Tax Roundtable questions August 2017

**Cheryl asks:**

I have an S Corp client who terminated their business in July of 2017.  I have to file a final tax return.  How do I do that when 2017 software has not been issued yet?

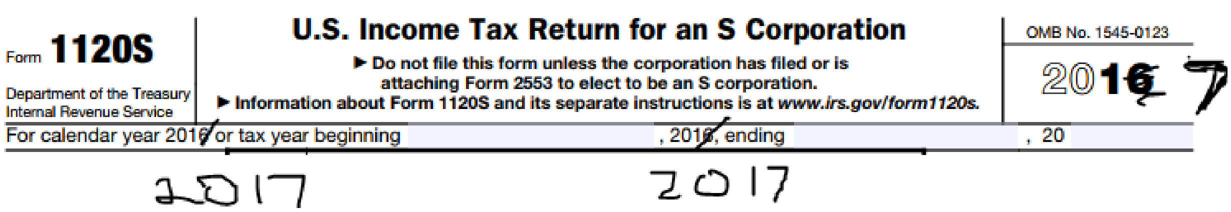
### TaxMama's Answer

The 2017 draft forms have not been issued yet.
https://apps.irs.gov/app/picklist/list/priorFormPublication.html?value=1120S&criteria=formNumber&submitSearch=Find

So….prepare the return on the 2016 Form 1120S
https://www.irs.gov/pub/irs-prior/f1120s--2016.pdf

Enter the short year date in the fiscal year line, changing the 2016 shown

Print it out and alter the year in the top right-hand corner.



Form **1120S**
Department of the Treasury
Internal Revenue Service

**U.S. Income Tax Return for an S Corporation**
▶ Do not file this form unless the corporation has filed or is attaching Form 2553 to elect to be an S corporation.
▶ Information about Form 1120S and its separate instructions is at *www.irs.gov/form1120s.*

OMB No. 1545-0123
20~~16~~ 7

For calendar year ~~2016~~ or tax year beginning , ~~2016~~, ending , 20
2017 2017

File the return on paper.

OR…prepare the return and get everything ready.
Get paid.

Put it one extension right now – due October 15th – but you can file early.
Then efile in January when efiling opens up.

Meanwhile, everything is done and paid and the company is closed.
It's just a matter of transmitting it to the IRS – and make BIG note to remember to do that.

**Leroy asks:**

Q1) If an EA is interested into getting into the Real Estate business, what are some lucrative options to consider outside of preparing taxes for RE professionals?

**Interesting question.**

1) Help the RE professional prepare budgets and projections for their prospective buyers to help the buyers find the optimal price point for their purchases

2) Then help advise the buyers on how to build a budget that lets them live well, but within their means, while being able to afford a house they didn't expect to be able to handle.

3) Then prepare those clients' tax returns – as well as the RE professionals

4) Offer a series of workshops for the brokerages to help educate RE professionals about the TRUE tax benefits involved with home ownership – they tell buyers so many untruths.

5) Offer a service to review their previous buyers' loans to see if they can get out of paying the PMI (Mortgage insurance). Usually after about 2 – 3 years, the FMV and/or loan paydown has brought the loan balance to below 80% of the FMV. That could save people a fortune.

6) Get licensed to issue loans.

7) Help put together valid paperwork to help self-employed buyers explain their cash flow to lenders so they qualify for a loan that is about to be rejected.

8) Get familiar with the best lenders and terms available to help buyers find a good loan with terms they can understand. Offer to review the loan that has been presented so there are no hidden features that will explode in the buyers' faces.

**Leroy asks:**

Q2) If you have a client who hasn't filed taxes in 6 years, they have a tax bill notice from the IRS, they've been separated from their spouse over 20 years, and their afraid and don't know what to do? What's the best way to handle this.

**TaxMama Answer:**

Are they still separated and not divorced?

Are they in communication with each other?

Did the spouse file?

There's no other choice.
They must file Married Filing Separately.

You are not in a community property state (DC) , so that's not a consideration.

Pull records and 3rd-party transcripts from the IRS and state.
If he has W-2s and other information gather that.

If he is going to be able to pay the full balance due and penalties and interest - do your best to minimize the taxes due.

If he will not be able to pay, and will need an offer in compromise (OIC), use the fewest deductions possible. You want the highest possible balance due – and you want to make the return audit-proof.

For more details, replay Part 3, Lecture 3 early – Working with Non-Filers
http://irsexams.com/board/index.php?/topic/537-lecture-3-fascinating-piece-working-with-non-filers/

**Carlos asked:**

I had insurance client come to me to get help with health insurance. I needed to review their taxes to determine the income. What I saw is a nightmare!

Self-Employed Carpet business. They decided to setup S-Corp last April. As I am reviewing S-Corp noticed no wages paid to them, their kids work in business full-time being paid 1099's. The rent they paid for the business building was not included as an expense and it goes on and on...

When they told me they started S-Corp in April I asked if they were business between Jan-April, they said they have been in business for years. I asked where is the schedule C for the short tax year. They said they do not know. Their tax person did the taxes and had no idea.

They also had no IRA deduction they actually paid on their 1040, etc.

The question is if this was your case what should we do moving forward....

Just wanted your input..

**TaxMama suggests:**

They are not your clients, so you have no rights. If they want to hire you, recommend that they amend their 2016 1120S AND the 1040. When they add expenses like rent, etc to the 1120S, then pick up the first quarter's income on the Schedule C, there may not be a big tax hit. In fact, they might even end up with some refunds.

Violet asks

A client bought an RV he is renting it out.

Has a bathroom, living space.
Got a 1099 for over $33,000 from RV of Carolinas as rentals

Is this Schedule C or Schedule E.

Remember to pick up the commissions and expenses.

We all agree this is a Schedule C – business.

New client – 3 cemeteries – evergreen, hillside and devotional.

E and H were 1120s.

Was Inherited. And dad wanted to put them all under one 1120S so there is only one consolidated tax return.

Sales and use tax returns for each cemetery.
But sales taxes are paid by the 1120S.
All the expenses are paid from the 1120S.

Filed a Form 2553 for which federal ID number – got a new one.

Ah. OK. The previous (80-year old) CPA is still filing the 3 1120's
He is picking up each cemetery's share of the income and zeroing the income out with the shared expenses. Got it.

TaxMama suggestion:

OK, on the new 1120S, report ALL the income.
Deduct all the expenses, as normal.
Be sure to reconcile income to all the sales tax returns, and payroll tax returns and any other returns.
If the gross income includes the sales tax, deduct it. If it doesn't include the sales tax, don't take the deduction.

Now, what about those old 1120's sitting there?

Mom is the only shareholder of the new 1120S.
They didn't arrange to convert the 1120's to an S corp. So this 1120S is a totally new business, in effect.

Mom formed the new S corp by contributing all three corporations.
This is a Sec 351 tax-free transfer. https://www.law.cornell.edu/uscode/text/26/351

https://www.irs.gov/pub/irs-drop/rr-03-51.pdf

The S corp now owns the 3 corporations.

So keep filing the 3 1120's for the next 5 years.

If you don't, those corporations will have to report the transfer of their assets as sales, at FMV, when the corprations are dissolved. Since the assets probably have no basis (or a small one), there will be a big tax hit.

After 5 five years, the Built-in-Gain tax (BIG tax) expires.
(an article about BIG - http://www.thetaxadviser.com/issues/2012/mar/anderson-mar2012.html )

So they can close the 3 1120's at that time.

In the meantime, put the 3 corporations on the books of the S corp as assets.
Pick them up on the books at their current basis. Remember to include cash, and accounts payable.

Journal entry:

Debit fixed assets:
Corp 1
Corp 2
Corp 3

Credit – Mom's capital account (or Stock – and issue stock certificates)

Description: Sec 351 assets transferred to form this S corp.

Meanwhile, have the family thank the nice CPA and give him a thank you bonus for his years of devoted service. And tell him it's time to retire.