

# Completing Business Returns with



## **What will be covered in this guide:**

- Types of Business returns
- Basic information relating to filing Business returns
- The simple, consistent approach to completing returns in the CrossLink Business program

## **Types of Business Returns:**

### **Sole Proprietor**

- One owner
- Unincorporated
- No legal liability protection
- Schedule C, Schedule F (Schedule E in a limited capacity)
- Taxed as ordinary self-employment income
- Due: Typically, April 15<sup>th</sup> (as part of an individual return)

### **Partnership**

- 2 or more partners
  - Individuals; Corporations; Trusts; Estates; Other partnerships
- Partners have no legal liability protection (except limited partners)
- Income is passed through to each partner (not taxed at the partnership level)
- Income is reported to partners on Schedule K-1 and reported on their respective returns and may be subject to self-employment tax
- 1065 (unless qualified joint venture)
  - Married couple: Split Schedule C's; not available for LLCs
- Due: 15<sup>th</sup> day of the third month after tax year (fiscal or calendar)
  - March 15<sup>th</sup> for calendar year

### **Corporation**

- Separate legal entity incorporated by charter from state
- Owned by shareholders
  - Limited legal liability
  - Public or private
  - Shareholders may receive distributions (usually dividends)
- Corporate income is taxed – and shareholder distributions are taxed (double tax)
- Form 1120
  - Due the 15<sup>th</sup> day of fourth month of tax year (fiscal or calendar)

## **S-Corporation**

- Smaller corporations
  - Fewer than 100 shareholders
  - Only one class of stock
  - Shareholders are not partnerships or other corporations
  - No foreign owners
- Corporate earnings are not subject to tax at the entity level except on built-in gains or excess net passive income
- Income is reported to each shareholder on Schedule K-1 and reported on their respective returns; this income is not subject to self-employment tax – but S-Corporations must pay owners a reasonable salary to avoid potential reclassification of any distributions taken by the owner
- Form 1120S
  - Due the 15<sup>th</sup> day of the third month of tax year (fiscal or calendar)

## **Limited Liability Company**

- Formed under state law
- Owner(s) generally have legal liability protection
- Can be considered disregarded entity (Schedules C, E, F) or Partnership (1065)
- An individual is considered to be a sole proprietor – unless (s)he elects to be taxed as a corporation
- More than one individual is automatically a partnership – unless they elect to be taxed as a corporation

## **Trust**

- Separate legal entity for Federal tax purposes
- A trust may be created during an individual's life (inter vivos) or at the time of his/her death under a will (testamentary)
- A trust or decedent's estate figures its gross income in much the same manner as an individual
  - Most deductions and credits allowed to individuals are also allowed to estates and trusts
- A trust or decedent's estate is allowed an income distribution deduction for distributions to beneficiaries (Schedule B)
- Form 1041
  - Generally, must use calendar year and due April 15<sup>th</sup>

## **Estate**

- Begins upon death of an individual
- Separate legal entity
  - Exists until all assets are distributed
- Any income (>\$600) from estate assets must be reported on Form 1041
- Form 1041 is due 15<sup>th</sup> day of the fourth month

## **Basic Information Relating to Filing Business Returns:**

### **Accounting Periods**

- Calendar: January to December (most individuals)
- Fiscal: Any continuous 12-month period other than calendar year
- 52/53 week tax year
  - Electing to have a tax year end on a certain day of a certain month
  - Example: 3<sup>rd</sup> Saturday in October

### **Accounting Methods**

- Cash
  - Most individuals
  - Counted when constructively received or paid
- Accrual
  - Income is included when all events occur that fix the right to receive the income
  - Earliest of:
    - Performance taking place
    - Payment is due
    - Receiving of payment
- Hybrid
  - Elements of both

### **Example of an Income Statement**

<b>Income Statement</b>			
➤ Gross Income	Gross Sales	10,000	
➤ -Any returns	less Sales Returns	500	
	Net Sales		9,500
➤ =Net Sales	Cost of Goods Sold		
➤ -Costs of goods sold	Beginning Inventory	3,000	
	Add Purchases	500	
	Goods Available for Sale	3,500	
	Less Ending Inventory	1,000	
	Cost of Goods Sold		2,500
➤ =Gross Profit	Gross Profit		7,000
➤ -Expenses	General & Administrative Expenses:		
	Rent	500	
	Wages	1,000	
	Utilities	250	
	Total General & Administrative Expenses		1,750
➤ =Net Income	Total Expenses		4,250
	Net Income		5,250

## Balance Sheet

- Follows the Basic Accounting Formula:  
Assets = Liabilities + Owners Equity
- **Example 1:**  
Brenda puts down \$10,000 and finances the rest (\$40,000) to start a yoga studio  
Assets = \$50,000  
Liabilities = \$40,000  
Owner's Equity = \$10,000
- **Example 2:**  
Jeff buys a van (with no financing) for his delivery service  
Assets = \$18,000  
Liabilities = \$0  
Owner's Equity = \$18,000

## Example of a Balance Sheet

CLASSY COMPANY Balance Sheet December 31, 20X3					
ASSETS			LIABILITIES		
<b>Current Assets</b>			<b>Current Liabilities</b>		
Cash	\$ 100,000		Accounts payable	\$ 80,000	
Short-term investments	50,000		Salaries payable	10,000	
Accounts receivable	75,000		Interest payable	15,000	
Inventories	200,000		Taxes payable	5,000	
Prepaid insurance	<u>25,000</u>	\$ 450,000	Current portion of note	<u>40,000</u>	\$ 150,000
<b>Long-term Investments</b>			<b>Long-term Liabilities</b>		
Stock investments	\$ 40,000		Note payable	\$ 190,000	
Cash value of insurance	<u>10,000</u>	50,000	Mortgage liability	<u>110,000</u>	<u>300,000</u>
<b>Property, Plant &amp; Equip.</b>			<b>Total Liabilities</b>		
Land	\$ 25,000				\$ 450,000
Building and equipment	\$ 150,000		<b>STOCKHOLDERS' EQUITY</b>		
Less: Accumulated depreciation	<u>(50,000)</u>	100,000	125,000	Capital stock	\$ 300,000
<b>Intangible Assets</b>				Retained earnings	<u>160,000</u>
Goodwill		275,000		<b>Total Stockholders' Equity</b>	
<b>Other Assets</b>					<u>460,000</u>
Receivable from employee		<u>10,000</u>		<b>Total Liabilities and Equity</b>	
<b>Total Assets</b>		<u>\$ 910,000</u>			<u>\$ 910,000</u>

## **Inventory**

An inventory is necessary to clearly show income when the production, purchase, and/or sale of merchandise are income-producing factors

- Three popular methods:
  - Specific identification
  - FI / FO
  - LI / FO
  
- Examples:
  - Merchandise
  - Goods under contract
  - Goods held for display rooms
  - Raw materials
  - Work-in-progress
  - Finished product
  - Supplies

## **Cost of Goods Sold**

- Expenses directly related to the sale of bought or produced goods
- Important in determining inventory
- Includes:
  - Raw materials
  - Inventory purchases
  - Freight of shipping goods
  - Salaries associated with production

## **The Simple Approach to Completing Returns with CrossLink Business:**

**When working in 1065 Partnership returns, the following forms are typically utilized:**

- Schedule B
  - Mostly ownership questions
- Schedule K/K-1
  - Schedule K determines income, expenses, credits, and other information to be distributed to partners; Schedule K-1 shows each partner's separate share of these items based on their distributive share percentages
- Schedule L
  - Balance sheet: Assets; Liabilities; Equity
- Schedule M-1
  - Reconciliation: Reconciles income or loss per books and records from the income statement to the income or loss reported on the tax return
- Schedule M-2
  - Tracks partner capital accounts/distributions

**When working in 1120 Corporate returns, the following forms are typically utilized:**

- General information
  - Name; EIN; Tax year; Date incorporated, etc.
- Income
  - Gross receipts; Cost of goods sold; Other income
- Deductions
  - Officer and employee compensation; Operating expense
- Taxes
  - Income; Tax calculation; Credits
- Schedule C
  - Dividends received by the corporation from another entity
- Schedule J
  - Tax computation and credits
- Schedule K
  - Business code; Accounting method; Ownership
- Schedule L
  - Balance sheet
- Schedule M-1
  - Reconciliation of income or loss per books from the income statement to the income or loss reported on the tax return
- Schedule M-2
  - Analysis of retained earnings

**When working in 1120-S Corporate returns, the following forms are typically utilized:**

- General information
  - Name; EIN; Tax year; Date incorporated, etc.
- Income
  - Gross receipts – Costs of goods sold; Other income
- Deductions
  - Officer and employee compensation; Operating expenses
- Taxes
  - Other taxes – only tax on built in gains and/or excess net passive income
- Schedule B
  - Business code; Accounting method; Ownership
- Schedule K/K-1
  - Schedule K determines the amount of income, deductions, credits, and other information to be passed through to shareholders; Schedule K-1 reports each shareholder's share of these items based on their percentage of ownership in the entity
- Schedule L
  - Balance sheet: Assets; Liabilities; Equity
- Schedule M-1
  - Reconciliation of income or loss per books from the income statement to the income or loss reported on the tax return
- Schedule M-2
  - Details about each type of owner equity account

**When working in *1041-Estates and Trusts* returns, the following forms are typically utilized:**

- General information
  - Type of entity; Name; EIN; Tax year; Date created, etc.
- Income
  - Various types totaled
- Deductions
  - Taxes; Fees; Charitable deductions, etc.
- Tax and Payments
  - Taxable income; Calculated tax; Previous payments
- Schedule A
  - Determination of deduction for charitable contributions
- Schedule B
  - Determination of deduction for distributions of income made to beneficiaries
- Schedule G
  - Tax computation; Credits
- Other
  - Miscellaneous



### **CrossLink Business uses the same methodology as CrossLink 1040:**

- The 'Business Return Summary' landing page is in lieu of the 'WIP Summary' landing page found in *CrossLink 1040*
- 'Attached Forms' – includes Client Data, Financial Statements, Document Archive, all forms that have been added, and refund amount/amount owing
- You can also access an actual form itself (1065, 1041, etc.) from 'Attached Forms'
- Active Window': If you don't know, look below ... includes links to:
  - Choices
  - Worksheets
  - Form Links
- Forms-based – meaning there is no 'Return Interview' mode
- Financial data importing is available
- Paperless office features and text messaging are also integrated

### **Additional information pertaining to using CrossLink Business:**

- If you choose **Transcript Mode** in the 'Client Data', the return will have to be paper filed
- For returns with depreciation, you can check the box at the top of the **Financials – Income Statement** or **Financials – Balance Sheet** to have CrossLink calculate the applicable lines from the asset manager
- For 1065 and 1120-S returns, be sure to include contributions and distributions on the owner's basis worksheet
- Open Worksheets from **Complete Basis worksheet for this shareholder/partner** question on the owner's K-1
  - Note:** *Common issue is not knowing where to enter owner distributions*
- For rentals reported on Form 8825 on 1065/1120-S returns, either enter the income and expenses on Form 8825 and check the box at the top ... or enter the income and expenses on the Income Statement, lines 8h and 37 with the applicable code
  - Note:** *Common issue is entering on 8825 and not checking the box*
- When working on Income Statements in business returns, when accessing correlating worksheet for state income tax expense (line 32b), make sure to pick the correct metro entity

### **New in 2024 CrossLink Business:**

- Form 1120-C (U.S. Income Tax Return for Cooperative Associations) is now available as part of the 1120 Corporate package
- The Business program now includes a **Client Organizer** – Each business entity type will have a ‘Client Organizer’ to help tax preparers gather tax data from their clients
  - The Client Organizer follows IRS forms and schedules and breaks down each line using common terms
  - The Client Organizer helps assemble information required to properly prepare the business return

### **A final note regarding new reporting requirements for Corporations, LLCs, and Partnerships:**

- Under the Corporate Transparency Act (enacted in 2021), all Corporations, LLCs, and Limited Partnerships are required to file a Beneficial Ownership Report with the Financial Crimes and Enforcement Network beginning on 01.01.2024
- Applies to all Corporations, LLCs, Limited Partnerships, and any entity created by filing a document with a State
- Companies already in existence on 01.01.2024 have until 01.01.2025 to file their initial report
- New companies formed after 12.31.2023 must file within 30 days of when they were created or registered



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