: Amortization .....</b>	<b>233</b>
Learning Objectives .....	233
Introduction .....	233
How to Deduct Amortization .....	233
Starting a Business .....	233
Getting a Lease .....	236
Section 197 Intangibles .....	237
Reforestation Costs .....	243
Geological and Geophysical Costs .....	244
Pollution Control Facilities .....	244
Research and Experimental Costs .....	245
Optional Write-Off of Certain Tax Preferences .....	245
Review Questions .....	247
Review Answers .....	248
<b>Chapter 16 – Business Expenses: Depletion .....</b>	<b>249</b>
Learning Objectives .....	249
Introduction .....	249
Who Can Claim Depletion? .....	249
Mineral Property .....	249
Timber .....	257
Review Questions .....	259
Review Answers .....	260
<b>Chapter 17 – Business Expenses: Business Bad Debts .....</b>	<b>261</b>
Learning Objectives .....	261
Introduction .....	261
Definition of Business Bad Debt .....	261
When a Debt Becomes Worthless .....	263
How to Claim a Business Bad Debt .....	263
Recovery of a Bad Debt .....	264
Review Questions .....	265
Review Answers .....	266
<b>Chapter 18 – Business Expenses: Other Expenses .....</b>	<b>267</b>
Learning Objectives .....	267
Introduction .....	267
Reimbursement of Travel and Non-Entertainment Related Meals .....	267

## Table of Contents

Miscellaneous Expenses .....	271
Review Questions .....	279
Review Answers .....	280
<b>Module 6: Chapters 19–22</b>	
<b>Chapter 19 – Sales &amp; Other Dispositions of Assets: Gain or Loss .....</b>	<b>281</b>
Learning Objectives .....	281
Introduction .....	281
Sales and Exchanges .....	281
Partial Dispositions of MACRS Property .....	285
Abandonments .....	286
Foreclosures and Repossessions .....	286
Involuntary Conversions .....	288
Nontaxable Exchanges .....	297
Transfers to Spouse .....	310
Gains on Sales of Qualified Small Business Stock .....	311
Review Questions .....	312
Review Answers .....	313
<b>Chapter 20 – Sales &amp; Other Disposition of Assets: Ordinary or Capital Gain or Loss.....</b>	<b>315</b>
Learning Objectives .....	315
Introduction .....	315
Capital Assets .....	315
Noncapital Assets .....	315
Sales and Exchanges Between Related Persons .....	317
Other Dispositions .....	319
Review Questions .....	327
Review Answers .....	328
<b>Chapter 21 – Sales &amp; Other Dispositions of Assets: Ordinary or Capital Gain or Loss for Business Property .....</b>	<b>329</b>
Learning Objectives .....	329
Introduction .....	329
Section 1231 Gains and Losses .....	329
Depreciation Recapture .....	331
Review Questions .....	343
Review Answers .....	344
<b>Chapter 22 – Sale &amp; Other Dispositions of Assets: Reporting Gains and Losses .....</b>	<b>345</b>
Learning Objectives .....	345
Introduction .....	345
Information Returns .....	345
Schedule D and Form 8949 .....	345
Form 4797 .....	349
Review Questions .....	351
Review Answers .....	352
<b>Module 7: Chapters 23–24</b>	
<b>Chapter 23 – Installment Sales .....</b>	<b>353</b>
Learning Objectives .....	353
Introduction .....	353
What Is an Installment Sale? .....	353
General Rules .....	353
Other Rules .....	356
Reporting an Installment Sale .....	376
Review Questions .....	378
Review Answers .....	379

## Table of Contents

<b>Chapter 24 – Passive Activity and At-Risk Rules.....</b>	<b>381</b>
Learning Objectives .....	381
Introduction .....	381
Passive Activity Limits.....	381
At-Risk Limits.....	399
Review Questions .....	406
Review Answers .....	407
<b>Module 8: Chapters 25–27</b>	
<b>Chapter 25 – Depreciation: An Overview.....</b>	<b>409</b>
Learning Objectives .....	409
Introduction .....	409
What Property Can Be Depreciated?.....	409
What Property Cannot Be Depreciated? .....	412
When Does Depreciation Begin and End? .....	413
What Method Can You Use to Depreciate Your Property? .....	414
What Is the Basis of Your Depreciable Property? .....	417
How Do You Treat Repairs and Improvements? .....	419
Do You Have to File Form 4562? .....	419
How Do You Correct Depreciation Deductions? .....	420
Review Questions .....	422
Review Answers .....	423
<b>Chapter 26 – Depreciation: Figuring Depreciation Under MACRS.....</b>	<b>425</b>
Learning Objectives .....	425
Introduction .....	425
Which Depreciation System (GDS or ADS) Applies? .....	425
Which Property Class Applies Under GDS? .....	426
What Is the Placed-in-Service Date? .....	428
What Is the Basis for Depreciation?.....	429
Which Recovery Period Applies? .....	429
Which Convention Applies?.....	430
Which Depreciation Method Applies? .....	431
How Is the Depreciation Deduction Figured? .....	433
How Do You Use General Asset Accounts? .....	445
When Do You Recapture MACRS Depreciation? .....	450
Review Questions .....	451
Review Answers .....	452
<b>Chapter 27 – Depreciation: Additional Rules for Listed Property.....</b>	<b>453</b>
Learning Objectives .....	453
Introduction .....	453
What Is Listed Property? .....	453
Can Employees Claim a Deduction? .....	455
What Is the Business-Use Requirement? .....	456
What Records Must Be Kept? .....	461
How Is Listed Property Information Reported? .....	463
Review Questions .....	464
Review Answers .....	465
<b>Glossary.....</b>	<b>467</b>
<b>Index .....</b>	<b>477</b>