

# Examination Topics

## PART 2 - BUSINESSES

### Section 1: Businesses (45 items)

#### **Business entities**

Types of business entities and their filing requirements:

Sole proprietorships

Partnerships

Corporations

S corporations

Farmers

LLCs

Tax-exempt companies and associations

Elections for type of entity

Employer identification number

Accounting periods (tax year)

Accounting methods

#### **Partnerships**

Partnership income, expenses, distributions, and flow-through (e.g., self employment income)

Family partnerships

Partner's dealings with partnership (e.g., exchange of property, guaranteed payment, contribution of property to partnership)

Basis of partner's interest

Disposition of partner's interest

#### **Corporations in general**

Filing requirements and due dates

Earnings and profits

Shareholder dividends (definition and reporting requirements)

Special deductions (e.g., dividends received deductions, charitable deduction).

Reconciling books to return (e.g., Schedule M series)

Distributions and recognition requirements

Liquidations and stock redemptions

#### **Forming a corporation**

Services rendered to a corporation in return for stock

IRC section 351 exchange

Transfer of money or property; receipt of money or property in addition to the stock of that corporation

Mortgaged property transferred

Exchange of property other than a IRC section 351 exchange

Controlled groups

Closely held corporations

Personal service corporations (e.g., 35% rate)

#### **S corporations**

Requirements to qualify including election procedure (e.g, Form 2553 election , attachment to return)

Tax law related to S corporation

Treatment of distributions

Shareholder's basis (e.g, loan basis)

Status (e.g., terminated and reinstated)

Debt discharge  
Non-cash distributions

## **Section 2: Business Financial Information (40 items)**

### **Business income**

Gross business income  
Cost of goods sold (e.g., inventory practices, expenditures included, uniform capitalization rule)  
Net income, net operating losses, and loss limitations including passive activity and at risk limitations  
Gain or loss on disposition of depreciable property

### **Business expenses, deductions and credits**

Employees' pay (e.g., deductibility of compensation, fringe benefits, rules of family employment, statutory employee, necessary and reasonable)  
Reporting requirements for company employees (W-2, W-4, Form 1099)  
Business rental deduction  
Depreciation, amortization, IRC section 179, and depletion  
Business bad debts  
Business travel, entertainment, and gift expenses  
Interest expense  
Insurance expense  
Taxes (e.g., deductibility of taxes, assessments, and penalties; proper treatment of sales taxes paid)  
Employment taxes  
Federal excise tax  
Casualties, thefts, and condemnations  
IRC section 199 deduction (domestic production activities)  
Eligibility and deductibility of general business credits (e.g., welfare-to-work credit, disabled access credit, investment credit)

### **Business assets**

Basis of assets  
Disposition of depreciable property  
Like kind exchange

### **Analysis of financial records**

What type of business (e.g., service, retail, manufacturer, or farm)  
Income statement  
Balance sheet  
Method of accounting (e.g., accrual, cash, hybrid, OCBOA)  
Depreciation and amortization  
Depreciation recovery (e.g., recapture, Sec 280F)  
Determination of basis of assets  
Shareholder/partner basis  
Pass-through activity (e.g., K-1)  
Proofing beginning and ending balances  
Reconciliation of tax versus books (e.g., M-1, M-2)  
Related party activity

### **Advising the business taxpayer**

Filing obligations (e.g., extended returns)  
Depositing obligations (e.g., employment tax, excise tax)  
Reporting obligations for businesses (e.g. IRC sections 1099 and 1031 exchanges)  
Record-keeping requirements (mileage log, cell phone usage, accountable plans)  
Related party transactions

Definitions of business entities  
Client habits (e.g., personal usage of business accounts, separation of business and personal accounts)  
Benefits and detriments of choosing each type of business entity  
Advice on accounting methods and procedures (e.g., explanation of requirements)  
Transfer elections in or out of the business (e.g., contributed property, distributions)  
Life cycle of the business (e.g., startup, decline)  
Type of industry (e.g., personal service corporation)

### **Section 3: Specialized Returns and Tax Payers (15 items)**

#### **Trust and estate income tax**

Trust types (e.g., grantor, irrevocable, tax shelters)  
Distributable net income  
Exclusions and deductions  
Fraudulent trusts  
Income in respect of a decedent  
Income

#### **Exempt organizations**

Filing requirements (e.g., 1023, 1024, Annual 990)  
Qualifications for tax-exempt status (e.g., 501(c)(3))

#### **Retirement plans**

Employer contributions  
Employee contributions and reporting requirements  
Plans for self-employed persons  
Prohibited transactions  
Qualified plans  
SEP and SIMPLE

#### **Farmers**

Farm inventory  
Depreciation for farmers (e.g., special use)  
Various disaster-area provisions  
Disposition of farm assets

To download IRS Forms, Instructions and Publications, click on the following link:

<http://www.irs.gov/taxpros/agents/article/0,,id=163346.00.html>