

## Premium Quickfinder<sup>®</sup> Handbook (2023 Tax Year)

### Post-publication Updates

#### Replacement Pages for Two-Sided (Duplex) Printing

**Instructions:** This packet contains “marked up” changes to the pages in the *Premium Quickfinder<sup>®</sup> Handbook* that were affected by developments after the *Handbook* was published.

This is a specially designed update packet for owners of the 3-ring binder version of the *Handbook* who have access to a printer that prints two-sided (duplex). Simply print the entire PDF file (make sure to select two-sided or duplex printing), three-hole punch the pages, and then replace the pages in your *Handbook*. It's that easy.



# 2023 States Quick Reference



## Tab 2 Topics

State Individual Income Tax Quick Reference Chart (2023) .....	Page 2-1	Mississippi.....	Page 2-12
General .....	Page 2-3	Missouri.....	Page 2-12
Alabama.....	Page 2-3	Montana.....	Page 2-13
Alaska.....	Page 2-3	Nebraska.....	Page 2-13
Arizona.....	Page 2-3	Nevada.....	Page 2-13
Arkansas.....	Page 2-3	New Hampshire.....	Page 2-13
California.....	Page 2-4	New Jersey.....	Page 2-14
Colorado.....	Page 2-5	New Mexico.....	Page 2-14
Connecticut.....	Page 2-5	New York.....	Page 2-15
Delaware.....	Page 2-5	North Carolina.....	Page 2-15
District of Columbia.....	Page 2-6	North Dakota.....	Page 2-16
Florida.....	Page 2-6	Ohio.....	Page 2-16
Georgia.....	Page 2-6	Oklahoma.....	Page 2-17
Hawaii.....	Page 2-7	Oregon.....	Page 2-17
Idaho.....	Page 2-7	Pennsylvania.....	Page 2-17
Illinois.....	Page 2-8	Rhode Island.....	Page 2-18
Indiana.....	Page 2-8	South Carolina.....	Page 2-18
Iowa.....	Page 2-8	South Dakota.....	Page 2-18
Kansas.....	Page 2-9	Tennessee.....	Page 2-18
Kentucky.....	Page 2-9	Texas.....	Page 2-18
Louisiana.....	Page 2-10	Utah.....	Page 2-18
Maine.....	Page 2-10	Vermont.....	Page 2-19
Maryland.....	Page 2-11	Virginia.....	Page 2-19
Massachusetts.....	Page 2-11	Washington.....	Page 2-19
Michigan.....	Page 2-11	West Virginia.....	Page 2-20
Minnesota.....	Page 2-12	Wisconsin.....	Page 2-20
		Wyoming.....	Page 2-20

## State Individual Income Tax Quick Reference Chart (2023)

State	Website	Maximum Rate	Return Due Date <sup>1</sup>	Resident Tax Form Number	Accepts Federal Extension?	State Extension/ Payment Voucher
Alabama	<a href="https://revenue.alabama.gov">https://revenue.alabama.gov</a>	5.00%	April 15	40	No	40V <sup>2</sup>
Alaska	<a href="https://tax.alaska.gov">https://tax.alaska.gov</a>	N/A—no individual income tax				
Arizona	<a href="https://azdor.gov">https://azdor.gov</a>	2.50	April 15	140	Yes	204 <sup>3</sup>
Arkansas	<a href="http://www.dfa.arkansas.gov">www.dfa.arkansas.gov</a>	4.70	April 15	AR1000F	Yes	AR1055-IT <sup>4</sup> / AR1000ES <sup>5</sup>
California	<a href="http://www.ftb.ca.gov">www.ftb.ca.gov</a>	12.30	April 15	540	No	3519 <sup>2</sup>
Colorado	<a href="https://tax.colorado.gov">https://tax.colorado.gov</a>	4.40	April 15	104	No	0158-1 <sup>2</sup>
Connecticut	<a href="https://portal.ct.gov/drs">https://portal.ct.gov/drs</a>	6.99	April 15	CT-1040	Yes	CT-1040EXT <sup>3</sup>
Delaware	<a href="https://revenue.delaware.gov">https://revenue.delaware.gov</a>	6.60	April 30	PIT-RES	No	PIT-EXT
District of Columbia	<a href="https://otr.cfo.dc.gov">https://otr.cfo.dc.gov</a>	10.75	April 15	D-40	No	FR-127
Florida	<a href="https://floridarevenue.com/taxes">https://floridarevenue.com/taxes</a>	N/A—no individual income tax				
Georgia	<a href="https://dor.georgia.gov">https://dor.georgia.gov</a>	5.75	April 15	500	Yes	IT-303 <sup>4</sup> /IT-560 <sup>5</sup>
Hawaii	<a href="https://tax.hawaii.gov">https://tax.hawaii.gov</a>	11.00	April 20	N-11	No	N-101A <sup>2</sup>
Idaho	<a href="https://tax.idaho.gov">https://tax.idaho.gov</a>	5.80	April 15	40	No	51 <sup>2</sup>
Illinois	<a href="https://tax.illinois.gov">https://tax.illinois.gov</a>	4.95	April 15	IL-1040	No	IL505-1 <sup>2</sup>
Indiana	<a href="https://in.gov/dor">https://in.gov/dor</a>	3.15	April 15	IT-40	Yes	IT-9 <sup>3</sup>

Table continued on the next page

## State Individual Income Tax Quick Reference Chart (2023) (Continued)

State	Website	Maximum Rate	Return Due Date <sup>1</sup>	Resident Tax Form Number	Accepts Federal Extension?	State Extension/ Payment Voucher
Iowa	<a href="https://tax.iowa.gov">https://tax.iowa.gov</a>	6.00%	April 30	IA 1040	No	IA 1040V <sup>2</sup>
Kansas	<a href="https://ksrevenue.gov">https://ksrevenue.gov</a>	5.70	April 15	K-40	Yes	K-40V <sup>2</sup>
Kentucky	<a href="https://revenue.ky.gov">https://revenue.ky.gov</a>	4.50	April 15	740	Yes	740EXT <sup>4</sup>
Louisiana	<a href="https://revenue.louisiana.gov/">https://revenue.louisiana.gov/</a>	4.25	May 15	IT-540	No	R-2868V <sup>5,9</sup>
Maine	<a href="https://maine.gov/revenue">https://maine.gov/revenue</a>	7.15	April 15	1040ME	No	1040EXT-ME <sup>2</sup>
Maryland	<a href="https://marylandtaxes.gov">https://marylandtaxes.gov</a>	5.75	April 15	502	Yes	PV <sup>6</sup>
Massachusetts	<a href="https://mass.gov/orgs/massachusetts-department-of-revenue">https://mass.gov/orgs/massachusetts-department-of-revenue</a>	12.00 <sup>10</sup>	April 15	1	No	M-4868 <sup>2</sup>
Michigan	<a href="https://michigan.gov/taxes">https://michigan.gov/taxes</a>	4.05	April 15	MI-1040	Yes	4 <sup>2</sup>
Minnesota	<a href="https://revenue.state.mn.us">https://revenue.state.mn.us</a>	9.85	April 15	M1	No	<sup>9</sup>
Mississippi	<a href="https://dor.ms.gov">https://dor.ms.gov</a>	5.00	April 15	80-105	Yes	80-106 <sup>2</sup>
Missouri	<a href="https://dor.mo.gov">https://dor.mo.gov</a>	4.95	April 15	MO-1040	Yes	MO-60 <sup>3</sup>
Montana	<a href="https://mtrevenue.gov">https://mtrevenue.gov</a>	6.75	April 15	2	No	Form-IT <sup>5,7</sup>
Nebraska	<a href="https://revenue.nebraska.gov">https://revenue.nebraska.gov</a>	6.64	April 15	1040N	Yes	4868N <sup>3</sup>
Nevada	<a href="https://tax.nv.gov">https://tax.nv.gov</a>	N/A—no individual income tax				
New Hampshire	<a href="https://revenue.nh.gov">https://revenue.nh.gov</a>	7.50	April 15	DP-10/1040-NH	No	DP-59-A <sup>2</sup> , BT-EXT <sup>2</sup>
New Jersey	<a href="https://state.nj.us/treasury/taxation">https://state.nj.us/treasury/taxation</a>	10.75	April 15	NJ-1040	Yes	NJ-630 <sup>3</sup>
New Mexico	<a href="https://tax.newmexico.gov">https://tax.newmexico.gov</a>	5.90	April 15	PIT-1	Yes	RPD-41096 <sup>3</sup>
New York	<a href="https://tax.ny.gov">https://tax.ny.gov</a>	10.90	April 15	IT-201	No	IT-370
North Carolina	<a href="https://ncdor.gov">https://ncdor.gov</a>	4.75	April 15	D-400	Yes	D-410
North Dakota	<a href="http://nd.gov/tax">http://nd.gov/tax</a>	2.50	April 15	ND-1	Yes	101 <sup>4</sup> /ND-1EXT <sup>5</sup>
Ohio	<a href="https://tax.ohio.gov">https://tax.ohio.gov</a>	3.75	April 15	IT 1040	Yes	IT 40P <sup>5</sup>
Oklahoma	<a href="https://oklahoma.gov/tax">https://oklahoma.gov/tax</a>	4.75	April 15	511	Yes	504-1 <sup>3</sup>
Oregon	<a href="https://oregon.gov/dor">https://oregon.gov/dor</a>	9.90	April 15	OR-40	Yes	40-V <sup>3</sup>
Pennsylvania	<a href="https://revenue.pa.gov">https://revenue.pa.gov</a>	3.07	April 15	PA-40	Yes	REV-276 <sup>3</sup>
Rhode Island	<a href="http://www.tax.ri.gov">www.tax.ri.gov</a>	5.99	April 15	RI-1040	Yes	RI-4868 <sup>3</sup>
South Carolina	<a href="https://dor.sc.gov">https://dor.sc.gov</a>	6.40 <sup>10</sup>	April 15	SC1040	Yes	SC4868 <sup>3</sup>
South Dakota	<a href="https://dor.sd.gov">https://dor.sd.gov</a>	N/A—no individual income tax				
Tennessee	<a href="http://www.tn.gov/revenue">www.tn.gov/revenue</a>	N/A—no individual income tax				
Texas	<a href="https://comptroller.texas.gov/">https://comptroller.texas.gov/</a>	N/A—no individual income tax				
Utah	<a href="https://tax.utah.gov">https://tax.utah.gov</a>	4.65	April 15	TC-40	No	TC-546 <sup>2</sup>
Vermont	<a href="https://tax.vermont.gov">https://tax.vermont.gov</a>	8.75	April 15	IN-111	Yes	IN-151
Virginia	<a href="https://tax.virginia.gov">https://tax.virginia.gov</a>	5.75	May 1	760	No	760IP <sup>2</sup>
Washington	<a href="https://dor.wa.gov">https://dor.wa.gov</a>	N/A—no individual income tax <sup>11</sup>				
West Virginia	<a href="https://revenue.wv.gov">https://revenue.wv.gov</a>	5.12	April 15	IT-140	Yes	Sch L <sup>3</sup>
Wisconsin	<a href="https://revenue.wi.gov">https://revenue.wi.gov</a>	7.65	April 15	1	Yes	1-ES <sup>8</sup>
Wyoming	<a href="http://revenue.wyo.gov">http://revenue.wyo.gov</a>	N/A—no individual income tax				

<sup>1</sup> See *Return due date* on Page 2-3.

<sup>2</sup> File only if tax due. If no tax due, return is extended without any action by taxpayer.

<sup>3</sup> File if federal Form 4868 not filed or if tax due.

<sup>4</sup> File if federal Form 4868 not filed.

<sup>5</sup> Use to pay any tax due.

<sup>6</sup> File if Form 4868 not filed and tax is due. If Form 4868 not filed and no tax due, request extension online.

<sup>7</sup> Automatic extension granted if certain requirements met.

<sup>8</sup> Use to remit payment if tax due. If no federal 4868 filed, attach a statement to the return.

<sup>9</sup> Extension filed electronically.

<sup>10</sup> Massachusetts has various flat tax rates dependent upon the type of income and elections made. In addition, high-income taxpayers have a 4% surtax.

<sup>11</sup> Washington imposes a 7% excise tax on individuals with sales or exchanges of long-term capital assets.

## GENERAL

Tab 2 is for reference purposes and is not intended to include all necessary information to prepare a state income tax return. Its purpose is to provide tax preparers with general information. More detailed information is available in the *All States Quickfinder® Handbook*. You can also use the phone numbers or website addresses provided here to obtain forms and instructions for a particular state.

Many states allow or require electronic filing of returns and/or extensions as well as electronic payment of taxes. Some states have a different due date for electronically filed returns, which is usually later than a paper filed return.

**Return due date.** The return due dates for filing returns shown in this tab are the statutory due dates. When the statutory due date falls on a weekend or holiday, many states extend the due date until the next working day.

**Caution:** Tax preparers should check the respective state's instructions to determine the return's exact due date when the statutory due date falls on a weekend or holiday. For federal tax, the 2023 Form 1040 is due on April 15, 2024.

**The Quick Tax Method.** Use the Quick Tax Method to calculate tax due. In the appropriate state section, find the taxpayer's taxable income bracket and multiply the taxpayer's state taxable income by the given tax rate. Next, subtract the "minus" amount to arrive at the tax due.

**Example:** Assume MFJ Alabama taxpayers with taxable income of \$57,500.  
 $\$57,500 \times 5.0\% - \$80 = \$2,795$  Tax

## ALABAMA

**Website:** <https://revenue.alabama.gov>

**Tax assistance:** 334-242-1170



### 2023 Quick Tax Method—For Taxable Income of:

Single, MFS, Head of Family	\$ 0 – 500	× 2%	minus	\$ 0.00 = Tax
	501 – 3,000	× 4	minus	10.00 = Tax
	3,001 and over	× 5	minus	40.00 = Tax
MFJ	\$ 0 – 1,000	× 2%	minus	\$ 0.00 = Tax
	1,001 – 6,000	× 4	minus	20.00 = Tax
	6,001 and over	× 5	minus	80.00 = Tax

**Filing requirements.** Residents must file if:

Filing status:	Gross income of at least:
Single.....	\$ 4,500
Head of Family .....	8,200
MFJ.....	11,500
MFS.....	5,750

Part-year residents must file if:

Filing status:	Gross income of at least:
Single.....	\$ 4,500 (while an Alabama resident)
Head of Family .....	8,200 (while an Alabama resident)
MFJ.....	11,500 (while an Alabama resident)
MFS.....	5,750 (while an Alabama resident)

Nonresidents must file if gross income is over the allowable prorated exemption. To calculate, multiply the full exemption amount of \$3,000 for MFJ and Head of Family, or \$1,500 for Single and MFS, by the Alabama percentage of adjusted total income.

**Alabama form to file:**

- Resident and part-year resident: Form 40 (Alabama Individual Income Tax Return). **Note:** Part-year residents who receive Alabama-source income while a nonresident may also be required to file Form 40NR.
- Nonresident: Form 40NR (Alabama Individual Income Tax Return).

**Return due date:** April 15

**Allowable extension.** Alabama allows an automatic six-month extension without written request. If additional tax is due, file Form 40V (Individual Income Tax Payment Voucher) by the original return due date.

## ALASKA

**Website:** <https://tax.alaska.gov>

**Tax assistance:** 907-269-6620

**Filing requirements.** The state of Alaska does not have an individual income tax.



## ARIZONA

**Website:** <https://azdor.gov>

**Tax assistance:** 602-255-3381, 800-352-4090



### 2023 Tax Rate

Income tax rate.....	2.50%
----------------------	-------

**Filing requirements.** Residents, part-year, and nonresidents must file if:

Filing status is:	and gross income is at least:
Single, MFS	\$ 13,850
MFJ	27,700
HOH	20,800

**Arizona form to file:**

- Resident: Form 140 (Resident Personal Income Tax Return).
- Part-year resident: Form 140PY (Part-Year Resident Personal Income Tax Return).
- Nonresident: Form 140NR (Nonresident Personal Income Tax Return).

**Return due date:** April 15

**Extension form.** Form 204 (Application for Filing Extension).

**Allowable extension.** Arizona allows up to a six-month extension if:

- Taxpayer files federal Form 4868 with the IRS or
- Taxpayer files Form 204.

Also use Form 204 to make a payment, if necessary.

## ARKANSAS

**Website:** [www.dfa.arkansas.gov](http://www.dfa.arkansas.gov)

**Tax assistance:** 501-682-1100



2023 Quick Tax Method—For Taxable Income of:						
All Filing Statuses	\$ —	–	5,099	×	0.0%	minus \$ 0.00 = Tax
	5,100	–	10,299	×	2.0	minus 101.98 = Tax
	10,300	–	14,699	×	3.0	minus 204.97 = Tax
	14,700	–	24,299	×	3.4	minus 263.77 = Tax
	24,300	–	87,000	×	4.7	minus 579.65 = Tax
For taxpayers with income greater than \$87,000						
	\$ —	–	4,400	×	2.0%	minus \$ 0.00 = Tax
	4,401	–	8,800	×	4.0	minus 88.00 = Tax
	8,801	and above		×	4.7	minus 149.60 = Tax

**Filing requirements.** Residents must file if:

Marital status is:	Filing Status is:	Gross income of at least:
Single	Single	\$ 13,850
	HOH with ≤ 1 dependent	19,692
	HOH with ≥ 2 dependents	23,473
Married	MFJ with ≤ 1 dependent	\$ 23,357
	MFJ with ≥ 2 dependents	28,111
	MFS	9,140
Widowed in 2021 or 2022 and not remarried in 2023	QSS with ≤ 1 dependent	\$ 19,692
	QSS with ≥ 2 dependents	23,473

Part-year residents must file if:

Filing status is:	Taxable income is at least:
All Filing Statuses	\$1 (while an Arkansas resident)

Nonresidents must file if:

Filing status is:	Taxable income is at least:
All Filing Statuses	\$1 of Arkansas-source income

**Arkansas form to file:**

- Resident: Form AR1000F (Arkansas Individual Income Tax Return).
- Part-year and nonresident: Form AR1000NR (Arkansas Individual Income Tax Return).

**Return due date:** April 15

**Extension form.** Form AR1055-IT (Request for Extension of Time for Filing Income Tax Returns).

**Allowable extension:**

- Arkansas allows an automatic seven-month extension if federal Form 4868 is filed or
- File Form AR1055-IT to request an extension (to November 15).

## CALIFORNIA

**Website:** [www.ftb.ca.gov](http://www.ftb.ca.gov)

**Tax assistance:** 800-852-5711



2023 Quick Tax Method—For Taxable Income of: <sup>1</sup>						
Single, Married/ RDP <sup>2</sup> filing sep.	\$ —	–	10,412	×	1%	minus \$ — = Tax
	10,413	–	24,684	×	2%	minus 104.12 = Tax
	24,685	–	38,959	×	4%	minus 597.80 = Tax
	38,960	–	54,081	×	6%	minus 1,376.98 = Tax
	54,082	–	68,350	×	8%	minus 2,458.60 = Tax
	68,351	–	349,137	×	9.3%	minus 3,347.15 = Tax
	349,138	–	418,961	×	10.3%	minus 6,838.52 = Tax
	418,962	–	698,271	×	11.3%	minus 11,028.13 = Tax
	698,272	and over		×	12.3%	minus 18,010.84 = Tax
	Married/ RDP filing jointly and QSS	\$ —	–	20,824	×	1%
20,825		–	49,368	×	2%	minus 208.24 = Tax
49,369		–	77,918	×	4%	minus 1,195.60 = Tax
77,919		–	108,162	×	6%	minus 2,753.96 = Tax
108,163		–	136,700	×	8%	minus 4,917.20 = Tax
136,701		–	698,274	×	9.3%	minus 6,694.30 = Tax
698,275		–	837,922	×	10.3%	minus 13,677.04 = Tax
837,923		–	1,396,542	×	11.3%	minus 22,056.26 = Tax
1,396,543		and over		×	12.3%	minus 36,021.68 = Tax
HOH		\$ —	–	20,839	×	1%
	20,840	–	49,371	×	2%	minus 208.39 = Tax
	49,372	–	63,644	×	4%	minus 1,195.81 = Tax
	63,645	–	78,765	×	6%	minus 2,468.69 = Tax
	78,766	–	93,037	×	8%	minus 4,043.99 = Tax
	93,038	–	474,824	×	9.3%	minus 5,253.47 = Tax
	474,825	–	569,790	×	10.3%	minus 10,001.71 = Tax
	569,791	–	949,649	×	11.3%	minus 15,699.61 = Tax
	949,650	and over		×	12.3%	minus 25,196.10 = Tax

<sup>1</sup> Does not include the mental health services tax (1% of taxable income over \$1 million).

<sup>2</sup> Registered domestic partner.

**Filing requirements.** Residents, part-year, and nonresidents must file if:

Dependents:	0	1	2 or more
<b>California gross income exceeds:</b>			
Single or HOH under age 65 .....	\$21,561	\$36,428	\$47,578
Single or HOH age 65 or over .....	28,761	39,911	48,831
Married/RDP (joint or separate) both under 65 .....	43,127	57,994	69,144
Married/RDP (joint or separate) one taxpayer age 65 or over .....	50,327	61,477	70,397
Married/RDP (joint or separate) both 65 or over .....	57,527	68,677	77,597
QSS under age 65 .....	N/A	36,428	47,578
QSS 65 or older .....	N/A	39,911	48,831
<b>or California AGI exceeds:</b>			
Single or HOH under age 65 .....	\$17,249	\$32,116	\$43,266
Single or HOH age 65 or over .....	24,449	35,599	44,519
Married/RDP (joint or separate) both under 65 .....	34,503	49,370	60,520
Married/RDP (joint or separate) one taxpayer age 65 or over .....	41,703	52,853	61,773
Married/RDP (joint or separate) both 65 or over .....	48,903	60,053	68,973
QSS under 65 .....	N/A	32,116	43,266
QSS 65 or older .....	N/A	35,599	44,519

Dependent, any filing status, any age: Income exceeds standard deduction.

Taxpayers must also file if they owe any of the following:

- Tax on a lump-sum distribution.
- Tax on a qualified retirement plan, IRA or medical savings account.
- Tax for children under age 19 or full-time students under age 24 who have investment income greater than \$2,300.
- Alternative minimum tax.
- Recapture taxes.

# NEW YORK

Website: <https://tax.ny.gov>

Tax assistance: 518-457-5181



## 2023 NY State Quick Tax Method—For Taxable Income of:

Single, MFS	\$ 0 – 8,500	× 4.00%	minus \$ 0	= Tax	
	8,501 – 11,700	× 4.50	minus 43	= Tax	
	11,701 – 13,900	× 5.25	minus 130	= Tax	
	13,901 – 80,650	× 5.50	minus 165	= Tax	
	80,651 – 215,400	× 6.00	minus 568	= Tax	
	215,401 – 1,077,550	× 6.85	minus 2,399	= Tax	
MFJ, QSS	\$ 0 – 17,150	× 4.00%	minus \$ 0	= Tax	
	17,151 – 23,600	× 4.50	minus 86	= Tax	
	23,601 – 27,900	× 5.25	minus 263	= Tax	
	27,901 – 161,550	× 5.50	minus 333	= Tax	
	161,551 – 323,200	× 6.00	minus 1,140	= Tax	
	323,201 – 2,155,350	× 6.85	minus 3,887	= Tax	
HOH	\$ 0 – 12,800	× 4.00%	minus \$ 0	= Tax	
	12,801 – 17,650	× 4.50	minus 64	= Tax	
	17,651 – 20,900	× 5.25	minus 196	= Tax	
	20,901 – 107,650	× 5.50	minus 249	= Tax	
	107,651 – 269,300	× 6.00	minus 787	= Tax	
	269,301 – 1,616,450	× 6.85	minus 3,076	= Tax	
Single, MFS	\$ 0 – 12,000	× 3.078%	minus \$ 0.00	= Tax	
	12,001 – 25,000	× 3.762	minus 82.00	= Tax	
	25,001 – 50,000	× 3.819	minus 96.00	= Tax	
	50,001 and over	× 3.876	minus 125.00	= Tax	
	MFJ, QSS	\$ 0 – 21,600	× 3.078%	minus \$ 0.00	= Tax
		21,601 – 45,000	× 3.762	minus 148.00	= Tax
45,001 – 90,000		× 3.819	minus 173.00	= Tax	
HOH	\$ 0 – 14,400	× 3.078%	minus \$ 0.00	= Tax	
	14,401 – 30,000	× 3.762	minus 98.00	= Tax	
	30,001 – 60,000	× 3.819	minus 116.00	= Tax	
	60,001 and over	× 3.876	minus 150.00	= Tax	

Note: If NY AGI is more than \$107,650, the graduated tax rates above are phased out.

## 2023 NYC Quick Tax Method—for Taxable Income of:

Single, MFS	\$ 0 – 12,000	× 3.078%	minus \$ 0.00	= Tax
	12,001 – 25,000	× 3.762	minus 82.00	= Tax
	25,001 – 50,000	× 3.819	minus 96.00	= Tax
	50,001 and over	× 3.876	minus 125.00	= Tax
MFJ, QSS	\$ 0 – 21,600	× 3.078%	minus \$ 0.00	= Tax
	21,601 – 45,000	× 3.762	minus 148.00	= Tax
	45,001 – 90,000	× 3.819	minus 173.00	= Tax
HOH	\$ 0 – 14,400	× 3.078%	minus \$ 0.00	= Tax
	14,401 – 30,000	× 3.762	minus 98.00	= Tax
	30,001 – 60,000	× 3.819	minus 116.00	= Tax
	60,001 and over	× 3.876	minus 150.00	= Tax

**Filing requirements.** Residents must file if they are:

- Required to file a federal return or
- Not required to file a federal return, but:

Federal filing status would have been:	Federal AGI plus New York additions exceeds:
Single and can be claimed as dependent on another person's return .....	\$ 3,100
All others.....	4,000

- To claim a refund of state or city income taxes withheld from taxpayer's pay.

- To claim any of the refundable or carryover credits available. Part-year and nonresidents are required to file if:

Federal filing status:	Received New York-source income and New York AGI exceeds:
Single and can be claimed as dependent on another person's return .....	\$ 3,100
Single and cannot be claimed as dependent on another person's return .....	8,000
MFJ.....	16,050
MFS.....	8,000
HOH.....	11,200
QSS.....	16,050

Part-year and nonresidents are also required to file if any of the following apply:

- They are subject to separate tax on lump-sum distributions derived from or connected to New York sources (part-year residents).
- They incurred a New York NOL without incurring a similar federal NOL.
- To claim a refund of state or city income taxes withheld from taxpayer's pay.
- To claim any of the refundable or carryover credits available.

### New York form to file:

- Resident: Form IT-201 (Resident Income Tax Return).
- Part-year and nonresident: Form IT-203 (Nonresident and Part-Year Resident Income Tax Return).

**Return due date:** April 15

**Extension form.** Form IT-370 (Application for Automatic Six-Month Extension of Time to File for Individuals).

**Allowable extension.** To request an automatic six-month extension, file Form IT-370 and remit any tax due. A copy of the federal extension is not accepted.

# NORTH CAROLINA

Website: <https://ncdor.gov>

Tax assistance: 877-252-3052



## 2023 Tax Rate

Income tax rate.....	4.75%
----------------------	-------

**Filing requirements.** Every resident whose income for the year exceeds the amount for his filing status as shown in the following chart must file a return:

Filing status	A return is required if federal gross income exceeds
Single.....	\$ 12,750
MFJ.....	25,500
MFS if spouse does not claim itemized deductions.....	12,750
MFS if spouse claims itemized deductions.....	0
HOH.....	19,125
QSS.....	25,500
Nonresident alien.....	0

Note: 2023 amounts not available at time of publication. Amounts shown are for 2022.

An individual not required to file a federal income tax return but who has gross income from all sources—both inside and outside of North Carolina—that equals or exceeds the amount for his filing status shown in the chart above is required to file a North Carolina return. He must complete a federal return and attach it to his North

Carolina income tax return to show how his adjusted gross income and deductions were determined.

A part-year resident must file if his total income for the tax year exceeds the amount for his filing status shown in the chart above and he:

- Received income while a resident of North Carolina or
- Received income while a nonresident that is:
  - Attributable to ownership of any interest in real or tangible personal property in North Carolina;
  - Derived from a business, trade, profession or occupation carried on within North Carolina or
  - Derived from gambling activities in North Carolina.

A nonresident must file if his total income from all sources—both inside and outside of North Carolina—exceeds the amount for his filing status as shown in the chart above and he received income for the tax year from North Carolina sources that was:

- Attributable to ownership of any interest in real or tangible personal property in North Carolina;
- Derived from a business, trade, profession, or occupation carried on in North Carolina or
- Derived from gambling activities in North Carolina.

**North Carolina form to file:**

- Resident, part-year, and nonresident: Form D-400 (Individual Income Tax Return).
- Part-year and nonresidents: D-400, page 4, D-400 Schedule S (Supplement Schedule); Part D (Computation of North Carolina Taxable Income for Part-Year Residents and Nonresidents).

**Return due date:** April 15

**Extension form.** Form D-410 (Application for Extension for Filing Individual Income Tax Return).

**Allowable extension.** North Carolina allows an automatic six-month extension if granted a federal extension. Only file Form D-410 to make a payment or if Form 4868 was not filed.

**NORTH DAKOTA**

**Website:** <http://nd.gov/tax>

**Tax assistance:** 701-328-7088; 877-328-7088



2023 Quick Tax Method—For Taxable Income of:	
Single	$\$ 0 - 44,725 \times 0.00\% \text{ minus } \$ 0.00 = \text{Tax}$ $44,726 - 225,975 \times 1.95 \text{ minus } 872.14 = \text{Tax}$ $225,976 \text{ and over } \times 2.50 \text{ minus } 2,115.00 = \text{Tax}$
MFJ, QSS	$\$ 0 - 74,750 \times 0.00\% \text{ minus } \$ 0.00 = \text{Tax}$ $74,751 - 275,100 \times 1.95 \text{ minus } 1,457.63 = \text{Tax}$ $275,101 \text{ and over } \times 2.50 \text{ minus } 2,970.68 = \text{Tax}$
MFS	$\$ 0 - 37,375 \times 0.00\% \text{ minus } \$ 0.00 = \text{Tax}$ $37,376 - 137,550 \times 1.95\% \text{ minus } 728.81 = \text{Tax}$ $137,551 \text{ and over } \times 2.50\% \text{ minus } 1,485.34 = \text{Tax}$
HOH	$\$ 0 - 59,950 \times 0.00\% \text{ minus } \$ 0.00 = \text{Tax}$ $59,951 - 250,550 \times 1.95 \text{ minus } 1,169.03 = \text{Tax}$ $250,551 \text{ and over } \times 2.50 \text{ minus } 2,547.05 = \text{Tax}$

**Filing requirements.** Residents must file if they are required to file a federal income tax return.

Nonresidents must file if they are required to file a federal return and received gross income from North Dakota sources. Part-year residents must file if they are required to file a federal return and

received income from any source while a resident or received North Dakota-source income while a nonresident.

**North Dakota form to file:**

- Resident, part-year, and nonresident: Form ND-1 (Individual Income Tax Return).
- Part-year and nonresident: Schedule ND-1NR (Tax Calculation for Nonresidents and Part-Year Residents)—attachment to Form ND-1.

**Return due date:** April 15

**Extension form.** Form 101 (Application for Extension of Time to File a North Dakota Tax Return).

**Allowable extension:** An extension of time to file a taxpayer's federal return is recognized for North Dakota purposes. If there is no federal extension, file Form 101 to request an extension of time to file (Form 101 is not an automatic extension). Use Form ND-1EXT (Individual Extension Payment Voucher) to make a payment.

**Reciprocity agreements.** Minnesota and Montana. Minnesota residents are not required to file a North Dakota return if only North Dakota source of income is compensation and the taxpayer maintains a home in Minnesota and returns to the home at least once each month. Montana residents are not required to file a North Dakota return if only North Dakota source of income is wages.

**OHIO**

**Website:** <https://tax.ohio.gov>

**Tax assistance:** 800-282-1780



2023 Quick Tax Method—For Taxable Income of:	
All	$\$ 0 - 26,050 \times 0.000\% \text{ minus } \$ 0.00 = \text{Tax}$ $26,051 - 100,000 \times 2.750\% \text{ minus } 355.69 = \text{Tax}$ $100,001 - 115,300 \times 3.688\% \text{ minus } 1,293.69 = \text{Tax}$ $115,301 \text{ and over } \times 3.750\% \text{ minus } 1,365.17 = \text{Tax}$

**Filing requirements.** Residents and part-year residents are required to file unless one of the following exceptions applies:

- Ohio AGI is less than or equal to \$0.
- The total of the taxpayer's senior citizen credit, lump-sum distribution credit and joint filing credit is equal to or exceeds his income tax liability and he is not liable for school district income tax.
- The taxpayer's exemption amount is the same as or more than his Ohio AGI.

Nonresidents are required to file if they have Ohio-sourced income.

**Ohio form to file:**

- Resident, part-year, and nonresident: Form IT 1040 (Individual Income Tax Return).
- Part-year and nonresidents: Schedule D (Nonresident/Part-Year Resident Credit) (Form IT 1040, page 4).

**Return due date:** April 15

**Extension form.** Ohio does not have a separate extension form.

**Allowable extension.** Ohio allows an extension based on the federal extension. Use Form IT 40P (Income Tax Payment Voucher) to make any payments by the original return due date.

**Reciprocity agreements.** Residents of a border state (Indiana, Kentucky, West Virginia, Michigan, and Pennsylvania) are not required to file Ohio return if only Ohio income is wages and salaries from an unrelated employer.



## OKLAHOMA

**Website:** <https://oklahoma.gov/tax>

**Tax assistance:** 405-521-3160; 800-522-8165

### 2023 Quick Tax Method—For Taxable Income of:

Single, MFS	\$ 0 – 1,000 × 0.25% minus \$ 0.00 = Tax
	1,001 – 2,500 × 0.75 minus 5.00 = Tax
	2,501 – 3,750 × 1.75 minus 30.00 = Tax
	3,751 – 4,900 × 2.75 minus 67.50 = Tax
	4,901 – 7,200 × 3.75 minus 116.50 = Tax
	7,201 and over × 4.75 minus 188.50 = Tax
MFJ, QSS, HOH	\$ 0 – 2,000 × 0.25% minus \$ 0.00 = Tax
	2,001 – 5,000 × 0.75 minus 10.00 = Tax
	5,001 – 7,500 × 1.75 minus 60.00 = Tax
	7,501 – 9,800 × 2.75 minus 135.00 = Tax
	9,801 – 12,200 × 3.75 minus 233.00 = Tax
	12,201 and over × 4.75 minus 355.00 = Tax

**Filing requirements.** Residents must file a return if:

Filing status:	Gross income exceeds:
Single.....	\$ 7,350
MFJ.....	14,700
MFS.....	7,350
HOH.....	10,350
QSS with a Dependent Child.....	13,700

Dependents must file if:

Marital status:	Gross income exceeds:
Single dependents.....	\$ 6,350
Married dependents.....	6,350

Part-year residents are required to file if they meet resident filing requirements while a resident *or* receive \$1,000 or more Oklahoma-source gross income while a nonresident.

Nonresidents are required to file if they received \$1,000 or more Oklahoma-source gross income.

#### Oklahoma form to file:

- Resident: Form 511 (Oklahoma Resident Income Tax Return).
- Part-year and nonresident: Form 511-NR (Oklahoma Nonresident/Part-Year Income Tax Return).

**Return due date:** April 15 or April 20 if return is filed electronically.

**Extension form.** Form 504-I (Application for Extension of Time to File an Oklahoma Income Tax Return For Individuals).

**Allowable extension.** Oklahoma allows a six-month extension if the taxpayer attaches a copy of a valid federal extension. If the federal return is not extended or the taxpayer owes Oklahoma tax, Form 504-I must be filed. Use Form 504-I to remit any tax due.

## OREGON

**Website:** <https://oregon.gov/dor>

**Tax assistance:** 503-378-4988; 800-356-4222

### 2023 Quick Tax Method—For Taxable Income of:

Single, MFS	\$ 0 – 4,050 × 4.75% minus \$ 0.00 = Tax
	4,051 – 10,200 × 6.75 minus 81.00 = Tax
	10,201 – 125,000 × 8.75 minus 285.00 = Tax
	125,001 and over × 9.90 minus 1,722.50 = Tax
MFJ, HOH, QW	\$ 0 – 8,100 × 4.75% minus \$ 0.00 = Tax
	8,101 – 20,400 × 6.75 minus 162.00 = Tax
	20,401 – 250,000 × 8.75 minus 570.00 = Tax
	250,001 and over × 9.90 minus 3,445.00 = Tax

**Filing requirements.** Residents must file if they are required to file a federal income tax return *or* have \$1 or more of Oregon income tax withheld from wages. Also, residents are required to file if:

Filing Status:	Gross Oregon Income Exceeds:
Single.....	\$ 7,305
HOH.....	9,165
MFJ, RDP filing joint.....	14,605
MFS, RDP filing separate <sup>1</sup> .....	7,305
QSS.....	10,180
Dependent <sup>2</sup> .....	1,250

<sup>1</sup> If spouse/RDP itemizes deductions, this amount is \$0.

<sup>2</sup> The greater of \$1,250 or earned income plus \$400, but no more than standard deduction amount.

#### Oregon form to file:

- Resident: Form OR-40 (Oregon Individual Income Tax Return for Full-year Residents).
- Part-year resident: Form OR-40-P (Oregon Individual Income Tax Return for Part-Year Residents).
- Nonresident: Form OR-40-N (Oregon Individual Income Tax Return for Nonresidents).

**Return due date:** April 15

**Extension form.** Form OR-40-V (Oregon Individual Income Tax Payment Voucher).

**Allowable extension.** Oregon allows the same extension allowed on the federal return. File Form OR-40-V and check the extension payment checkbox to make a tax payment or if no federal extension is filed.

## PENNSYLVANIA

**Website:** <https://revenue.pa.gov>

**Tax assistance:** 717-787-8201, 888-728-2937

### 2023 Tax Rate

Income tax rate.....	3.07%
----------------------	-------

**Filing requirements.** Residents, part-year, and nonresidents are required to file if they receive total Pennsylvania gross taxable income in excess of \$33, or if they incurred a loss from any transaction as an individual, sole proprietor, partner or Pennsylvania S corporation shareholder.

**Pennsylvania form to file.** Resident, part-year, and nonresident: Form PA-40 (Pennsylvania Income Tax Return).

**Return due date:** April 15

**Allowable extension.** Pennsylvania allows an extension for up to six months if the taxpayer:

- Does not owe any Pennsylvania tax and has a valid federal extension.
- Files Form REV-276 and pays any Pennsylvania tax due.
- Pays Pennsylvania tax due by debit or credit card at [www.officialpayments.com](http://www.officialpayments.com) or 800-272-9829. Do not file Form REV-276.
- Pays Pennsylvania tax due via electronic funds transfer from taxpayer's bank account at the department's website at [www.revenue.pa.gov](http://www.revenue.pa.gov). Do not file Form REV-276.

**Reciprocity agreements.** Indiana, Maryland, New Jersey, Ohio, Virginia, and West Virginia. Pennsylvania does not tax residents of these states on employee compensation that is subject to employer federal withholding.

## RHODE ISLAND

**Website:** [www.tax.ri.gov](http://www.tax.ri.gov)

**Tax assistance:** 401-574-8829, option #3



### 2023 Quick Tax Method—For Taxable Income of:

All Filers	\$ 0 – 73,450	× 3.75%	minus \$ 0.00	= Tax
	73,451 – 166,950	× 4.75%	minus 734.50	= Tax
	166,951 and over	× 5.99%	minus 2,804.68	= Tax

**Filing requirements.** Residents must file if they are required to file a federal return *or* not required to file a federal return, but receive Rhode Island income in excess of the sum of their personal exemptions and applicable standard deduction.

Part-year residents must file if they are required to file a federal return, or have Rhode Island modifications increasing federal AGI.

Nonresidents must file if they received income from Rhode Island sources and are required to file a federal return or have Rhode Island modifications increasing federal AGI.

**Rhode Island form to file:**

- Resident: Form RI-1040 (Resident Individual Income Tax Return).
- Part-year and nonresident: Form RI-1040NR (Nonresident Individual Income Tax Return).

**Return due date:** April 15

**Extension forms.** Form RI-4868 (Rhode Island Application for Automatic Extension of Time to File a Rhode Island Individual Income Tax Return).

**Allowable extension.** Automatic six-month extension if:

- Federal Form 4868 filed and no payment due: Attach a copy of federal Form 4868.
- Payment due or federal Form 4868 not filed: File Form RI-4868 for six-month extension.

## SOUTH CAROLINA

**Website:** <https://dor.sc.gov>

**Tax assistance:** 844-898-8542, option #1



### 2023 Quick Tax Method—For Taxable Income of:

All	\$ 0 – 3,300	× 0.00%	minus \$ 0	= Tax
Filing	3,301 – 16,680	× 3.00%	minus 100	= Tax
Statuses	16,681 and over	× 6.40%	minus 670	= Tax

**Note:** Amounts are based on 2023 estimated tax instructions. Final amounts for 2023 are not available at time of publication.

**Filing requirements.** Residents must file if they are required to file a federal income tax return that included income that is taxable by South Carolina *or* have South Carolina income tax withheld from wages.

**Exception:** Residents age 65 or older are not required to file if:

- 1) Their gross income is less than or equal to the federal filing requirement plus \$15,000 (\$30,000 if MFJ and both spouses age 65 or older) and
- 2) They do not have South Carolina income tax withheld from wages.

Part-year and nonresidents are required to file if they had income taxed by South Carolina or had South Carolina income tax withheld from their wages.

**South Carolina form to file:**

- Residents and part-year residents who elect to file as residents: Form SC1040 (Individual Income Tax Return).
- Part-year and nonresident: Schedule NR (Nonresident Schedule)—attachment to Form SC1040.

**Return due date:** April 15

**Extension form.** Form SC4868 (Request for Extension of Time to File South Carolina Individual Income Tax Return).

**Allowable extension.** Six-month extension allowed:

- No payment due and federal Form 4868 filed.
- Payment due or federal Form 4868 not filed: File Form SC4868 for six-month extension. At least 90% of current year tax must be paid.

## SOUTH DAKOTA

**Website:** <https://dor.sd.gov>

**Tax assistance:** 800-829-9188, 605-773-3311

**Filing requirements.** South Dakota has no personal income tax.



## TENNESSEE

**Website:** [www.tn.gov/revenue](http://www.tn.gov/revenue)

**Tax assistance:** 615-253-0600, 800-342-1003

**Filing requirements.** Tennessee does not have a personal income tax.



## TEXAS

**Website:** <https://comptroller.texas.gov>

**Tax assistance:** 800-252-1381

**Filing requirements.** Texas does not have a personal income tax.



## UTAH

**Website:** <https://tax.utah.gov>

**Tax assistance:** 801-297-2200, 800-662-4335



2023 Tax Rate	
Income tax rate.....	4.65%

**Filing requirements.** Residents and part-year residents must file if they are required to file a federal income tax return.

Nonresidents must file if they are required to file a federal income tax return and received Utah-source income.

**Utah form to file:**

- Resident, part-year, and nonresident: Form TC-40 (Utah Individual Income Tax Return).
- Part-year and nonresident: Form TC-40B (Non or Part-year Resident Schedule)—attachment to Form TC-40.

**Return due date:** April 15

**Allowable extension.** Utah allows an automatic six-month extension of time to file. Utah does not have an extension form. Use Form TC-546 (Individual Income Tax Prepayment Coupon) to make a payment.

## VERMONT

**Website:** <https://tax.vermont.gov>

**Tax assistance:** 802-828-2865



2023 Quick Tax Method—For Taxable Income of:	
Single	\$ 0 – 45,400 × 3.35% minus \$ 0.00 = Tax
	45,401 – 110,050 × 6.60 minus 1,475.50 = Tax
	110,051 – 229,550 × 7.60 minus 2,576.00 = Tax
	229,551 and over × 8.75 minus 5,215.83 = Tax
MFJ, QW, CU Filing Jointly	\$ 0 – 75,850 × 3.35% minus \$ 0.00 = Tax
	75,851 – 183,400 × 6.60 minus 2,465.13 = Tax
	183,401 – 279,450 × 7.60 minus 4,299.13 = Tax
	279,451 and over × 8.75 minus 7,512.80 = Tax
MFS, CU Filing Separately	\$ 0 – 37,925 × 3.35% minus \$ 0.00 = Tax
	37,926 – 91,700 × 6.60 minus 1,232.56 = Tax
	91,701 – 139,725 × 7.60 minus 2,149.56 = Tax
	139,726 and over × 8.75 minus 3,756.40 = Tax
HOH	\$ 0 – 60,850 × 3.35% minus \$ 0.00 = Tax
	60,851 – 157,150 × 6.60 minus 1,977.63 = Tax
	157,151 – 254,500 × 7.60 minus 3,549.13 = Tax
	254,501 and over × 8.75 minus 6,475.88 = Tax

**Filing requirements.** Residents, part-year residents, and non-residents must file if they are required to file a federal return and earn or receive:

- 1) \$100 or more of Vermont income or
- 2) \$1,000 or more of Vermont gross income as a nonresident.

**Vermont form to file:**

- Resident, part-year, and nonresident: Form IN-111 (Vermont Income Tax Return).
- Part-year and nonresident: Schedule IN-113 (Income Adjustment Calculations)—attachment to Form IN-111.

**Return due date:** April 15

**Extension form.** Form IN-151 (Application for Extension of Time to File Form IN-111 Vermont Individual Income Tax Return).

**Allowable extension.** Vermont allows an automatic six-month extension if Form IN-151 is filed by the due date of the return or taxpayer uses myVTax to file the extension.

## VIRGINIA

**Website:** <https://tax.virginia.gov>

**Tax assistance:** 804-367-8031



2023 Quick Tax Method—For Taxable Income of:	
All Filing Statuses	\$ 0 – 3,000 × 2.00% minus \$ 0.00 = Tax
	3,001 – 5,000 × 3.00 minus 30.00 = Tax
	5,001 – 17,000 × 5.00 minus 130.00 = Tax
	17,001 and over × 5.75 minus 257.50 = Tax

**Filing requirements.** Residents and part-year residents are required to file if:

Filing status:	Virginia AGI is at least:
Single or MFS.....	\$ 11,950
MFJ .....	23,900

Nonresidents are required to file if they receive any income from Virginia sources other than interest from personal savings accounts, interest or dividends from an individual stock market investment, or pension payments from a Virginia payor.

**Virginia form to file:**

- Resident: Form 760 (Virginia Resident Individual Income Tax Return).
- Part-year resident: Form 760PY (Virginia Part-Year Resident Income Tax Return).
- Nonresident: Form 763 (Virginia Nonresident Income Tax Return).

**Return due date:** May 1

**Allowable extension.** Virginia allows an automatic six-month extension of time to file. Ninety percent of the tax liability must be paid by the original due date for filing the return to avoid penalty. No application for extension is required. To make a payment of tentative tax by the original due date, use voucher Form 760IP.

**Reciprocity agreements.** The District of Columbia, Kentucky, Maryland, Pennsylvania, and West Virginia residents may be exempt from filing if their only source of Virginia income is wages subject to income tax by the resident state (or district). For residents of the District of Columbia and Kentucky, the exemption applies if the individual had no actual place of abode in Virginia during the year. The exemption applies to Maryland, Pennsylvania, and West Virginia residents if they are present in Virginia for 183 days or less during the year.

## WASHINGTON

**Website:** <https://dor.wa.gov>

**Tax assistance:** 360-705-6705



**Filing requirements.** Washington does not have a personal income tax, but effective January 1, 2022, it imposes a 7% excise tax on individuals with sales or exchanges of long-term capital assets. Only taxpayers owing capital gains tax are required to file a capital gains tax return. Taxpayers must have capital gains in excess of \$250,000. See the *All States Quickfinder® Handbook* for more information.

## WEST VIRGINIA

**Website:** <https://tax.wv.gov>

**Tax assistance:** 800-982-8297,  
304-558-3333



### 2023 Quick Tax Method—For Taxable Income of:

MFJ, Single, HOH, QSS	\$ 0 – 9,999	× 2.36%		minus \$ 0.00	= Tax
	10,000 – 24,999	× 3.15		78.99	= Tax
	25,000 – 39,999	× 3.54		176.49	= Tax
	40,000 – 59,999	× 4.72		648.48	= Tax
MFS	\$ 0 – 4,999	× 2.36%		\$ 0.00	= Tax
	5,000 – 12,499	× 3.15		39.49	= Tax
	12,500 – 19,999	× 3.54		88.24	= Tax
	20,000 – 29,999	× 4.72		324.23	= Tax
	30,000 and over	× 5.12		444.22	= Tax

**Filing requirements.** Residents and part-year residents are required to file if their West Virginia AGI is greater than the exemption allowance (\$2,000 per exemption or \$500 if zero exemptions were claimed) or to claim a senior citizen's tax credit.

*Exception:* Taxpayers age 65 or older if income is less than exemption allowance plus senior citizen modification of up to \$8,000 do not have to file.

Nonresidents are required to file if their federal AGI includes any West Virginia-source income.

#### West Virginia form to file:

- Resident, part-year, and nonresident: Form IT-140 (West Virginia Personal Income Tax Return).
- Part-year and nonresident: Schedule A (Nonresidents/Part-Year Residents Schedule of Income)—attachment to Form IT-140.

**Return due date:** April 15

**Extension form.** Schedule L (Application for Extension of Time to File).

**Allowable extension.** West Virginia allows up to a six-month extension if tax liability is paid and the taxpayer either:

- Attaches a copy of federal Form 4868 or
- Files Schedule L if tax owed or federal Form 4868 not filed.

**Reciprocity agreements.** Kentucky, Maryland, Ohio, Pennsylvania, and Virginia residents may file Form IT-140NRS (Special Nonresident Income Tax Return) to claim a refund if the only West Virginia income is from wages and salaries.

**Note:** Pennsylvania and Virginia residents qualify only if they did not spend more than 183 days within West Virginia in 2023.

## WISCONSIN

**Website:** <https://revenue.wi.gov>

**Tax assistance:** 608-266-2486



### 2023 Quick Tax Method—For Taxable Income of:

Single, HOH	\$ 0 – 13,810	× 3.54%		minus \$ 0.00	= Tax
	13,811 – 27,630	× 4.65		153.29	= Tax
	27,631 – 304,170	× 5.30		332.89	= Tax
	304,171 and over	× 7.65		7,480.88	= Tax
MFJ	\$ 0 – 18,420	× 3.54%		\$ 0.00	= Tax
	18,421 – 36,840	× 4.65		204.46	= Tax
	36,841 – 405,550	× 5.30		443.92	= Tax
	405,551 and over	× 7.65		9,974.35	= Tax
MFS	\$ 0 – 9,210	× 3.54%		\$ 0.00	= Tax
	9,211 – 18,420	× 4.65		102.23	= Tax
	18,421 – 202,780	× 5.30		221.96	= Tax
	202,781 and over	× 7.65		4,987.29	= Tax

**Filing requirements.** Residents must file if:

Filing status:	Age:	Gross income is at least:
Single	Under 65.....	\$ 13,460
	65 or older.....	13,710
MFJ	Under 65 (both spouses).....	\$ 25,020
	65 or older (one spouse).....	25,270
	65 or older (both spouses).....	25,520
MFS	Under 65.....	\$ 11,920
	65 or older.....	12,170
HOH	Under 65.....	\$ 17,180
	65 or older.....	17,430

**Note:** 2023 amounts not available at time of publication. Amounts shown are for 2022.

Residents must also file if they owe a Wisconsin penalty on an IRA, retirement plan, ABLE account, medical or health savings account or Coverdell education savings account (excess contribution).

Part-year and nonresidents must file if gross income is at least \$2,000.

#### Wisconsin form to file:

- Resident: Form 1, Wisconsin Income Tax.
- Part-year and nonresident: Form 1NPR (Nonresident and Part-Year Resident Wisconsin Income Tax).

**Return due date:** April 15

**Allowable extension.** Wisconsin allows an extension based on the federal extension. Use Form 1-ES to make any payments. If federal Form 4868 not filed, attach a statement to the Wisconsin tax return indicating which federal extension provision (for example, federal automatic six-month provision) the taxpayer is applying for.

**Reciprocity agreements.** Illinois, Indiana, Kentucky, and Michigan residents are not required to file a Wisconsin return if the only Wisconsin income is from personal services.

## WYOMING

**Website:** <http://revenue.wyo.gov>

**Tax assistance:** 307-777-5200

**Filing requirements.** Wyoming does not have a personal income tax.



# Quick Facts, Worksheets, Where to File

All worksheets included in Tab 3 may be copied and used in your tax practice.



## Tab 3 Topics

Quick Facts Data Sheet.....	Page 3-1	Donations Substantiation Guide .....	Page 3-8
Business Use of Home Worksheet .....	Page 3-4	Earned Income Credit (EIC) Worksheet (2023) .....	Page 3-9
Capital Loss Carryover Worksheet (2023).....	Page 3-5	Net Operating Loss Worksheets .....	Page 3-9
Form 8949 (Sales and Other Dispositions of Capital Assets)—Gain/Loss Adjustment Codes .....	Page 3-5	Social Security Benefits Worksheet (2023).....	Page 3-13
Carryover Schedule for Charitable Contributions .....	Page 3-6	Qualified Business Income Deduction Worksheet (2023) .....	Page 3-14
Donations—Noncash .....	Page 3-7	2023 State and Local Sales Tax Deduction .....	Page 3-15
Donated Goods Valuation Guide .....	Page 3-7	Where to File 2023 Form 1040 .....	Page 3-16
		Where to File Form 1040-ES for 2024 .....	Page 3-16
		Where to File Form 4868 for 2023 Return .....	Page 3-16

Quick Facts Data Sheet					
	2024	2023	2022	2021	2020
<b>General Deductions and Credits</b>					
<b>Standard deduction:</b>					
MFJ or QSS	\$ 29,200	\$ 27,700	\$ 25,900	\$ 25,100	\$ 24,800
Single	14,600	13,850	12,950	12,550	12,400
HOH	21,900	20,800	19,400	18,800	18,650
MFS	14,600	13,850	12,950	12,550	12,400
Additional for age 65 or older or blind each (MFJ, QSS, MFS)	1,550	1,500	1,400	1,350	1,300
Additional for age 65 or older or blind each (Single, HOH)	1,950	1,850	1,750	1,700	1,650
<b>Earned income credit:</b>					
<b>Earned income and AGI must be less than (MFJ):<sup>2</sup></b>					
No qualifying children	\$ 25,511	\$ 24,210	\$ 22,610	\$ 27,380	\$ 21,710
One qualifying child	56,004	53,120	49,622	48,108	47,646
Two qualifying children	62,688	59,478	55,529	53,865	53,330
Three or more qualifying children	66,819	63,398	59,187	57,414	56,844
<b>Maximum amount of credit (all filers except MFS):</b>					
No qualifying children	\$ 632	\$ 600	\$ 560	\$ 1,502	\$ 538
One qualifying child	4,213	3,995	3,733	3,618	3,584
Two qualifying children	6,960	6,604	6,164	5,980	5,920
Three or more qualifying children	7,830	7,430	6,935	6,728	6,660
<b>Investment income limit</b>	11,600	11,000	10,300	10,000	3,650
<b>Child tax credit/credit for other dependents:</b>					
Credit per child	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000 <sup>3</sup>	\$ 2,000
Refundable portion limit	1,700	1,600	1,500	2,000 <sup>3</sup>	1,400
Refundable child tax credit—earned income floor	2,500	2,500	2,500	0 <sup>3</sup>	2,500
Credit per other dependent	500	500	500	500	500
<b>Adoption credit/exclusion:</b>					
<b>Maximum credit/exclusion (and amount allowed for adoption of special needs child)</b>	\$ 16,810	\$ 15,950	\$ 14,890	\$ 14,440	\$ 14,300
<b>Credit/exclusion phase-out begins at AGI of:</b>					
All taxpayers except MFS	\$ 252,150	\$ 239,230	\$ 223,410	\$ 216,660	\$ 214,520
MFS	Not Allowed	Not Allowed	Not Allowed	Not Allowed	Not Allowed
<b>Kiddie tax unearned income threshold</b>	\$ 2,600	\$ 2,500	\$ 2,300	\$ 2,200	\$ 2,200
<b>Foreign earned income exclusion</b>	\$ 126,500	\$ 120,000	\$ 112,000	\$ 108,700	\$ 107,600
<b>FICA/SE Taxes</b>					
<b>Maximum earnings subject to tax:</b>					
Social security tax	\$ 168,600	\$ 160,200	\$ 147,000	\$ 142,800	\$ 137,700
Medicare tax	No Limit	No Limit	No Limit	No Limit	No Limit
<b>Maximum tax paid by:</b>					
Employee—social security	\$ 10,453.20	\$ 9,932.40	\$ 9,114.00	\$ 8,853.60	\$ 8,537.40
Self-employed—social security	20,906.40	19,864.80	18,228.00	17,707.20	17,074.80
Employee or self-employed—Medicare	No Limit	No Limit	No Limit	No Limit	No Limit
<b>Additional Medicare tax begins at earnings of:</b>					
MFJ	\$ 250,000	\$ 250,000	\$ 250,000	\$ 250,000	\$ 250,000
Single, HOH, or QSS	200,000	200,000	200,000	200,000	200,000
MFS	125,000	125,000	125,000	125,000	125,000

Table continued on the next page

## Quick Facts Data Sheet (Continued)

	2024	2023	2022	2021	2020
<b>Business Deductions</b>					
<b>Section 179 deduction:</b>					
Overall limit	\$ 1,220,000	\$ 1,160,000	\$ 1,080,000	\$ 1,050,000	\$ 1,040,000
SUV limit (per vehicle)	30,500	28,900	27,000	26,200	25,900
Qualifying property phase-out threshold	3,050,000	2,890,000	2,700,000	2,620,000	2,590,000
<b>Depreciation limit—autos, trucks, and vans (1st year)</b>	4, <sup>11</sup>	12,200 <sup>4</sup>	11,200 <sup>4</sup>	10,200 <sup>4</sup>	10,100 <sup>4</sup>
<b>Standard mileage allowances:</b>					
Business	67¢	65.5¢	58.5¢/62.5¢ <sup>10</sup>	56¢	57.5¢
Charity work	14¢	14¢	14¢	14¢	14¢
Medical/moving	21¢	22¢	18¢/22¢ <sup>10</sup>	16¢	17¢
<b>Qualified business income (QBI) deduction taxable income thresholds:</b>					
MFJ	\$ 383,900	\$ 364,200	\$ 340,100	\$ 329,800	\$ 326,600
Single, HOH, QSS, or MFS	191,950	182,100	170,050	164,900 <sup>5</sup>	163,300
<b>Excess business loss disallowance limits:</b>					
MFJ	\$ 610,000	\$ 578,000	\$ 540,000	\$ 524,000	\$ 518,000
Single, HOH, QSS, or MFS	\$ 305,000	289,000	270,000	262,000	259,000
<b>Health Care Deductions/Exclusions/Credits</b>					
<b>Health savings accounts (HSAs):</b>					
<b>Self-only coverage:</b>					
Contribution limit	\$ 4,150	\$ 3,850	\$ 3,650	\$ 3,600	\$ 3,550
Plan minimum deductible	1,600	1,500	1,400	1,400	1,400
Plan out-of-pocket limit	8,050	7,500	7,050	7,000	6,900
<b>Family coverage:</b>					
Contribution limit	8,300	7,750	7,300	7,200	7,100
Plan minimum deductible	3,200	3,000	2,800	2,800	2,800
Plan out-of-pocket limit	16,100	15,000	14,100	14,000	13,800
<b>Additional contribution limit—age 55 or older</b>	1,000	1,000	1,000	1,000	1,000
<b>Long-term care insurance—deduction limits:</b>					
Age 40 and under	\$ 470	\$ 480	\$ 450	\$ 450	\$ 430
Age 41 – 50	880	890	850	850	810
Age 51 – 60	1,760	1,790	1,690	1,690	1,630
Age 61 – 70	4,710	4,770	4,510	4,520	4,350
Age 71 and older	5,880	5,960	5,640	5,640	5,430
<b>Long-term care—excludible per diem</b>	\$ 410	\$ 420	\$ 390	\$ 400	\$ 380
<b>Medical savings accounts (MSAs):</b>					
<b>Self-only coverage:</b>					
Plan minimum deductible	\$ 2,800	\$ 2,650	\$ 2,450	\$ 2,400	\$ 2,350
Plan maximum deductible	4,150	3,950	3,700	3,600	3,550
Plan out-of-pocket limit	5,550	5,300	4,950	4,800	4,750
<b>Family coverage:</b>					
Plan minimum deductible	5,550	5,300	4,950	4,800	4,750
Plan maximum deductible	8,350	7,900	7,400	7,150	7,100
Plan out-of-pocket limit	10,200	9,650	9,050	8,750	8,650
<b>Health flexible spending arrangement—contribution limit</b>	\$ 3,200	\$ 3,050	\$ 2,850	\$ 2,750	\$ 2,750
<b>Advance payment of health insurance premium tax credit—repayment limit:<sup>6</sup></b>					
Household income < 200% of federal poverty line (FPL)	\$ 750	\$ 700	\$ 650	\$ 650	\$ 650
Household income ≥ 200% of FPL, but < 300%	1,900	1,800	1,650	1,600	1,600
Household income ≥ 300% of FPL, but < 400%	3,150	3,000	2,800	2,700	2,700
<b>Qualified small employer HRA reimbursement limits:</b>					
Employee only	\$ 6,150	\$ 5,850	\$ 5,450	\$ 5,300	\$ 5,250
Employee and family	12,450	11,800	11,050	10,700	10,600
<b>Small employer health insurance credit—average wage limit</b>	\$ 32,400	\$ 30,700	\$ 28,700	\$ 27,800	\$ 27,600
<b>Education Tax Incentives</b>					
<b>Education savings accounts (ESAs) phase-out begins at AGI of:</b>					
MFJ	\$ 190,000	\$ 190,000	\$ 190,000	\$ 190,000	\$ 190,000
Single, HOH, QSS, or MFS	95,000	95,000	95,000	95,000	95,000
<b>American opportunity credit—maximum credit (per student)</b>	\$ 2,500	\$ 2,500	\$ 2,500	\$ 2,500	\$ 2,500
<b>Lifetime learning credit (LLC)—maximum credit (per return)</b>	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000
<b>Education credit phase-out begins at AGI of:</b>					
<b>MFJ:</b>					
American opportunity	\$ 160,000	\$ 160,000	\$ 160,000	\$ 160,000	\$ 160,000
LLC	116,000	160,000	160,000	160,000	118,000
<b>Single, HOH, or QSS:</b>					
American opportunity	80,000	80,000	80,000	80,000	80,000
LLC	58,000	80,000	80,000	80,000	59,000
<b>MFS</b>	Not Allowed	Not Allowed	Not Allowed	Not Allowed	Not Allowed
<b>Student loan interest deduction limit</b>	\$ 2,500	\$ 2,500	\$ 2,500	\$ 2,500	\$ 2,500
<b>Student loan interest deduction phase-out begins at AGI of:</b>					
MFJ	\$ 165,000	\$ 155,000	\$ 145,000	\$ 140,000	\$ 140,000
Single, HOH, or QSS	80,000	75,000	70,000	70,000	70,000
MFS	Not Allowed	Not Allowed	Not Allowed	Not Allowed	Not Allowed

## Quick Facts Data Sheet (Continued)

	2024	2023	2022	2021	2020
<b>Savings bonds income exclusion phase-out begins at AGI of:</b>					
MFJ or QSS	\$ 145,200	\$ 137,800	\$ 128,650	\$ 124,800	\$ 123,550
Single or HOH	96,800	91,850	85,800	83,200	82,350
MFS	Not Allowed	Not Allowed	Not Allowed	Not Allowed	Not Allowed
<b>Tuition deduction phase-out begins at AGI of:</b>					
MFJ	N/A <sup>7</sup>	N/A <sup>7</sup>	N/A <sup>7</sup>	N/A <sup>7</sup>	\$ 130,000
Single, HOH, or QSS	N/A <sup>7</sup>	N/A <sup>7</sup>	N/A <sup>7</sup>	N/A <sup>7</sup>	65,000
MFS	N/A <sup>7</sup>	N/A <sup>7</sup>	N/A <sup>7</sup>	N/A <sup>7</sup>	Not Allowed
<b>Additional Taxes</b>					
<b>AMT exemption:</b>					
MFJ or QSS	\$ 133,300	\$ 126,500	\$ 118,100	\$ 114,600	\$ 113,400
Single or HOH	85,700	81,300	75,900	73,600	72,900
MFS	66,650	63,250	59,050	57,300	56,700
Child subject to kiddie tax—earned income plus	N/A <sup>8</sup>	N/A <sup>8</sup>	N/A <sup>8</sup>	N/A <sup>8</sup>	N/A <sup>8</sup>
<b>Net investment income tax begins at AGI of:</b>					
MFJ or QSS	\$ 250,000	\$ 250,000	\$ 250,000	\$ 250,000	\$ 250,000
Single or HOH	200,000	200,000	200,000	200,000	200,000
MFS	125,000	125,000	125,000	125,000	125,000
<b>Retirement Plans</b>					
<b>IRA contribution limits:</b>					
Under age 50 at year end	\$ 7,000	\$ 6,500	\$ 6,000	\$ 6,000	\$ 6,000
Age 50 or older at year end	8,000	7,500	7,000	7,000	7,000
<b>Traditional IRA deduction phase-out begins at AGI of (taxpayer or spouse covered by employer retirement plan):</b>					
MFJ and QSS (covered spouse)	\$ 123,000	\$ 116,000	\$ 109,000	\$ 105,000	\$ 104,000
MFJ (non-covered spouse)	230,000	218,000	204,000	198,000	196,000
Single and HOH	77,000	73,000	68,000	66,000	65,000
MFS	0	0	0	0	0
<b>Roth IRA contribution phase-out begins at AGI of:</b>					
MFJ or QSS	\$ 230,000	\$ 218,000	\$ 204,000	\$ 198,000	\$ 196,000
Single or HOH	146,000	138,000	129,000	125,000	124,000
MFS	0	0	0	0	0
<b>SIMPLE IRA plan elective deferral limits:</b>					
Under age 50 at year end	\$ 16,000	\$ 15,500	\$ 14,000	\$ 13,500	\$ 13,500
Age 50 or older at year end	19,500	19,000	17,000	16,500	16,500
<b>401(k), 403(b), 457, and SARSEP elective deferral limits:</b>					
Under age 50 at year end	\$ 23,000	\$ 22,500	\$ 20,500	\$ 19,500	\$ 19,500
Age 50 or older at year end	30,500	30,000	27,000	26,000	26,000
<b>Profit-sharing plan/SEP contribution limits</b>	\$ 69,000	\$ 66,000	\$ 61,000	\$ 58,000	\$ 57,000
<b>Compensation limit (for employer contributions to profit sharing plans)</b>	\$ 345,000	\$ 330,000	\$ 305,000	\$ 290,000	\$ 285,000
<b>Defined benefit plans—annual benefit limit</b>	\$ 275,000	\$ 265,000	\$ 245,000	\$ 230,000	\$ 230,000
<b>Retirement saver's credit phased-out when AGI exceeds:</b>					
MFJ	\$ 76,500	\$ 73,000	\$ 68,000	\$ 66,000	\$ 65,000
HOH	57,375	54,750	51,000	49,500	48,750
Single, MFS, or QSS	38,250	36,500	34,000	33,000	32,500
<b>Key employee compensation threshold</b>	\$ 220,000	\$ 215,000	\$ 200,000	\$ 185,000	\$ 185,000
<b>Highly compensated threshold</b>	\$ 155,000	\$ 150,000	\$ 135,000	\$ 130,000	\$ 130,000
<b>Social Security</b>					
<b>Maximum earnings and still receive full social security benefits:</b>					
Under full retirement age (FRA) at year-end, benefits reduced by \$1 for each \$2 earned over	\$ 22,320	\$ 21,240	\$ 19,560	\$ 18,960	\$ 18,240
Year FRA reached, benefits reduced \$1 for each \$3 earned over (months up to FRA only)	59,520	56,520	51,960	50,520	48,600
Month FRA reached and later	No Limit	No Limit	No Limit	No Limit	No Limit
<b>Estate and Gift Taxes</b>					
<b>Estate and gift tax exclusion</b>	\$ 13,610,000 <sup>9</sup>	\$ 12,920,000 <sup>9</sup>	\$ 12,060,000 <sup>9</sup>	\$ 11,700,000 <sup>9</sup>	\$ 11,580,000 <sup>9</sup>
<b>GST tax exemption</b>	\$ 13,610,000	\$ 12,920,000	\$ 12,060,000	\$ 11,700,000	\$ 11,580,000
<b>Gift tax annual exclusion</b>	\$ 18,000	\$ 17,000	\$ 16,000	\$ 15,000	\$ 15,000

<sup>1</sup> The exemption deduction amount is zero; however, for other Code provisions that refer to the Section 151 exemption amount (for example, the definition of qualifying relative when determining dependents under IRC Sec. 152), the amount is \$5,050 for 2024, \$4,700 for 2023, \$4,400 for 2022, \$4,300 for 2021, and \$4,300 for 2020.

<sup>2</sup> Phaseout amount for all other filers (except MFS) is amount shown reduced by: \$6,920 (\$6,920 if no children) for 2024, \$6,560 (\$6,570 if no children) in 2023; \$6,130 in 2022; \$5,950 (\$4,950 if three or more children) in 2021; \$5,890 in 2020.

<sup>3</sup> Increased refundable credit amounts of \$1,600 per child under age six and/or \$1,000 per child age six or over are phased out beginning at \$150,000 for MFJ/QSS, \$112,500 for HOH, and \$75,000 for Single. Refundability is determined without regard to earned income.

<sup>4</sup> Add \$8,000 if special depreciation claimed.

<sup>5</sup> \$164,925 for MFS (2021), \$160,725 for MFS (2019).

<sup>6</sup> For single filing status, the amount is half of the amount shown. For tax years beginning in 2020, no additional income tax is imposed on advance credit payments exceeding the taxpayer's PTC.

<sup>7</sup> Permanently repealed for tax years beginning after December 31, 2020.

<sup>8</sup> The Setting Every Community Up for Retirement Enhancement Act of 2019 (SECURE Act) has suspended the provision limiting the exemption amount for children subject to the kiddie tax to the sum of the child's earned income plus \$9,250 for 2024 (\$8,800 for 2023) for tax years 2018–2025 [IRC Sec. 55(d)(4)(A)(iii)].

<sup>9</sup> Plus the amount of any deceased spousal unused exclusion and/or any restored exclusion related to lifetime gifts to a same-sex spouse.

<sup>10</sup> The first amount applies to 1/1/22–6/30/22 and the second amount applies to 7/1/22–12/31/22.

<sup>11</sup> Amount not available at time of publication.

## Business Use of Home Worksheet

**Caution:** Schedule C filers must use Form 8829 (Expenses for Business Use of Your Home) or claim the deduction computed under the simplified method on Schedule C, line 30. Use this worksheet if Schedule F is filed or if the individual is a partner (result to Schedule E). For daycare facilities not used exclusively for business, see Form 8829.

**Part 1—Part of Home Used for Business:**

- 1) Area of home used for business..... 1) \_\_\_\_\_
- 2) Total area of home..... 2) \_\_\_\_\_
- 3) Percentage of home used for business (divide line 1 by line 2 and show result as percentage)..... 3) \_\_\_\_\_ %

**Part 2—Allowable Deductions:**

- 4) Gross income from business..... 4) \_\_\_\_\_
- |  |     | (a)<br>Direct Expenses | (b)<br>Indirect Expenses |       |
|--|-----|------------------------|--------------------------|-------|
| 5) Casualty loss.....  | 5)  | _____                  | _____                    |       |
| 6) Deductible mortgage interest.....   | 6)  | _____                  | _____                    |       |
| 7) Real estate taxes.....  | 7)  | _____                  | _____                    |       |
| 8) Total of lines 5 through 7.....   | 8)  | _____                  | _____                    |       |
| 9) Multiply column (b) of line 8 by line 3.....  | 9)  |                        | _____                    |       |
| 10) Add column (a) of line 8 and line 9.....   | 10) |                        | _____                    |       |
| 11) Business expenses not related to business use of home.....   | 11) |                        | _____                    |       |
| 12) Add lines 10 and 11.....   | 12) |                        |                          | _____ |
| 13) Deduction limit. Subtract line 12 from line 4 (if zero or less, enter -0-).....                        | 13) |                        |                          | _____ |
| 14) Excess mortgage interest.....  | 14) | _____                  | _____                    |       |
| 15) Excess real estate taxes.....  | 15) | _____                  | _____                    |       |
| 16) Insurance.....   | 16) | _____                  | _____                    |       |
| 17) Rent.....  | 17) | _____                  | _____                    |       |
| 18) Repairs and maintenance.....   | 18) | _____                  | _____                    |       |
| 19) Utilities.....   | 19) | _____                  | _____                    |       |
| 20) Other expenses related to use of home.....   | 20) | _____                  | _____                    |       |
| 21) Add lines 14 through 20.....   | 21) | _____                  | _____                    |       |
| 22) Multiply column (b) of line 21 by line 3.....  | 22) |                        | _____                    |       |
| 23) Carryover of operating expenses from prior year.....   | 23) |                        | _____                    |       |
| 24) Add column (a) of line 21, line 22 and line 23.....  | 24) |                        |                          | _____ |
| 25) Allowable operating expenses. Enter the <i>smaller</i> of line 13 or line 24.....                      | 25) |                        |                          | _____ |
| 26) Limit on excess casualty losses and depreciation. Subtract line 25 from line 13.....                   | 26) |                        |                          | _____ |
| 27) Excess casualty losses.....  | 27) | _____                  | _____                    |       |
| 28) Depreciation of home from line 40 below.....   | 28) | _____                  | _____                    |       |
| 29) Carryover of excess casualty losses and depreciation from prior year.....                              | 29) | _____                  | _____                    |       |
| 30) Add lines 27 through 29.....   | 30) |                        |                          | _____ |
| 31) Allowable excess casualty losses and depreciation. Enter the <i>smaller</i> of line 26 or line 30..... | 31) |                        |                          | _____ |
| 32) Add lines 10, 25, and 31.....  | 32) |                        |                          | _____ |
| 33) Casualty losses included on lines 10 and 31.....   | 33) |                        |                          | _____ |
| 34) Allowable expenses for business use of home. (Subtract line 33 from line 32.).....                     | 34) |                        |                          | _____ |

**Part 3—Depreciation of Home:**

- 35) Smaller of adjusted basis or fair market value of home when first used for business..... 35) \_\_\_\_\_
- 36) Basis of land (or FMV, if FMV of home used on line 35)..... 36) \_\_\_\_\_
- 37) Depreciable basis of building (subtract line 36 from line 35)..... 37) \_\_\_\_\_
- 38) Business basis of building (multiply line 37 by line 3)..... 38) \_\_\_\_\_
- 39) MACRS depreciation percentage..... 39) \_\_\_\_\_
- 40) Depreciation allowable (multiply line 38 by line 39)..... 40) \_\_\_\_\_

**Part 4—Carryover of Unallowed Expenses to Next Year:**

- 41) Operating expenses. Subtract line 25 from line 24. If less than zero, enter -0-..... 41) \_\_\_\_\_
- 42) Excess casualty losses and depreciation. Subtract line 31 from line 30. If less than zero, enter -0-..... 42) \_\_\_\_\_



## Social Security Benefits Worksheet (2023)

**Caution:** Do not use this worksheet if any of the following apply.

- 1) If the taxpayer made a 2023 traditional IRA contribution and was covered (or spouse was covered) by a qualified retirement plan, see *IRA Deduction and Taxable Social Security* on Page 14-7.
- 2) The taxpayer repaid any benefits in 2023 and total repayments (box 4 of Forms SSA-1099 and RRB-1099) were more than total benefits for 2023 (box 3 of Forms SSA-1099 and RRB-1099). None of the benefits are taxable for 2023.
- 3) Use the worksheet in IRS Pub. 915 if any of the following apply:
  - Form 2555 (Foreign Earned Income) is being filed;
  - Form 4563 (Exclusion of Income for Bona Fide Residents of American Samoa) is being filed;
  - Form 8815 (Exclusion of Interest From Series EE and I U.S. Savings Bonds Issued After 1989) is being filed;
  - The taxpayer is excluding income from sources within Puerto Rico; or
  - The taxpayer is excluding employer-provided adoption benefits.

### Computation of Amount for Line 6b of Form 1040

- 1) Enter the total amount from box 5 of all Forms SSA-1099 and RRB-1099. Also enter this amount on Form 1040, line 6a..... 1) \_\_\_\_\_
- 2) Enter one-half of line 1 ..... 2) \_\_\_\_\_
- 3) Enter the total of the amounts from Form 1040, lines 1z, 2b, 3b, 4b, 5b, 7, and 8, and Schedule 1 lines 8r, 8t, and 8u..... 3) \_\_\_\_\_
- 4) Enter the amount, if any, from Form 1040, line 2a ..... 4) \_\_\_\_\_
- 5) Add lines 2, 3, and 4..... 5) \_\_\_\_\_
- 6) Enter the total of the amounts from Schedule 1, lines 11 through 20, and 23 and 25..... 6) \_\_\_\_\_
- 7) Is the amount on line 6 less than the amount on line 5?
 

**No**  None of the social security benefits are taxable. Enter -0- on Form 1040, line 6b.

**Yes**  Subtract line 6 from line 5..... 7) \_\_\_\_\_
- 8) If taxpayer is:
  - MFJ, enter \$32,000.
  - Single, HOH, QSS, or MFS and the taxpayer lived apart from his spouse for all of 2023, enter \$25,000.
  - MFS and taxpayer lived with his spouse at any time in 2023, skip lines 8 through 15; multiply line 7 by 85% (0.85) and enter the result on line 16. Then go to line 17 ..... 8) \_\_\_\_\_
- 9) Is the amount on line 8 less than the amount on line 7?
 

**No**  None of the social security benefits are taxable. Enter -0- on line 6b of Form 1040. If the taxpayer is married filing separately and lived apart from his spouse for all of 2023, also enter "D" to the right of the word "benefits" on line 6a.

**Yes**  Subtract line 8 from line 7..... 9) \_\_\_\_\_
- 10) Enter \$12,000 if MFJ; \$9,000 if single, HOH, QSS, or MFS and the taxpayer lived apart from his spouse for all of 2023..... 10) \_\_\_\_\_
- 11) Subtract line 10 from line 9. If zero or less, enter -0-..... 11) \_\_\_\_\_
- 12) Enter the smaller of line 9 or 10..... 12) \_\_\_\_\_
- 13) Enter one-half of line 12 ..... 13) \_\_\_\_\_
- 14) Enter the smaller of line 2 or line 13 ..... 14) \_\_\_\_\_
- 15) Multiply line 11 by 85% (0.85). If line 11 is zero, enter -0- ..... 15) \_\_\_\_\_
- 16) Add lines 14 and 15 ..... 16) \_\_\_\_\_
- 17) Multiply line 1 by 85% (0.85) ..... 17) \_\_\_\_\_
- 18) Taxable social security benefits. Enter the smaller of line 16 or line 17. Also enter this amount on Form 1040, line 6b..... 18) \_\_\_\_\_

**Note:** If a portion of social security benefits is taxable for 2023 and includes benefits received in 2023 that were for an earlier year, the taxable portion shown on this worksheet may be reduced. See *Social security lump-sum election* on Page 4-17 for details.

# Qualified Business Income Deduction Worksheet (2023)<sup>1</sup>

Use this worksheet to estimate a taxpayer's QBI deduction. Form 8995 or 8995-A must be used to calculate the QBI deduction reported on 2023 Form 1040 line 13. See *Qualified Business Income (QBI) Deduction* on Page 6-22.

- |  |       |  |
|--|-------|--|
| 1) Qualified business income (QBI) from this trade or business (before netting) .....              | 1) \$ |  |
| 1a) Allocable share of negative QBI from other trades or businesses or loss carryover, if any..... | 1a)   |  |
| 2) W-2 wages for this trade or business .....  | 2)    |  |
| 3) Qualified property (investment) for this trade or business .....                                | 3)    |  |
| 4) Taxable income before QBI deduction.....  | 4) \$ |  |
| 5) Applicable threshold amount: Enter \$364,200 if MFJ; \$182,100 for all other filing status..... | 5)    |  |
| 6) Line 4 – Line 5 .....   | 6) \$ |  |

**Patrons of specified agricultural and horticultural cooperatives (if N/A, skip to Line 10)**

- |  |       |  |
|--|-------|--|
| 7) Portion of QBI (amount on line 1) allocable to qualified payments received from the cooperative ..... | 7) \$ |  |
| 8) Reserved (Not Used)   |       |  |
| 9) Cooperative's QPAI deduction allocated to patron and identified in writing by cooperative .....       | 9) \$ |  |

**Threshold qualifications**

- 10) Is line 6 less than or equal to 0?
- YES: STOP.** The full 20% deduction is allowed (subject to taxable income limitation); skip Lines 11–30, multiply the amount on Line 1 minus Line 1a by 20%, and enter result on Line 31.
- NO: Continue.**
- |   |        |  |
|---|--------|--|
| 11) Applicable phase-in range: Enter \$100,000 if MFJ; \$50,000 if Single, HOH, or MFS..... | 11) \$ |  |
|---|--------|--|
- 12) Is the trade or business a specified service trade or business (SSTB)?
- YES: Continue.**
- NO: Skip to line 19.**
- 13) Is Line 4 greater than \$464,200 if MFJ; \$232,100 for any other filing status?
- YES: STOP.** No QBI deduction is allowed. Enter -0- on Line 47.
- NO: Continue.**

**QBI—specified service trade or business exclusion phase-in<sup>2</sup>**

- |  |        |   |
|--|--------|---|
| 14) Line 6 ÷ Line 11 .....                                 | 14)    | % |
| 15) Phase-in % (100% – Line 14).....                       | 15)    | % |
| 16) Includible QBI before netting (Line 1 × Line 15) ..... | 16) \$ |   |
| 17) Includible W-2 wages (Line 2 × Line 15) .....          | 17)    |   |
| 18) Includible qualified property (Line 3 × Line 15).....  | 18)    |   |

**Wage/investment limitation**

- |   |        |   |
|---|--------|---|
| 19) QBI before netting (amount on Line 16, if any; otherwise, amount on Line 1) .....                     | 19) \$ |   |
| 19a) Less: Allocable share of negative QBI from other trades or businesses or loss carryover, if any..... | 19a)   |   |
| 19b) Net QBI after netting of losses (Line 19 – Line 19a) .....   | 19b)   |   |
| 20) QBI deduction at 20% (Line 19b × 20%) .....   | 20)    |   |
| 21) W-2 wages (amount on Line 17, if any; otherwise, amount on Line 2).....                               | 21)    |   |
| 22) Wage limit: 50% of wages (Line 21 × 50%).....   | 22)    |   |
| 23) Qualified property (amount on Line 18, if any; otherwise, amount on Line 3) .....                     | 23)    |   |
| 24) W-2 wages × 25% (Line 21 × 25%).....  | 24)    |   |
| 25) Qualified property × 2.5% (Line 23 × 2.5%) .....  | 25)    |   |
| 26) Wage/investment limit (Line 24 + Line 25) .....   | 26) \$ |   |
| 27) Limitation (greater of Line 22 or Line 26).....   | 27) \$ |   |
| 28) Phase-in of limit % (Line 6 ÷ Line 11) .....  | 28)    | % |
| 29) Line 20 – Line 27 (but not less than -0-).....  | 29) \$ |   |
| 30) Limit (Line 28 × Line 29).....  | 30) \$ |   |
| 31) QBI deductible amount reduced for wage/investment limit (Line 20 – Line 30) .....                     | 31) \$ |   |

## Qualified Business Income Deduction Worksheet (2023)<sup>1</sup> (Continued)

### Reduction for qualified payments received from cooperatives

32) QBI allocable to payments received from cooperative (Line 7).....	32) \$ _____
33) 9% of QBI from this trade or business allocable to payments received from cooperative (Line 32 × 9%) .....	33) _____
34) W-2 wages allocable to payments received from cooperative (Line 21 × Line 7 ÷ Line 1) .....	34) _____
35) 50% of wages allocable to payments received from cooperative (Line 34 × 50%) .....	35) _____
36) Lesser of 9% of QBI or 50% of wages allocable to cooperative payments (lesser of Line 33 or 35) .....	36) _____
37) QBI deductible amount reduced for cooperative allocation, if any (Line 31 – Line 36) .....	37) _____
38) If applicable, QBI deductions from other trades or businesses (total of Lines 37 from all other worksheets).....	38) \$ _____
39) QBI deduction from all trades or businesses (Line 37 + Line 38).....	39) \$ _____

### Qualified REIT and PTP income

40) Total REIT and PTP income .....	40) \$ _____
41) QBI deduction at 20% (Line 40 × 20%).....	41) _____
42) Combined QBI amount before taxable income limit (Line 39 + Line 41).....	42) \$ _____

### Taxable income limitations

43) Taxable income before QBI deduction (Line 4) .....	43) \$ _____
44) Net capital gain.....	44) _____
45) Excess of taxable income over net capital gain (Line 43 – Line 44) .....	45) _____
46) Taxable income limit (Line 45 × 20%).....	46) \$ _____
47) Total QBI deduction (lesser of Line 42 or Line 46) .....	47) \$ _____

### QPAI deduction from cooperatives

48) QPAI deduction identified in writing by cooperative (Line 9) .....	48) \$ _____
49) Taxable income before QPAI deduction and after QBI deduction (Line 43 – Line 47) .....	49) _____
50) Allowable QPAI deduction from cooperative (lesser of Line 48 or Line 49).....	50) \$ _____
51) <b>Total Section 199A deduction (Line 47 + Line 50)</b> .....	51) \$ _____

<sup>1</sup> Compute separately for each trade or business and then combine the Line 37 amounts on Line 38. In the case of a partnership or S corporation, the provision applies at the partner or shareholder level. Each partner takes into account the partner's allocable share of each qualified item of income, gain, deduction, and loss, and is treated as having W-2 wages for the tax year equal to the partner's allocable share of W-2 wages of the partnership. The partner's allocable share of W-2 wages is required to be determined in the same manner as the partner's share of wage expenses. Losses from carryovers and businesses with negative QBI must be apportioned among businesses with positive QBI [see Reg. 1.199A-1(c) and (d)]. Form 8995-A, Schedule C (Loss Netting and Carryforward) may be used to compute loss netting.

<sup>2</sup> Specified service businesses are excluded from the definition of *qualified trade or business* when the taxpayer's taxable income exceeds the threshold amount plus phase-in range amount (thus, the exclusion is deemed to phase-in over the phase-in range).

## 2023 State and Local Sales Tax Deduction

For 2023, taxpayers can elect to deduct state and local sales taxes instead of state and local income taxes (see *Electing to Deduct Sales Tax* on Page 5-5). Instead of deducting their actual expenses, taxpayers can use optional sales tax tables [based on the taxpayer's state(s) of residence] provided by the IRS. The deduction worksheet and any optional tables issued by the IRS will be posted to the *Handbook Updates* section of [tax.thomsonreuters.com/quickfinder](https://tax.thomsonreuters.com/quickfinder).

## Where to File 2023 Form 1040

Due Date: April 15, 2024

	Address to: <i>"Department of the Treasury Internal Revenue Service"</i>	Address to: <i>"Internal Revenue Service"</i>
<b>Taxpayer lives in:</b>	<b>Without payment</b>	<b>With payment</b>
AL, FL, GA, LA, MS, NC, SC, TN, TX	Austin, TX 73301-0002	P.O. Box 1214 Charlotte, NC 28201-1214
AK, CA, CO, HI, ID, KS, MI, MT, NE, NV, ND, OH, OR, SD, UT, WA, WY	Ogden, UT 84201-0002	P.O. Box 802501 Cincinnati, OH 45280-2501
AZ, NM	Austin, TX 73301-0002	P.O. Box 802501 Cincinnati, OH 45280-2501
CT, DC, DE, IL, IN, IA, KY, ME, MD, MA, MN, MO, NH, NJ, NY, RI, VT, VA, WV, WI	Kansas City, MO 64999-0002	P.O. Box 931000 Louisville, KY 40293-1000
PA	Kansas City, MO 64999-0002	P.O. Box 802501 Cincinnati, OH 45280-2501
AR, OK	Austin, TX 73301-0045	P.O. Box 931000 Louisville, KY 40293-1000
A foreign country, U.S. possession or territory; or uses an APO or FPO address; or files Form 2555 or 4563; or is a dual-status alien. If taxpayer lives in American Samoa, Puerto Rico, Guam, U.S. Virgin Islands, or the Northern Mariana Islands, see Pub 570.	Austin, TX 73301-0215 USA	P.O. Box 1303 Charlotte, NC 28201-1303 USA

## Where to File Form 1040-ES for 2024

Due Dates: See *Estimated Tax Payments—Due Dates* on Page 16-7 of the 1040 Quickfinder® Handbook.

*Address to: "Internal Revenue Service"*

<b>Taxpayer lives in:</b>	<b>Send to:</b>
AL, AZ, FL, GA, LA, MS, NM, NC, SC, TN, TX	P.O. Box 1300 Charlotte, NC 28201-1300
AR, CT, DE, DC, IL, IN, IA, KY, ME, MD, MA, MN, MO, NH, NJ, NY, OK, RI, VT, VA, WV, WI	P.O. Box 931100 Louisville, KY 40293-1100
AK, CA, CO, HI, ID, KS, MI, MT, NE, NV, ND, OH, OR, PA, SD, UT, WA, WY	P.O. Box 802502 Cincinnati, OH 45280-2502
A foreign country, American Samoa, or Puerto Rico (or is excluding income under IRC Sec. 933); or uses an APO or FPO address; or files Form 2555 or 4563; or is a dual-status alien or nonpermanent resident of Guam or the U.S. Virgin Islands	P.O. Box 1303 Charlotte, NC 28201-1303, USA
<i>Address to: "Department of Revenue and Taxation, Government of Guam"</i>	
Guam: Bona fide residents*	P.O. Box 23607 GMF, GU 96921
<i>Address to: "Virgin Islands Bureau of Internal Revenue"</i>	
U.S. Virgin Islands: Bona fide residents*	6115 Estate Smith Bay, Suite 225 St. Thomas, VI 00802

\* Bona fide residents must prepare separate vouchers for estimated income tax and self-employment tax payments. Send the income tax vouchers to the address for bona fide residents and the self-employment tax vouchers to the address for non-bona fide residents.

## Where to File Form 4868 for 2023 Return

Due Date: April 15, 2024

	Address to: <i>"Department of the Treasury, Internal Revenue Service Center"</i>	Address to: <i>"Internal Revenue Service"</i>
<b>Taxpayer lives in:</b>	<b>Without payment</b>	<b>With payment</b>
AL, FL, GA, LA, MS, NC, SC, TN, TX	Austin, TX 73301-0045	P.O. Box 1302 Charlotte, NC 28201-1302
AK, CA, CO, HI, ID, KS, MI, MT, NE, NV, ND, OH, OR, SD, UT, WA, WY	Ogden, UT 84201-0045	P.O. Box 802503 Cincinnati, OH 45280-2503
AZ, NM	Austin, TX 73301-0045	P.O. Box 802503 Cincinnati, OH 45280-2503
CT, DE, DC, IL, IN, IA, KY, ME, MD, MA, MN, MO, NH, NJ, NY, RI, VT, VA, WV, WI	Kansas City, MO 64999-0045	P.O. Box 931300 Louisville, KY 40293-1300
PA	Kansas City, MO 64999-0045	P.O. Box 802503 Cincinnati, OH 45280-2503
AR, OK	Austin, TX 73301-0045	P.O. Box 931300 Louisville, KY 40293-1300
A foreign country, American Samoa, or Puerto Rico; or is excluding income under IRC Sec. 933; or using an APO or FPO address; or filing Form 2555 or 4563; or is a dual-status alien; or is a nonpermanent resident of Guam or the U.S. Virgin Islands.	Austin, TX 73301-0215 USA	P.O. Box 1303 Charlotte, NC 28201-1303 USA
All foreign estate and trust Form 1040-NR filers	Kansas City, MO 64999-0045 USA	P.O. Box 1303 Charlotte, NC 28201-1303 USA
All other Form 1040-NR, 1040-PR, and 1040-SS filers	Austin, TX 73301-0045 USA	P.O. Box 1302 Charlotte, NC 28201-1302 USA

— End of Tab 3 —

## State and Local Tax Refund Worksheet

### See Form 1040 instructions if MFS in 2022.

- 1) Enter the income tax refund from Form(s) 1099-G (or similar statement). Do not enter more than income tax deducted on line 5d of 2022 Schedule A..... 1) \_\_\_\_\_
- 2) Is the amount of state and local income taxes (or general sales taxes), real estate taxes, and personal property taxes paid in 2022 (generally, 2022 Schedule A, line 5d), more than the amount on 2022 Schedule A, line 5e?  
No, enter the amount on line 1 on line 3 and go to line 4.  
Yes, subtract the amount on 2022 Schedule A, line 5e, from the amount of state and local income taxes (or general sales taxes), real estate taxes, and personal property taxes paid in 2022 (generally, 2022 Schedule A, line 5d)..... 2) \_\_\_\_\_
- 3) Is the amount on line 1 more than the amount on line 2?  
No, **STOP HERE**, none of your refund is taxable.  
Yes, subtract line 2 from line 1..... 3) \_\_\_\_\_
- 4) Enter total itemized deductions from line 17 of the 2022 Schedule A..... 4) \_\_\_\_\_
- 5) Enter the amount shown below for the filing status claimed on the 2022 Form 1040..... 5) \_\_\_\_\_
  - \$12,950 Single.
  - \$19,400 HOH.
  - \$25,900 MFJ or QSS.
  - \$12,950 MFS not required to itemize.
- 6) Multiply the number of any boxes checked next to standard deduction on page 1 of the 2022 Form 1040 by \$1,400 (\$1,750 if single or HOH in 2022)..... 6) \_\_\_\_\_
- 7) Add lines 5 and 6..... 7) \_\_\_\_\_
- 8) Subtract line 7 from line 4. If zero or less, enter -0-..... 8) \_\_\_\_\_
- 9) **Taxable part of refund.** Enter the smaller of line 3 or line 8 here and on line 1 of Schedule 1, Form 1040..... 9) \_\_\_\_\_

## Alimony Received

See *Alimony* on Page 13-12.

Enter amounts received as alimony or separate maintenance pursuant to a divorce or separation agreement entered into on or before December 31, 2018. Enter the month and year of the original divorce or separation agreement that relates to the alimony payment reported. If alimony payments are from more than one divorce or separation agreement, enter the month and year from the divorce or separation agreement for which the most income was received. Attach a statement listing the month and year of the other agreements.

## Business Income/Loss

Schedule C. See Tab 6.

## Other Gains/Losses

Form 4797. See *Sales of Business Property* on Page 7-12.

## Rental Real Estate, Royalties, Partnerships, S Corporations, Trusts, etc.

Schedule E. See Tab 8.

## Farm Income/Loss

See *Schedule F—Profit/Loss From Farming* on Page 6-16.

## Unemployment Compensation

See IRS Pub. 525.

Unemployment compensation is taxable [IRC Sec. 85(a)]. Total unemployment compensation is reported to the taxpayer on Form 1099-G. If an overpayment was received and repaid during the year, subtract the repayment amount from the total and enter the

result on line 7 of Form 1040, Schedule 1. Write "Repaid" and the amount repaid on the dotted line.

Repayments for prior years cannot be deducted from the benefits reported on line 7. See *Repayments of Income* on Page 5-20 for information on how to handle prior year repayments.

## Other Income

Use line 8 of Form 1040, Schedule 1 to report any taxable income not reported elsewhere on the return. List the type and amount of income and, if necessary, include a statement showing the required information.

### Examples of income to report:

- Income from the exercise of stock options not otherwise reported on Form 1040, line 1.
- Income from the rental of personal property if the taxpayer was not in the business of renting such property. Report expenses on line 24 of Form 1040, Schedule 1.
- Income from an activity not engaged in for profit. See *Business vs. Hobby Losses* on Page 6-10.
- Net operating loss deduction. See *Net Operating Loss (NOL)* on Page 6-14.
- Most prizes and awards.
- Olympic and Paralympic medals and USOC prize money. See Form 1040, Schedule 1 instructions.
- Jury duty pay.
- Gambling winnings. (Winnings over certain thresholds generally reported to taxpayer on Form W-2G.)
- Foreign earned income exclusion and/or the housing exclusion claimed on Form 2555, Part VIII.
- Taxable distributions from qualified tuition programs (QTPs) or Coverdell education savings accounts (ESAs). Taxable amount may be subject to 10% penalty, reported on Form 5329. See *Education Savings Accounts* on Page 13-8 and *Qualified Tuition (Section 529) Programs* on Page 13-7.
- Taxable distributions from a health savings account (see *Taxable health savings account (HSA) distributions* on Page 4-22) or an Archer MSA. Taxable distributions may also be subject to a penalty tax. See Forms 8889 and 8853.
- Deemed income from an HSA because the individual did not remain HSA-eligible during the testing period. See *Recapture* on Page 4-23.
- Reemployment trade adjustment assistance (RTAA) payments (Form 1099-G, box 5).
- Loss on certain corrective distributions of excess elective deferrals to employer retirement plans. A loss is reported as a negative amount and identified as "Loss on Excess Deferral Distribution."
- Dividends on insurance policies if they exceed the total of all net premiums paid for the contract.
- Taxable cancellation of debt income (non-business debts). See *Canceled Debt* on Page 4-4.
- Recapture of charitable contribution deductions related to donations of fractional interests in personal property or to property donations when the charity disposes of the property within three years.
- Taxable part of disaster relief payments.
- Taxable distributions from an ABLE account. See *Qualified ABLE Programs* on Page 13-3.
- Scholarship and fellowship grants not reported on Form W-2.
- Nontaxable amount of Medicaid waiver payment included on Form 1040, line 1a or 1d. See instructions.
- Pension or annuity from a nonqualified deferred compensation plan or a nongovernmental Section 457 plan.

Continued on the next page

- Wages earned while incarcerated.
- Section 461(l) excess business loss adjustments.
- U.S. shareholders of controlled foreign corporations are required to report their (1) prorata share of the corporation's subpart F income under IRC Sec. 951, and (2) the global intangible low-taxed income (GILTI) in taxable income under IRC Sec. 951A. Include the amount figured on Form 8992, and attach a copy. Attach a copy of Form 5471 if applicable.
- Income and taxable reimbursements not included on any other line or schedule.

**Taxable health savings account (HSA) distributions.** Distributions not used for qualified medical expenses of the account beneficiary, spouse, or dependents are included in gross income and subject to a 20% penalty. Exceptions to the penalty include distributions after the beneficiary's death, disability, or attainment of age 65. (Qualified medical expenses are generally the same as for itemized medical expenses. See Tab 5. *Exception:* Insurance premiums normally are not treated as a qualified medical expense for HSAs.)

All HSA distributions are reported on Form 8889 [Health Savings Accounts (HSAs)] where the taxable amount and 20% penalty, if any, are computed and carried to line 8f of Form 1040, Schedule 1; and line 17c of Form 1040, Schedule 2, respectively.

**Crowdfunding.** For years beginning after 2023 (tax year 2023 was a transitional year—see Notice 2023-74), the Form 1099-K filing threshold is met when the total of all payments distributed to a person is more than \$600, regardless of the number of transactions or donations. However, payment processors are not required to file Form 1099-K if the contributors to the crowdfunding campaign do not receive goods or services for their contributions. Therefore, when a payment processor distributes money raised meeting the reporting threshold (\$600), and the contributors received goods or services for their contributions, then a Form 1099-K is required to be filed. Box 1 should reflect the gross amount of the distributions made during the calendar year; however, the issuance of Form 1099-K does not automatically mean the amount reported is taxable to the recipient.

The income tax consequences depend on all the facts and circumstances and the distribution of the money raised may not be taxable income to the recipient. Income is taxable unless specifically excluded, and gifts are generally excluded. If crowdfunding contributions are made as a result of the contributors' detached and disinterested generosity, and without the contributors receiving or expecting to receive anything in return, the amounts may be gifts and therefore may not be includible in the gross income of those for whom the campaign was organized.

**Note:** Crowdfunding organizers and any person receiving amounts from crowdfunding should keep complete and accurate records of all facts and circumstances surrounding the fundraising and disposition of funds for at least three years.

## SCHEDULE 1—PART II: ADJUSTMENTS TO INCOME

### Educator Expenses

See *Educator expenses—Form 1040, Schedule 1* on Page 9-7.

### Business Expenses for Certain Employees

**Form 2106.** See *Above-the-Line Deduction for Certain Employees* on Page 9-7.

## Health Savings Account Deduction

See IRS Pub. 969.

A health savings account (HSA) is a savings account set up exclusively for paying the qualified medical expenses of the account beneficiary or the beneficiary's spouse or dependents (IRC Sec. 223).

**Eligible individuals.** To qualify for an HSA, an individual:

- Must be covered under a high deductible health plan (HDHP).
- May not be covered under any non-HDHP health plan.
- Cannot be enrolled in Medicare. See INFO 2016-0003 and 2016-0014 for guidance on computing the maximum HSA contribution for the year the individual reaches age 65 and first enrolls in Medicare.
- Cannot be eligible to be claimed as a dependent on another person's return.

**Note:** Telehealth and other remote care coverage is disregarded in determining eligibility in the case of months beginning after March 31, 2022, and before January 1, 2025.

**Law Change Alert:** The Inflation Reduction Act (IRA) of 2022 provided that for years beginning after 2022, an HDHP may provide a \$0 deductible for selected insulin products.

**Employees.** The employee, the employer, or both may contribute to the HSA.

- Contributions made by the employee are deductible.
- Contributions made by the employer (including contributions made through a cafeteria plan) are excluded from employee's income and are not subject to employment taxes.

**Corporation shareholders.** More-than-2% shareholders are not eligible for pre-tax HSA contributions by their employer. Employer contributions to a more-than-2% shareholder's HSA are generally treated as compensation and then deducted by the shareholder (Notice 2005-8).

**Self-employed or unemployed.** The eligible individual may contribute to the HSA or any person (such as a family member) may contribute to an HSA on behalf of an eligible individual.

- Contributions made by the individual (or by any other person) are deductible in computing the individual's AGI.
- A self-employed individual's own HSA contributions are not taken into account in determining SE tax.



2023 HSA Contribution Limits <sup>1</sup>		
Type of Coverage	Under Age 55	Additional Contribution Age 55 or Older at Year-End
Self-Only	\$3,850	\$1,000
Family	7,750 <sup>2</sup>	1,000

<sup>1</sup> Contribution limit reduced by:

- Amounts contributed to an MSA.
- Employer contributions to the HSA that were excluded from income.
- Transfers from the individual's IRA to the HSA. See *Health savings account (HSA) funding distribution (HFD)* on Page 4-16.

<sup>2</sup> Divided between spouses if either spouse has family coverage.

**Married couples.** If either spouse has family coverage, both spouses are treated as having family coverage. If both spouses have family coverage, each spouse is treated as having family coverage with the lower annual deductible of the two health plans. The contribution limit is split equally between the spouses unless they agree on a different division. A separate Form 8889 is completed for each spouse.

**Lines I and J.** Schedule C includes questions asking if the sole proprietor made any payments during the year that would require the filing of Forms 1099 and if so, whether the Forms 1099 were filed. For example, payments totaling \$600 or more are made to a service provider (which is not a corporation) during the year.

**Note:** For nonemployee compensation payments made, Form 1099-NEC (Nonemployee Compensation) is used instead of Form 1099-MISC for payments made to a payee of at least \$600.

## Part I—Income

Report income consistently from year to year under the accounting method chosen on line F.

**Line 1: Gross receipts or sales.** Enter gross receipts or sales from the business, including any taxable amounts reported on Forms 1099-K, 1099-MISC, or 1099-NEC. If the total income reported in box 1 of Form 1099-NEC received in connection with the taxpayer's trade or business is more than the amount the taxpayer reports on Schedule C, line 1, attach a statement explaining the difference. Taxpayers are not required to reconcile their gross receipts to amounts reported on Form 1099-K.

**Form 1099-K filing threshold.** Beginning with payment transactions settled after December 31, 2023 (tax year 2023 was a transitional year—see Notice 2023-74), the reporting threshold for third party settlement organizations (such as Venmo, Paypal, Etsy, and Ebay) is reduced from \$20,000 in aggregate payments and 200 transactions to solely a threshold of \$600 in aggregate payments (with no minimum transaction requirement). Only transactions for goods or services are required to be included on Form 1099-K. If applicable, taxpayers will need to separate business transactions from personal transactions reported on Form 1099-K to determine their reportable taxable income. Organized documentation and recordkeeping will be crucial to prove that transactions are not of a business nature. See IRS Fact Sheet 2023-06 and News Release IR 2023-53 for FAQs that include examples.

**Strategy:** If the information on Form 1099-MISC or 1099-NEC is incorrect, request a corrected copy from the payer. If the payer will not issue a corrected form, attach an explanation to the tax return. Also, although the IRS is not matching amounts reported to sole proprietors on Form 1099-K to the Schedule C, taxpayers whose amounts reported on Form 1099-K make up a higher than expected portion of gross receipts may be asked to provide additional information to the IRS.

If the business engaged in any bartering transactions, include the FMV of goods or services received. Do not include interest earned from a business bank account. Report interest income on Schedule B.

**Statutory employees.** See *Statutory Employees* on Page 6-13. Be sure to check the box next to line 1 of Schedule C.

**Line 2: Returns and allowances.** Enter amounts for returned sales, rebates, or allowances from the sales price.

**Line 4: Cost of goods sold.** See instructions for *Lines 33–42* under *Part III—Cost of Goods Sold* on Page 6-5.

**Line 6: Other income.** List business-related items including:

- Finance reserve income.
- Scrap sales.
- Bad debts recovered.
- Interest received (such as on notes and accounts receivable).
- State gasoline or fuel tax refunds received in the current tax year.
- Income from trade or business shown on Form 1099-PATR.
- Recapture of excess depreciation (including any Section 179 deduction) from Form 4797 (Sales of Business Property) when business use of listed or leased listed (other than a vehicle) property drops to 50% or less.

- Prizes and awards received related to the trade or business.
- Credit for federal tax paid on gasoline or other fuels claimed on the prior year Form 1040.
- Any amount of credit for biofuel claimed on line 3 of Form 6478.
- Any amount of credit for biodiesel, renewable diesel, and sustainable aviation fuel claimed on line 10 of Form 8864.
- The amount of any payroll tax credit taken by an employer for qualified paid sick leave and qualified paid family leave.
- Any amount of credit for COBRA premium assistance.
- Other kinds of miscellaneous business income.

## Part II—Expenses

Deductible business expenses must be ordinary and necessary in carrying on a trade or business (IRC Sec. 162). Certain expenses attributable to the production or acquisition of property for resale cannot be deducted currently. They must be included in inventory costs or capitalized. See instructions for *Lines 33–42* under *Part III—Cost of Goods Sold* on Page 6-5.

**Observation:** Business expenses paid with a third-party credit card should be deductible when charged, not when the credit card bill is paid, based on IRS rulings that addressed charitable contributions and medical expenses paid by credit card (Rev Ruls. 78-38 and 78-39).

**Expenses paid after close of business.** If expenses incurred in prior years are paid in the current year by a cash method taxpayer, they are deductible on Schedule C even if the business has been discontinued (Rev. Rul. 67-12).

**Line 8: Advertising.** The expenses must bear a reasonable relationship to the business activity. Advertising to influence legislation is not deductible.

**Line 9: Car and truck expenses.** Expenses are deducted under one of the following methods:

- 1) **Actual cost.** Deduct the business-use percentage times the actual cost of operating the vehicle (gas, oil, repairs, insurance, tires, license, etc.). Show depreciation on line 13 and rent/lease payments on line 20a.
- 2) **Standard mileage.** For 2023, the business standard mileage rate is 65.5¢ per mile. The standard rate includes all vehicle operating and ownership costs—except the business percentage of auto loan interest, auto personal property taxes, and business parking and tolls (these amounts can be deducted in addition to the standard mileage rate).

**Information on vehicle.** If any car or truck expenses are deducted, Part IV of Schedule C or Part V of Form 4562 must be completed. Use Form 4562 to answer the mileage questions only if that form is required for other reasons (such as claiming a depreciation, amortization, or Section 179 deduction). Otherwise, use Schedule C. See Tab 11 for claiming deductions for the business use of vehicles.

**Line 10: Commissions and fees.** Deduct commissions and fees other than amounts deducted elsewhere on the return.

**Line 11: Contract labor.** Deduct expenses paid for services performed by nonemployees. Do not include contract labor deducted elsewhere, such as on lines 17, 21, 26, or 37. If \$600 or more is paid to an individual for services performed during the year, the payer must file Forms 1099-NEC and 1096 with the IRS. A copy of Form 1099-NEC must be given to the worker (IRC Sec. 6041). See *Independent Contractors* on Page 6-11 for more information.

**Line 12: Depletion.** A depletion deduction is allowed when a taxpayer has an economic interest in mineral property; an oil, gas, or geothermal well; or standing timber.

For oil and gas properties, taxpayers can deduct the greater of cost or, if they qualify, percentage depletion for each property (well or

interest). See *Depletion* on Page 12-27. See *Timber depletion* on Page 6-21 for depleting an interest in timber.

✍ **Line 13: Depreciation and Section 179 expense.** See Tab 10.

✍ **Line 14: Employee benefit programs.** Deduct expenses for accident and health plans, group term-life insurance, and dependent care benefit programs. See *Health Care Costs* on Page 6-6. Certain employers may be eligible for a credit for health insurance premiums and qualified allocable health plan costs paid for their employees, which reduces the amount reported on line 14. See *Small Employer Tax Credits* on Page 12-14.

🔗 **Note:** Do not include contributions on behalf of the sole proprietor to an accident or health plan or for group-term life insurance. See *Self-Employed Health Insurance Deduction* on Page 6-6.

✍ **Line 15: Insurance (other than health).** Deduct the following business insurance premiums (not including any amounts credited to a reserve for self-insurance):

- Fire, theft, flood, or other casualty insurance.
- Credit insurance to cover losses from unpaid debts.
- Overhead insurance that pays for business overhead expenses when the sole proprietor is unable to work due to sickness or disability, but not premiums paid for a policy that pays for lost earnings due to sickness or disability.
- Liability and malpractice insurance.
- Business interruption insurance for loss of profits due to a fire or other cause that shuts down the business operations.
- Workers' compensation insurance.

✍ **Line 16: Interest.** Mortgage interest on business real property (other than a principal residence) is deducted on line 16a. Interest expenses for the business use of a principal residence are deducted on Form 8829 (see *Business Use of Home* on Page 6-8). All other business interest paid is deducted on line 16b.

*Interest on auto loans.* An individual engaged in a trade or business, other than as an employee, may deduct the business-use percentage of interest paid on a vehicle loan (Temp. Reg. 1.163-8T). This deduction is allowed in addition to the business standard mileage rate.



*Interest tracing rules.* If borrowed funds (for example, vehicle loans or credit card charges) are used for business expenses, the business-use portion of interest paid may be deducted if tracing rules are followed. See *Interest Tracing* on Page 5-7.

*Interest on income tax owed.* Interest on income tax assessed on Form 1040 is not deductible even if the tax due is related to Schedule C [Temp. Reg. 1.163-9T(b)(2)(i)(A)].

*Interest capitalization.* Under the uniform capitalization (UNICAP) rules of IRC Sec. 263A, certain interest payments must be added to the cost basis of property that is produced. See *Capitalization of Interest* in Tab L of the *Small Business Quickfinder® Handbook*.

*Section 163(j) limitation.* The business interest expense deduction is limited to the sum of a taxpayer's (1) business interest income, (2) 30% of adjusted taxable income (if a positive amount), and (3) floor plan financing interest. However, businesses (other than tax shelters) with average annual gross receipts for the prior three years of an inflation-adjusted \$25 million or less (\$29 million in 2023) are exempt from this limitation.

✍ **Line 17: Legal and professional services.** Fees, such as those charged by accountants, that are ordinary and necessary expenses of operating a business are deductible on line 17. However, legal and other fees paid to acquire business assets must be added to the basis of the asset and depreciated on Form 4562 (line 13 of Schedule C). Fees for tax preparation and tax advice for Schedules C, E, and F are deductible as business expenses (Rev. Rul. 92-29).

✍ **Line 18: Office expenses.** Deduct costs such as office supplies and postage.

✍ **Line 19: Pension and profit-sharing plans.** Enter contributions to pension, profit-sharing or annuity plans, or plans for the benefit of employees. Any amount contributed for the benefit of the sole proprietor must be entered on line 16 of Schedule 1 (Form 1040), not Schedule C.

🔗 **Note:** The deduction is reduced for the credit for small employer pension plan start-up costs, the additional credit for certain employer contributions, the military spouse retirement plan eligibility credit, and the retirement auto-enrollment credit (IRC Secs. 45E, 45AA, and 45T). See *Small Employer Tax Credits* on Page 12-14.

✍ **Line 20: Rent or lease.** Use line 20a for vehicle, machinery, and equipment rental expenses. Use line 20b for other rental expenses (such as office/building rent). Deduct business use of home rent on Form 8829 (Expenses for Business Use of Your Home) (line 30, Schedule C). See Tab 11 for inclusion amounts that may reduce the lease deduction for vehicles.

*Lease or purchase.* In general, lease payments are deductible; loan payments are not. The cost of purchasing a business asset is recovered through depreciation and, if financed, interest expense deductions. Some lease agreements are treated as purchases for tax. If the asset can be purchased for a nominal amount (a fraction of its FMV) at the end of the lease term, the lease is actually a conditional sales contract and the lease payments must be treated as loan payments. See Rev. Rul. 55-540 for criteria for determining whether an agreement is a lease or conditional sales contract.

✍ **Line 21: Repairs and maintenance.** Deduct the cost of repairs and maintenance, including supplies, labor, and other items that are not required to be capitalized. See *Repairs vs. Capitalized Improvements* on Page 10-10 for more information.

✍ **Line 22: Supplies.** Deduct the cost of supplies that are not included in inventory costs. Generally, deduct the cost of non-incidentals supplies only to the extent the supplies are consumed or used during the tax year. Incidental supplies (kept on hand with no inventory or record of use) are deductible in the year purchased, provided that method clearly reflects income.

✍ **Line 23: Taxes and licenses.** Deduct:

- Employer's share of FICA taxes. Cash-basis employers deduct their share of payroll taxes when the funds are paid to the government (Rev. Rul. 80-164). Accrual-basis employers can use a safe harbor accounting method that allows them to deduct their payroll taxes in the year that (1) all events have occurred to establish that the related compensation liability exists and (2) the compensation liability's amount can be determined with reasonable accuracy (Rev. Proc. 2008-25).
  - 👁 **Observation:** The employee's share of FICA tax and FIT withheld are deducted on line 26 as wages.
- State and local sales tax imposed on the taxpayer as the seller of good or services. The amount must also be included in gross receipts or sales on line 1.
- Federal unemployment taxes.
- Federal highway use tax.
- Real estate and personal property taxes on business assets.
- Licenses and regulatory fees for the trade or business paid each year to state or local governments. But some licenses, such as liquor licenses, may have to be amortized.
- State taxes on gross income (vs. net income) directly attributable to a trade or business (Rev. Rul. 70-40).
- Contributions to state unemployment insurance fund or disability benefit fund if they are considered taxes under state law.

*Do not use line 23 for the following taxes:*

- Federal income taxes (nondeductible).



# Credits, AMT, NIIT, and Special Taxpayers



## Tab 12 Topics

Tax Credits Summary (2023).....	Page 12-1	Retirement Saver's Credit.....	Page 12-13
Preparer Due Diligence for Refundable Credits....	Page 12-2	Small Employer Tax Credits.....	Page 12-14
Adoption Credit or Benefit Exclusion.....	Page 12-3	Alternative Minimum Tax (AMT).....	Page 12-14
Child and Dependent Care Credit.....	Page 12-4	3.8% Net Investment Income Tax.....	Page 12-15
Child Tax Credit.....	Page 12-6	Household Employers.....	Page 12-18
Earned Income Credit.....	Page 12-7	Ministers/Clergy.....	Page 12-19
Education Tax Credits.....	Page 12-8	Military Personnel.....	Page 12-21
First-Time Homebuyer Credit.....	Page 12-11	Community Property.....	Page 12-22
Foreign Tax Credit.....	Page 12-11	U.S. Taxpayers Working Abroad.....	Page 12-23
Premium Tax Credit.....	Page 12-11	Non-U.S. Citizens.....	Page 12-24
Residential Energy Tax Credits.....	Page 12-13	Oil and Gas Investors.....	Page 12-26

## Tax Credits Summary (2023)

For information on additional credits available to individuals, see *Line-By-Line Quick Reference to 2023 Form 1040* on Page 4-1. See Tab 24 for more information on the general business credit and other tax credits for businesses.

Tax Credit	IRC Sec.	For	Credit Amount	IRS Pub	Tax Form	Refundability, Carryover	Allowed Against AMT?	QF Page
<b>Additional Child</b>	24	Taxpayers who don't claim full \$2,000 tax credit for each child and (1) have one or more qualifying children and over \$2,500 of earned income, (2) have three or more qualifying children, or (3) are bona fide residents of Puerto Rico.	Up to \$1,600 per child.	—	Sch. 8812	Partially refundable	Yes	12-7
<b>Adoption Expense</b>	23	Expenses incurred in the legal adoption of a child under age 18 or for the adoption of an incapacitated or special needs person (regardless of age). Credit is phased out for modified AGI between \$239,230–\$279,230.	\$15,950 for a special needs child; up to \$15,950 per child for all other adoptions.	17	8839	Nonrefundable; fwd 5 years	Yes	12-3
<b>Child and Dependent Care</b>	21	Care expenses for dependent(s) under age 13 or incapacitated that allow taxpayer to work or look for work.	Depending on AGI, 20% to 35% of qualifying (limited) expenses. \$1,050 maximum credit with one qualifying individual, and \$2,100 with two or more qualifying individuals.	503	2441	Nonrefundable	Yes	12-4
<b>Child</b>	24	Taxpayers with qualifying children under age 17. Phase-out begins at modified AGI over \$400,000 MFJ; \$200,000 for all other taxpayers.	\$2,000 per child.	—	Sch. 8812	Generally nonrefundable	Yes	12-6
<b>Clean Vehicle Credit</b>	30D	Taxpayers who purchase new four-wheeled plug-in electric vehicles manufactured primarily for use on public streets, roads, and highways that meet certain technical requirements. Subject to phase-out based on MAGI.	Up to \$7,500. \$3,750 for vehicles meeting the critical minerals requirement. \$3,750 for vehicles meeting the battery components requirement.	5724-G	8936	Nonrefundable	Yes	24-12
<b>Commercial Clean Vehicle Credit</b>	45W	Businesses that purchase certain clean vehicles or mobile machinery subject to depreciation.	\$7,500 or \$40,000. Limited to the lesser of 15% of the vehicle's cost (30% for vehicles not gasoline or diesel powered) or the incremental cost of the vehicle as compared to vehicles powered with a gasoline or diesel internal combustion engine.	5724-H	8936	Nonrefundable; can be carried forward as a general business credit	No	24-6
<b>Earned Income</b>	32	Working taxpayers with the following number of children: • None; AGI < \$17,640 (\$24,210 if MFJ). • One; AGI < \$46,560 (\$53,120 if MFJ). • Two; AGI < \$52,918 (\$59,478 if MFJ). • Three or more; AGI < \$56,838 (\$63,398 if MFJ). Investment income limited to \$11,000.	Maximum credit: • \$600 for no children. • \$3,995 for one child. • \$6,604 for two children. • \$7,430 for three or more children.	596	Sch. EIC	can be carried forward as a general business credit	Yes	12-7

Table continued on the next page

## Tax Credits Summary (2023) (Continued)

Tax Credit	IRC Sec.	For	Credit Amount	IRS Pub	Tax Form	Refundability, Carryover	Allowed Against AMT?	QF Page
<b>Education—American Opportunity</b>	25A	Up to four years of qualified higher education expenses. Credit is per student. Modified AGI phase-out: \$80,000–\$90,000 (\$160,000–\$180,000 for MFJ).	Up to \$2,500 (100% of first \$2,000; 25% of next \$2,000).	970	8863	May be partially refundable (40%)	Yes	12-10
<b>Education—Lifetime Learning</b>	25A	Postsecondary education and courses to acquire or improve job skills. Credit is per return. Modified AGI phase-out: \$80,000–\$90,000 (\$160,000–\$180,000 for MFJ).	Up to \$2,000 (20% of first \$10,000).	970	8863	Nonrefundable	Yes	12-10
<b>Elderly or Disabled</b>	22	Low-income taxpayers age 65 or older or permanently and totally disabled. Nontaxable social security (or equivalent) must be less than \$7,500 MFJ if both spouses qualify; \$5,000 MFJ if only one spouse qualifies; \$3,750 MFS if lived apart the entire year; \$5,000 Single, HOH, or QSS.	Based on filing status, age, and income. For MFJ also based on spouse's age and income.	524	Sch. R	Nonrefundable	Yes	4-28
<b>Energy Efficient Home Improvement</b>	25C	Homeowners who install certain energy saving improvements such as insulation, doors, windows, and heat pumps, or have a home energy audit performed.	30% of qualified expenses, up to \$3,200 per year depending on type.	—	5695	Nonrefundable	Yes	12-13
<b>Federal Tax Paid on Fuels</b>	34	Fuels used on a farm for farming purposes, for off-highway business use, and other qualified uses.	Varies by type of fuel and use.	510	4136	Refundable	Yes	—
<b>Foreign Tax</b>	27 and 901(a)	Income taxes paid to a foreign country or U.S. possession on income that is also subject to U.S. federal income tax.	Amount of foreign tax up to U.S. tax multiplied by ratio of foreign/total taxable income.	514	1116	Nonrefundable; back 1 yr; fwd 10 years	Yes	12-11
<b>Minimum Tax</b>	53	Credit allowed against regular tax for part of the AMT paid and attributable to deferral items.	AMT attributable to deferral items.	—	8801	Nonrefundable; fwd indefinitely	N/A	12-15
<b>Mortgage Interest</b>	25	Part of interest expense paid by homebuyers issued a government mortgage credit certificate.	Based on interest paid and credit rate under certificate.	530	8396	Nonrefundable; fwd 3 years	Yes	—
<b>Other Dependents</b>	24	Credit allowed for qualifying dependents other than qualifying children.	\$500 per qualifying dependent.	—	Sch. 8812	Nonrefundable	Yes	12-6
<b>Premium Assistance</b>	36B	Certain taxpayers who enroll, or whose family member enrolls, in a qualified health plan offered in the Marketplace (health insurance exchange).	Up to the amount of the enrollment premiums.	974	8962	Refundable	Yes	12-11
<b>Previously-owned Clean Vehicle Credit</b>	25E	Taxpayers who purchase certain used vehicles. The vehicle's original use must have started with a person other than the taxpayer and the vehicle must also generally meet the requirements for the clean vehicle credit for new vehicles. Subject to phase-out based on MAGI.	Lesser of \$4,000 or 30% of the sales price.	5724	8936	Nonrefundable	Yes	24-6
<b>Residential Clean Energy</b>	25D	These types of qualified property installed on taxpayer's residences: solar electric, solar water heating, small wind energy, geothermal heat pump, fuel cell, and battery storage technology.	30% of cost.	—	5695	Nonrefundable; fwd indefinitely	Yes	12-13
<b>Retirement Saver's</b>	25B	For individuals who make retirement plan contributions or eligible contributions to an ABL account. Credit in addition to tax deduction. AGI ≤ \$73,000 MFJ; \$54,750 HOH; \$36,500 Single, MFS, QSS.	10% to 50% of contributions. Maximum: \$2,000 MFJ, \$1,000 other.	590-A	8880	Nonrefundable	Yes	12-13

### PREPARER DUE DILIGENCE FOR REFUNDABLE CREDITS

*Form 8867, IRS Pub. 4687*

Tax preparers are subject to special due diligence requirements when claiming the Earned Income Tax Credit (EITC), Child Tax Credit (CTC), Additional Child Tax Credit (ACTC), Credit for Other Dependents (ODC), or American Opportunity Tax Credit (AOTC) for a taxpayer. These requirements also apply in determining a taxpayer's eligibility to file as a head of household (HOH). These requirements focus on accurately determining the taxpayer's eligibility for and the amount of each credit, and/or HOH filing status. A \$600 penalty (per failure) is imposed on any preparer who fails to meet due diligence requirements with respect to these credits [IRC Sec. 6695(g)].



To protect themselves from the penalty, preparers must (Reg. 1.6695-2):

- 1) Complete and attach Form 8867 (Paid Preparer's Due Diligence Checklist) (or similar form that provides the same information) to the taxpayer's return.
- 2) Complete the credit Worksheets in the Form 1040 instructions (or similar worksheet that provides the same information).
- 3) Keep a record of how, when, and from whom the information used to prepare the Form 8867 and worksheet was obtained.
- 4) Keep copies of any documents that the client provides (including social security cards and birth certificates) that are used to determine eligibility for or amount of the credit and/or HOH filing status.
- 5) Make reasonable inquiries if the information furnished to, or known by, the preparer appears to be incorrect, inconsistent, or incomplete. Keep a record of any additional information relied upon to determine the taxpayer's eligibility.



# Reference Materials and Worksheets



## Tab 15 Topics

Where to File: Business Returns Filing Addresses—2023 Returns .....	Page 15-1	Estate Inventory Worksheet.....	Page 15-12
Principal Business Activity Codes—Forms 1065, 1120, and 1120-S .....	Page 15-1	Reconciliation of Income Reported on Final Form 1040 and Estate's Fiduciary Return (or Beneficiary's Return).....	Page 15-13
Business Quick Facts Data Sheet .....	Page 15-1	Business Valuation Worksheet .....	Page 15-14
Types of Payments—Where to Report .....	Page 15-2	Foreign Asset Reporting—Forms 8938 and FinCEN 114 <sup>1</sup> .....	Page 15-15
Guide to Information Returns.....	Page 15-3	Types of Foreign Assets and Whether They Are Reportable .....	Page 15-15
Cash and Accrual Accounting Methods—Treating Commonly Encountered Items.....	Page 15-6	Worksheet to Allocate Purchase/Sale Price to Specific Assets .....	Page 15-16
Partner's Adjusted Basis Worksheet.....	Page 15-7	Qualified Business Income (QBI) Deduction Planning Checklist.....	Page 15-17
Tax Info for Partnership, Corporation, LLC, and LLP Returns.....	Page 15-8	Qualified Business Income (QBI) Deduction Flowchart.....	Page 15-18
Transferor's Section 351 Statement .....	Page 15-10		
Tax Info Sheet for Gift Tax Returns.....	Page 15-11		

## Where to File: Business Returns Filing Addresses—2023 Returns

**Note:** At the time of publication, the IRS had not released the 2023 filing addresses for business returns. This information will be posted to the *Handbook Updates* section of [tax.thomsonreuters.com/quickfinder](http://tax.thomsonreuters.com/quickfinder) when available.

## Principal Business Activity Codes—Forms 1065, 1120, and 1120-S

**Note:** At the time of publication, the IRS had not released the 2023 principal business activity codes for business returns. This information will be posted to the *Handbook Updates* section of [tax.thomsonreuters.com/quickfinder](http://tax.thomsonreuters.com/quickfinder) when available.

## Business Quick Facts Data Sheet<sup>1</sup>

	2024	2023	2022	2021	2020
<b>FICA/SE Taxes</b>					
<b>Maximum earnings subject to tax:</b>					
Social Security tax	\$ 168,600	\$ 160,200	\$ 147,000	\$ 142,800	\$ 137,700
Medicare tax	No Limit	No Limit	No Limit	No Limit	No Limit
<b>Maximum tax paid by:</b>					
Employee—Social Security	\$ 10,453.20	\$ 9,932.40	\$ 9,114.00	\$ 8,853.60	\$ 8,537.40
SE—Social Security	20,906.40	19,864.80	18,228.00	17,707.20	17,074.80
Employee or SE—Medicare	No Limit	No Limit	No Limit	No Limit	No Limit
<b>Business Deductions</b>					
Section 179 deduction—limit	\$ 1,220,000	\$ 1,160,000	\$ 1,080,000	\$ 1,050,000	\$ 1,040,000
Section 179 deduction—SUV limit (per vehicle)	30,500	28,900	27,000	26,200	25,900
Section 179 deduction—qualifying property phase-out threshold	3,050,000	2,890,000	2,700,000	2,620,000	2,590,000
Depreciation limit—autos, trucks, and vans (1st year with special depreciation)	<sup>3</sup>	20,200	19,200	18,200	18,100
Depreciation limit—autos, trucks, and vans (1st year with no special depreciation)	<sup>3</sup>	12,200	11,200	10,200	10,100
<b>Retirement Plans</b>					
<b>SIMPLE IRA plan elective deferral limits:</b>					
Under age 50 at year end	\$ 16,000 <sup>4</sup>	\$ 15,500	\$ 14,000	\$ 13,500	\$ 13,500
Age 50 or older at year end	19,500 <sup>4</sup>	19,000	17,000	16,500	16,500
<b>401(k), 403(b), 457, and SARSEP elective deferral limits:</b>					
Under age 50 at year end	\$ 23,000	\$ 22,500	\$ 20,500	\$ 19,500	\$ 19,500
Age 50 or older at year end	30,500	30,000	27,000	26,000	26,000
<b>Profit-sharing plan/SEP contribution limits</b>					
Profit-sharing plan/SEP contribution limits	69,000	66,000	61,000	58,000	57,000
<b>Compensation limit (for employer contributions to profit-sharing plans)</b>					
Compensation limit (for employer contributions to profit-sharing plans)	345,000	330,000	305,000	290,000	285,000
<b>Defined benefit plans—annual benefit limit</b>					
Defined benefit plans—annual benefit limit	275,000	265,000	245,000	230,000	230,000
<b>Key employee compensation threshold</b>					
Key employee compensation threshold	220,000	215,000	200,000	185,000	185,000
<b>Highly compensated threshold</b>					
Highly compensated threshold	155,000	150,000	135,000	130,000	130,000
<b>Estate and Gift Taxes</b>					
Estate tax exclusion	\$13,610,000 <sup>2</sup>	\$12,920,000 <sup>2</sup>	\$12,060,000 <sup>2</sup>	\$11,700,000 <sup>2</sup>	\$11,580,000 <sup>2</sup>
Gift tax exclusion	\$13,610,000 <sup>2</sup>	12,920,000 <sup>2</sup>	12,060,000 <sup>2</sup>	11,700,000 <sup>2</sup>	11,580,000 <sup>2</sup>
GST tax exemption	13,610,000	12,920,000	12,060,000	11,700,000	11,580,000
Gift tax annual exclusion	18,000	17,000	16,000	15,000	15,000

<sup>1</sup> See Tab 3 an expanded *Quick Facts Data Sheet*.

<sup>2</sup> Plus the amount of any deceased spousal unused exclusion and/or any restored exclusion related to lifetime gifts to a same-sex spouse—see Tab 22.

<sup>3</sup> Amount not released by IRS at publication time; will be posted to the *Handbook Updates* section of [tax.thomsonreuters.com/quickfinder](http://tax.thomsonreuters.com/quickfinder) when available.

<sup>4</sup> Beginning in 2024, this limit is increased by 10% if the employer has no more than 25 employees. For employers with 26–100 employees, higher elective deferral limits are allowed if the employer contributes either 3% of compensation or 4% of an employee's elective deferrals.

## Types of Payments—Where to Report

**Source:** 2023 *General Instructions for Certain Information Returns (Forms 1096, 1097, 1098, 1099, 3921, 3922, 5498, and W-2G)*.

Below is an alphabetic list of some payments and the forms to file and report them on. However, it is not a complete list of all payments, and the absence of a payment from the list does not indicate that the payment is not reportable. For instructions on a specific type of payment, see the separate instructions in the form(s) listed.

Type of Payment	Report on Form	Type of Payment	Report on Form	Type of Payment	Report on Form
ABLE accounts:		Employee compensation .....	W-2	Tax-exempt OID .....	1099-OID
—Contributions .....	5498-QA	Excess deferrals, excess contributions-distributions .....	1099-R	Patronage dividends .....	1099-PATR
—Distributions .....	1099-QA	Exercise of incentive stock option under section 422(b) .....	3921	Payment card transactions .....	1099-K
Abandonment .....	1099-A	Fees—employee .....	W-2	Pensions .....	1099-R
Accelerated death benefits .....	1099-LTC	Fees—nonemployee .....	1099-NEC	Points .....	1098
Acquisition of control .....	1099-CAP	Fishing boat crew members proceeds .....	1099-MISC	Prizes—employee .....	W-2
Agriculture payments .....	1099-G	Fish purchases for cash .....	1099-MISC	Prizes—nonemployee .....	1099-NEC
Allocated tips .....	W-2	Foreclosures .....	1099-A	Profit-sharing plan .....	1099-R
Alternate TAA payments .....	1099-G	Foreign persons' income .....	1042-S	Punitive damages .....	1099-MISC
Annuities .....	1099-R	401(k) contributions .....	W-2	Qualified longevity annuity contract .....	1098-Q
Archer MSAs:		404(k) dividend .....	1099-DIV	Qualified plan distributions .....	1099-R
—Contributions .....	5498-SA	Gambling winnings .....	W-2G	Qualified tuition program payments .....	1099-Q
—Distributions .....	1099-SA	Golden parachute—employee .....	W-2	Real estate transactions .....	1099-S
Attorney, fees and gross proceeds .....	1099-MISC	Golden parachute—nonemployee .....	1099-NEC	Recharacterized IRA contributions .....	1099-R, 5498
Auto reimbursements—employee .....	W-2	Grants—taxable .....	1099-G	Refund—state and local tax .....	1099-G
Auto reimbursements—nonemployee .....	1099-NEC	Health care services .....	1099-MISC	Rents .....	1099-MISC
Awards—employee .....	W-2	Health coverage tax credit (HCTC) advance payments .....	1099-H	Reportable policy sale .....	1099-LS
Awards—nonemployee .....	1099-NEC	Health savings accounts:		Retirement .....	1099-R
Barter exchange income .....	1099-B	—Contributions .....	5498-SA	Roth conversion IRA contributions .....	5498
Bond tax credit .....	1097-BTC	—Distributions .....	1099-SA	Roth conversion IRA distributions .....	1099-R
Bonuses—employee .....	W-2	Income attributable to domestic production activities, deduction for .....	1099-PATR	Roth IRA contributions .....	5498
Bonuses—nonemployee .....	1099-NEC	Income tax refunds—state and local .....	1099-G	Roth IRA distributions .....	1099-R
Broker transactions .....	1099-B	Indian gaming profits paid to tribal members .....	1099-MISC	Royalties .....	1099-MISC, 1099-S
Cancellation of debt .....	1099-C	Interest income .....	1099-INT	Timber—pay-as-cut contract .....	1099-S
Capital gain distributions .....	1099-DIV	Tax-exempt .....	1099-INT	Sales:	
Car expense—employee .....	W-2	Interest, mortgage .....	1098	—Real estate .....	1099-S
Car expense—nonemployee .....	1099-NEC	IRA contributions .....	5498	—Securities .....	1099-B
Changes in capital structure .....	1099-CAP	IRA distributions .....	1099-R	Section 1035 exchange .....	1099-R
Charitable gift annuities .....	1099-R	Life insurance contract distributions .....	1099-R, 1099-LTC	Seller's investment in life insurance contract .....	1099-SB
Commissions—employee .....	W-2	Liquidation—distributions .....	1099-DIV	SEP contributions .....	W-2, 5498
Commissions—nonemployee .....	1099-NEC	Loans, distribution from pension plan .....	1099-R	SEP distributions .....	1099-R
Commodities transactions .....	1099-B	Long-term care benefits .....	1099-LTC	Severance pay .....	W-2
Compensation—employee .....	W-2	Medicare Advantage MSAs:		Sick pay .....	W-2
Compensation—nonemployee .....	1099-NEC	—Contributions .....	5498-SA	SIMPLE contributions .....	W-2, 5498
Contributions of motor vehicles, boats, and airplanes .....	1098-C	—Distributions .....	1099-SA	SIMPLE distributions .....	1099-R
Cost of current life insurance protection .....	1099-R	Medical services .....	1099-MISC	Student loan interest .....	1098-E
Coverdell ESA contributions .....	5498-ESA	Mileage—employee .....	W-2	Substitute payments in lieu of dividends or tax-exempt interest .....	1099-MISC
Coverdell ESA distributions .....	1099-Q	Mileage—nonemployee .....	1099-NEC	Supplemental unemployment .....	W-2
Crop insurance proceeds .....	1099-MISC	Military retirement .....	1099-R	Tax refunds—state and local .....	1099-G
Damages .....	1099-MISC	Mortgage assistance payments .....	1098-MA	Third party network transactions .....	1099-K
Death benefits .....	1099-R	Mortgage interest .....	1098	Tips .....	W-2
Debt cancellation .....	1099-C	Moving expense .....	W-2	Traditional IRA contributions .....	5498
Dependent care payments .....	W-2	Nonemployee compensation .....	1099-NEC	Traditional IRA distributions .....	1099-R
Direct rollovers .....	1099-Q, 1099-R, 5498	Nonqualified deferred compensation:		Transfer of stock acquired through an employee stock purchase plan under section 423(c) .....	3922
Direct sales of consumer products for resale .....	1099-MISC, 1099-NEC	—Beneficiary .....	1099-R	Tuition .....	1098-T
Directors' fees .....	1099-MISC	—Employee .....	W-2	Unemployment benefits .....	1099-G
Discharge of indebtedness .....	1099-C	Nonemployee .....	1099-NEC	Vacation allowance—employee .....	W-2
Dividends .....	1099-DIV	Original issue discount (OID) .....	1099-OID	Vacation allowance—nonemployee .....	1099-NEC
Donation of motor vehicle .....	1098-C			Wages .....	W-2
Education loan interest .....	1098-E				
Employee business expense reimbursement .....	W-2				

# Partnerships



## Tab 16 Topics

Basics of Partnerships .....	Page 16-1
Partnership Income and Expenses .....	Page 16-4
Partnership Income and Expense Chart (Form 1065) .....	Page 16-6
Basis .....	Page 16-10
Built-In Gain or Loss .....	Page 16-13
Partnership Distributions .....	Page 16-14
Nonrecourse Loans .....	Page 16-15
Partnership Example .....	Page 16-16

## BASICS OF PARTNERSHIPS

Form 1065; See also IRS Pub. 541 and Partnership Example on Page 16-16

**Filing requirements.** Every domestic (non-foreign) partnership that has income, deductions, and/or tax credits for the year must file a return, unless it has elected not to be treated as a partnership (see *Exclusion From Partnership Treatment* on Page 16-4) [Reg. 1.6031(a)-1].

**Schedules K-2 and K-3.** Schedule K-2 (Partners' Distributive Share Items-International) and Schedule K-3 (Partner's Share of Income, Deductions, Credits, etc.-International) replaced the boxes on Schedule K-1 related to reporting items of international tax relevance. A partnership with no foreign owners, no foreign source income, no assets generating foreign source income, and no foreign taxes paid or accrued may still be required to file Schedules K-2 and K-3 if a partner claims a foreign tax credit or otherwise needs information from the partnership in order to complete Form 1116 [Foreign Tax Credit (Individual, Estate, or Trust)] or Form 1118 (Foreign Tax Credit-Corporations). All partnerships are required to complete the applicable parts of Schedules K-2 and K-3 unless the partnership is certain that none of the partners will need to file Form 1116 or Form 1118. The FAQ section of the IRS website is a good source for new developments. The frequently asked questions (FAQs) for Schedules K-2 and K-3 can be found at [www.irs.gov/businesses/schedules-k2-and-k3-frequently-asked-questions-forms-1065-1120s-and-8865](http://www.irs.gov/businesses/schedules-k2-and-k3-frequently-asked-questions-forms-1065-1120s-and-8865). **2022** Partnership Instructions for Schedules K-2 and K-3 (Form 1065); **dated December 23, 2022**; provide a *domestic filing exception* and a *Form 1116 exemption exception* for filing and furnishing Schedules K-2 and K-3 **for tax years beginning in 2022**.

**Domestic filing exception.** Partnerships that meet this exception do not have to include Schedules K-2 and K-3 in their tax return or furnish copies of Schedule K-3 to their partners unless requested by a partner after the date one month before the date the partnership files its Form 1065. If a partner requests a Schedule K-3 after the one-month date, the partnership must provide the schedule to the partner, but Schedules K-2/K-3 are not filed with the IRS. Domestic partnerships potentially qualify for the domestic filing exception if they have no foreign activity or have limited foreign activity. For this exception, foreign activity is:

- 1) Payment or accrual of foreign income taxes.
- 2) Foreign-source income or loss.
- 3) Ownership interest in a foreign partnership (generally, a partnership that is not a domestic partnership).
- 4) Ownership interest in a foreign corporation.
- 5) Ownership of a foreign branch.
- 6) Ownership interest in a disregarded foreign entity.

**Limited foreign activity.** If a partnership has foreign activity, such foreign activity is limited to:

- 1) Passive category foreign income (for example, dividend income);

- 2) Upon which no more than \$300 of foreign income taxes allowable as a foreign tax credit (FTC) are paid or accrued by the partnership; and
- 3) The foreign income and FTC are shown on a payee statement (for example, Form 1099) furnished to the partnership.

Domestic partnerships that have no (or limited) foreign activity qualify for the domestic filing exception if they meet the following three tests: 1) U.S. Citizen/Resident Alien Partners Test; 2) Notification Test; and 3) No Schedule K-3 Requests by the One-Month Date.

**Form 1116 exemption exception.** A domestic partnership is not required to complete Schedules K-2 and K-3 if all partners are eligible for the Form 1116 exemption and the partnership receives notification of the partners' eligibility for such exemption by the one-month date.

**Filing deadline.** Returns are due by the 15th day of the third month following the close of the tax year.

**Extension deadline and form number.** The extended deadline is six months (Reg. 1.6081-2). For calendar year 2023 returns, the extended due date is September 16, 2024. File Form 7004 to extend the filing deadline.

**Electronic filing requirements.** Partnerships with more than 100 partners and partnerships required to file at least 10 returns of any type during the calendar year are required to file returns electronically. Other partnerships generally have the option to file electronically. The IRS may provide waivers and exemptions where electronic filing would cause undue hardship, or where the technology required to file in electronic form conflicts with religious beliefs.

**Penalties.** The statutory penalty amount for failure to file a partnership return is indexed by a cost-of-living adjustment (COLA). The COLA adjusted penalty amount for failure to file a return in 2024 is \$235 per month or part of a month per partner up to twelve months (IRC Sec. 6698; Rev. Proc. 2022-38). The penalty is assessed against the partnership. Rev. Proc. 84-35 provides relief to certain small partnerships (generally partnerships with 10 or fewer partners at all times during the year) from the penalty under IRC Sec. 6698(a) for failure to file a partnership return. The revenue procedure references the small partnership exception in IRC Sec. 6231(a)(1)(B), which was repealed by the Bipartisan Budget Act of 2015. In a Program Manager Technical Advice (PMTA 2020-01), the IRS concluded that despite the repeal of IRC Sec. 6231(a)(1)(B), Rev. Proc. 84-35 continues to apply.

**Amended return.** Partnerships that become aware of incorrect items of income, deductions, etc. may amend the return. Small partnerships (non-BBA—see *Partnership Audit Rules* on Page 16-2) and partnerships that elect out of the centralized partnership audit regime—see *Electing out of the rules* on Page 16-2) filing electronically to amend Form 1065 and Schedules K-1 check box G(5) on page 1 of Form 1065 to indicate that it is an amended return and follow the Form 1065 instructions for statements and explanations that are required. An amended Schedule K-1 should be provided to each partner. Partnerships subject to the centralized partnership audit regime must use Form 8082 [Notice of Inconsistent Treatment or Administrative Adjustment Request (AAR)] to file electronically. If paper returns are used to correct a previously filed partnership return, use Form 1065X [Amended Return or Administrative Adjustment Request (AAR)].

**Schedules K-1/K-3 deadline.** Partnerships are required to furnish a Schedule K-1/K-3 to each partner by the due date, including extensions, of the partnership tax return (Form 1065). For statements required to be furnished in 2024, a \$310 penalty, imposed with respect to each Schedule K-1/K-3 for which a failure occurs, applies for failure to furnish Schedule K-1/K-3 when due or failure to include all required information or for including incorrect information. The maximum penalty is \$3,783,000 for all such failures during a calendar year for taxpayers with average annual gross receipts for the most recent three tax years of more than \$5,000,000. For

taxpayers with average annual gross receipts of \$5,000,000 or less, the maximum penalty is \$1,261,000. If the requirement to report correct information is intentionally disregarded, each \$310 penalty is increased to \$630 or, if greater, 10% of the aggregate amount of items required to be reported, and the \$1,261,000 (or \$3,783,000) maximum doesn't apply. The \$310 penalty may be reduced to \$60 or \$120 per failure, and the \$1,261,000 (or \$3,783,000) maximum penalty to \$220,500 or \$630,500 (or \$630,500 or \$1,891,500), respectively, depending on when the failure is corrected (IRC Sec. 6722; Rev. Proc. 2022-38).

**Electronic Schedule K-1.** Partnerships required to furnish a K-1 to a partner may provide it in an electronic format instead of on paper. The partner's affirmative consent to receive the K-1 in electronic format is one of the requirements of Rev. Proc. 2012-17 that must be met for the partnership to be treated as furnishing the K-1 timely.

**Income/tax rates.** Profits and losses are passed through to partners on Schedule K-1 and taxed on their individual returns.

**Limited liability companies (LLCs)** are created and regulated under state law. Those with more than one member are treated as partnerships for federal income tax purposes, unless an election is made to be taxed as a corporation. LLCs generally have the same options as partnerships for electing tax treatment under check-the-box regulations. See *Limited Liability Company (LLC)* on Page 20-1 for more information.

**Partnership representative.** A partnership's primary representative in dealings with the IRS is its *partnership representative* (PR). The partnership must designate its PR by completing information on page 3 of Form 1065 for the tax year for which the designation applies. Designation of a PR is made separately for each tax year, and is only effective for the tax year for which it is made [Reg. 301.6223-1(a) and (c)].

The PR is not required to be a partner, and can be any person (including an individual or an entity) with a substantial presence in the U.S. A wholly-owned disregarded entity is eligible to serve as a PR, and the partnership can designate itself as its own PR. A person who is not an individual can be a PR only if an individual who meets the substantial presence test is appointed by the partnership as the sole individual through whom the PR will act. A PR meeting these requirements is an *entity partnership representative* and the individual through whom such an entity partnership representative acts is the *designated individual*. The designated individual must be appointed at the same time as the PR [Reg. 301.6223-1(b)].

The PR has the sole authority to bind the partnership and all partners. If a partnership does not designate a PR, the IRS may select any person as the PR, with certain limitations. Partnerships will need to ensure their agreements establish procedures for choosing, removing, and replacing the PR. In addition, the partnership agreement should carefully outline the duties of the representative. Consider addressing in the partnership agreement whether the:

- PR must provide partners with copies of IRS notices and inform them of the status of an audit or tax proceeding.
- Consent of a majority of the partners is needed before the PR can agree to extend the statute of limitations or settle with the IRS. (While such a provision will not limit the PR's authority in the eyes of the IRS, it may give partners recourse under state law if the PR fails to comply.)
- Partnership agreement should limit the PR's fiduciary risk through indemnity protection.

## Partnership Audit Rules

For tax years beginning after 2017, the TEFRA audit procedures and the electing large partnership rules are repealed and replaced by the Bipartisan Budget Act of 2015 (BBA) *centralized partnership audit regime*. Under the current regime, any adjustment to a *partnership-related item* (any item or amount with respect to the partnership that is relevant in determining the federal income tax liability of any person, and any partner's distributive share of any such item or amount) is made at the partnership level. Any additional tax, penalty, or amount related to the tax is determined and collected at the partnership level unless the partnership elects

an alternative payment process (also known as a push-out election) [IRC Secs. 6221(a), 6226, and 6241; Regs. 301.6221(a)-1, 301.6226-1, and 301.6241-6]. The IRS has launched a BBA centralized partnership audit regime website. It is intended to be a one-stop location for anything BBA-related and can be found at [www.irs.gov/businesses/partnerships/bba-centralized-partnership-audit-regime](http://www.irs.gov/businesses/partnerships/bba-centralized-partnership-audit-regime).

If adjustments to partnership items are made, the partnership will be required to pay the *imputed underpayment amount*, which is generally the net of all adjustments for the reviewed year multiplied by the highest individual or corporate tax rate in effect for that year. However, the partnership can pay a lower amount if it can show that the underpayment would be lower if it were based on certain partner-level information. This could include the partners' amended returns, the tax rates applicable to specific types of partners (individuals, corporations, or tax-exempt organizations), and the type of income subject to the adjustments (IRC Sec. 6225). The IRS has issued final regulations (TD 9969) addressing exceptions for certain partnership-related items from the centralized partnership audit regime. The regulations provide alternative rules that will apply to the examination of excepted items by the IRS. The centralized partnership audit regime does not apply to a partnership-related item if the item involves a special enforcement matter under IRC Sec. 6241(II). The final regulations allow the IRS to focus on a single partner or small group of partners with respect to a limited set of partnership-related items without unduly burdening the partnership and avoiding procedural concerns about the appropriate level at which such items must be examined. The regulations also provide that IRC Sec. 6221(b) generally doesn't apply to a partnership with a QSub as a partner [Reg. 301.6221(b)-1]. Additionally, these regulations address nonincome adjustments that must be included in the computation of imputed underpayments. The regulations affect partnerships and partners to whom special enforcement matters apply. Final regulations are effective on December 9, 2022.

**Electing out of the rules.** Partnerships with 100 or fewer partners can elect out of the audit rules for any tax year, in which case the partnership and its partners will be audited under the general rules for individual taxpayers [IRC Sec. 6221(b); Reg. 301.6221(b)-1]. Generally, a partnership is treated as having 100 or fewer partners for a tax year if it is required to furnish 100 or fewer Schedules K-1. The election is available only if each of the partners is an individual, a C or S corporation, a foreign entity that would be treated as a C corporation were it domestic, the estate of a deceased partner or another person identified in future IRS guidance. The election is made annually and may be revoked only with IRS consent. Partnerships must file Form 1065, Schedule B-2 (Election Out of the Centralized Partnership Audit Regime) with their Form 1065 to make the election.

**⚠️ Caution:** Partnerships may assume they will be able to elect out of the audit procedures because they have 100 or fewer partners. However, the election is not available if any partner is a partnership, disregarded entity, trust, or foreign entity that would not be treated as a C corporation were it a domestic entity. (This could change if the IRS becomes convinced that expansion of the election out rules to tiered partnerships would not be overly burdensome.) Additionally, if any partner is an S corporation, the number of K-1s it must furnish to its shareholders must also be taken into account.

The partnership agreements of eligible partnerships should address whether an election out will be mandatory. In most situations, an election out will be preferable. However, partnerships looking to maintain flexibility in their partnership agreements should include provisions indicating how the decision to elect out will be made. Partnerships choosing to elect out may want to amend their agreements to prohibit the transfer of partnership interests to ineligible partners and to limit the number of partners to 100 or less.

**Push-out election.** Under the audit regime, a partnership must pay the imputed underpayment amount (along with penalties and interest) resulting from an IRS audit unless it makes a push-out election, which lets a partnership push an adjustment out to the

Form **1065** U.S. Return of Partnership Income OMB No. 1545-0123  
 For calendar year 2023, or tax year beginning 5/1, 2023, ending 12/31, 2023  
 Department of the Treasury Internal Revenue Service  
 Go to [www.irs.gov/Form1065](http://www.irs.gov/Form1065) for instructions and the latest information.

**2023**

**A** Principal business activity  
 Recreation  
 Name of partnership  
 Shout and Jump

**B** Principal product or service  
 Skydiving  
 Type or Print  
 Number, street, and room or suite no. If a P.O. box, see instructions.  
 444 Aviator Blvd.

**C** Business code number  
 713900  
 City or town, state or province, country, and ZIP or foreign postal code  
 Flagstaff, AZ 86001

**D** Employer identification number  
 411234567

**E** Date business started  
 May 1, 2023

**F** Total assets (see instructions)  
 \$ 332,244

**G** Check applicable boxes: (1)  Initial return (2)  Final return (3)  Name change (4)  Address change (5)  Amended return

**H** Check accounting method: (1)  Cash (2)  Accrual (3)  Other (specify):

**I** Number of Schedules K-1. Attach one for each person who was a partner at any time during the tax year: 2

**J** Check if Schedules C and M-3 are attached

**K** Check if partnership: (1)  Aggregated activities for section 465 at-risk purposes (2)  Grouped activities for section 469 passive activity purposes

**Caution:** Include only trade or business income and expenses on lines 1a through 23 below. See instructions for more information.

Income	1a	b	c	Balance
1	Gross receipts or sales	413,692		413,692
2	Cost of goods sold (attach Form 1125-A)		2	61,692
3	Gross profit. Subtract line 2 from line 1c		3	352,000
4	Ordinary income (loss) from other partnerships, estates, and trusts (attach statement)		4	
5	Net farm profit (loss) (attach Schedule F (Form 1040))		5	
6	Net gain (loss) from Form 4797, Part II, line 17 (attach Form 4797)		6	
7	Other income (loss) (attach statement)		7	
8	<b>Total income (loss).</b> Combine lines 3 through 7		8	352,000
9	Salaries and wages (other than to partners) (less employment credits)		9	48,182
10	Guaranteed payments to partners		10	70,500
11	Repairs and maintenance		11	1,986
12	Bad debts		12	
13	Rent		13	14,200
14	Taxes and licenses		14	4,946
15	Interest (see instructions)		15	6,175
16a	Depreciation (if required, attach Form 4562)	22,800	16a	22,800
b	Less depreciation reported on Form 1125-A and elsewhere on return		16b	22,800
17	Depletion (Do not deduct oil and gas depletion.)		17	
18	Retirement plans, etc.		18	
19	Employee benefit programs		19	4,800
20	Energy efficient commercial buildings deduction (attach Form 7205)		20	
21	Other deductions (attach statement)		21	50,187
22	<b>Total deductions.</b> Add the amounts shown in the far right column for lines 9 through 21		22	223,776
23	<b>Ordinary business income (loss).</b> Subtract line 22 from line 8		23	128,224
24	Interest due under the look-back method—completed long-term contracts (attach Form 8697)		24	
25	Interest due under the look-back method—income forecast method (attach Form 8866)		25	
26	BBA AAR imputed underpayment (see instructions)		26	
27	Other taxes (see instructions)		27	
28	<b>Total balance due.</b> Add lines 24 through 27		28	
29	Elective payment election amount from Form 3800		29	
30	Payment (see instructions)		30	
31	<b>Amount owed.</b> If the sum of line 29 and line 30 is smaller than line 28, enter amount owed		31	
32	<b>Overpayment.</b> If the sum of line 29 and line 30 is larger than line 28, enter overpayment		32	

**Sign Here**  
 Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than partner or limited liability company member) is based on all information of which preparer has any knowledge.  
 Signature of partner or limited liability company member: Serry Javit Date: 3/11/24  
 May the IRS discuss this return with the preparer shown below? See instructions.  Yes  No

**Preparer Use Only**  
 Print/Type preparer's name: \_\_\_\_\_ Preparer's signature: \_\_\_\_\_ Date: \_\_\_\_\_ Check  if self-employed PTIN: \_\_\_\_\_  
 Firm's name: \_\_\_\_\_ Firm's EIN: \_\_\_\_\_  
 Firm's address: \_\_\_\_\_ Phone no.: \_\_\_\_\_

For Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11390Z Form 1065 (2023)

The cash method does not recognize accounts payable or receivable in computing income or cost of goods sold (COGS).

**Accounts Payable:**

- **Cash method.** The cost of inventory is deducted when the inventory is sold or paid for, whichever occurs later. A cash basis taxpayer does not recognize accounts payable when computing COGS.
- **Hybrid method.** The cost of inventory purchased on account is recognized regardless of when payment is made.

**Accounts Receivable:**

- **Cash method.** Accounts receivable are not recognized as income until the customer makes payment.
- **Hybrid method.** Sales on account are recognized as income regardless of when customer makes payment.

**Item J: Schedules C and M-3.** Check if Schedules C and M-3 are attached. See *Schedule M-3 (Form 1065)* on Page 16-25 for filing requirements.

**Item K: At-risk and passive activity purposes.** Check if activities are aggregated for IRC Sec. 465 at-risk purposes or grouped for IRC Sec 469 passive activity purposes. See *At-Risk Activity* on Page 16-10.

**Lines 1–8: Business activity income.** Only trade or business activity income is reported on these lines. Portfolio income is reported on Schedule K. Rental activities are entered on Form 8825 and the net income or loss is carried to Schedule K.

**Practice Tip:** No direct reporting on Form 1065 of any amounts from Forms 1099-K is required. The IRS will use the data from Forms 1099-K to help determine if gross receipts are fully reported. Preparers should review the Forms 1099-K received to be sure that in the aggregate they do not significantly exceed the gross receipts reported, but the IRS requires no reconciliation.

**Line 2: Form 1125-A (Cost of Goods Sold).** If the production, purchase or sale of merchandise is an income-producing factor, merchandise inventories must be taken into account at the beginning and end of each tax year. See *Inventories* on Page L-8 of the *Small Business Quickfinder® Handbook* for information on inventory valuation methods. In addition to the direct inventory costs, UNICAP requires partnerships to capitalize or include in inventory certain indirect costs incurred in connection with the production of real or tangible personal property held in inventory or held for sale in the ordinary course of business, but not if average annual gross receipts are \$25 million (\$29

**Line-By-Line Instructions**

The Form 1065 and supporting schedules shown at left and on the following pages were prepared for Shout and Jump using the information from the Cash Flow and Income Statements and the Balance Sheet as of December 31, 2023.

**Form 1065, Page 1 Instructions**

**Items A–C: Business activity.** For a list of partnership principal business activity codes, see Tab 15.

**Item D: Employer identification number.** See *Employer Identification Numbers (EINs)* on the inside front cover of the *Small Business Quickfinder® Handbook* for information on obtaining an EIN.

**Item E: Date business started.** The date the business started to conduct business, even if the partnership was organized earlier. A



partnership does not file a return until the first tax year it conducts business.

**Item F: Total assets.** If question 4 from Schedule B is answered “yes,” item F is not required to be completed. Item F should equal line 14, column (d), Schedule L. If no ending assets, enter “0”.

**Item G: Check applicable boxes.** In this example, the initial return box is checked since it is the partnership’s first return.

**Item H: Accounting method.** Purchases and sales of inventory must generally be accounted for under the accrual method. Since taxpayers (not including tax shelters) with average annual gross receipts of \$25 million (\$29 million for 2023) or less are allowed to use the cash method even if they hold inventory, Shout and Jump uses the cash method of accounting for all purchases and sales. See Tab L of the *Small Business Quickfinder® Handbook* for limitations on when the cash method may be used by a partnership.

million for 2023) or less unless the partnership is a tax shelter. See *Uniform Capitalization Rules* on Page L-9 of the *Small Business Quickfinder® Handbook* for information on IRC Sec. 263A.

**Line 4: Ordinary income (loss) from other partnerships, estates, and trusts.** If this partnership is a partner in another partnership or a beneficiary of an estate or trust, enter the partnership's share of ordinary income from Schedule K-1. Enter portfolio income and rental activity income (loss) on Schedule K.

**Line 5: Farm income (loss).** Use Schedule F of Form 1040 to figure net farming income and attach it to Form 1065. If the partnership received farm income from another partnership, report it on line 4.

**Line 6: Form 4797.** Enter net gain or loss from line 17 of Form 4797 (Part II). Section 1231 gain (loss) from Form 4797 is entered on line 10 of Schedule K.

**Line 7: Other income (loss).** Use line 7 for trade or business income not included on lines 1a through 6.

*Examples of income to include:*

- Interest derived in the ordinary course of the partnership's trade or business, such as interest charged on receivable balances.  
**Note:** Interest earned from a savings account is portfolio interest and should not be reported on this line. Report portfolio interest income on line 5 of Schedule K.
- Recoveries of bad debts deducted in earlier years under the specific charge-off method.
- Taxable income from insurance proceeds.
- Recapture amount for IRC Sec. 280F when the business use of listed property drops to 50% or less.
- All Section 481 income adjustments from accounting method changes.
- Proceeds from certain employer-owned life insurance contracts issued after August 17, 2006 [IRC Sec. 101(j)].

Do not include items requiring separate computations that must be reported on Schedules K and K-1. Do not report portfolio or rental activity income (loss) on this line.

**Lines 9—22: Business activity deductions.** Use these lines for trade or business activity deductions. Portfolio and rental activity deductions should be listed on a separate schedule and carried to Schedule K.

**Line 9: Wages.** Report the gross wages paid (including withheld taxes) minus any employment credits on line 9. Do not include any commissions paid to independent contractors. Payments to partners for services rendered are not wages.

Both the employee and employer portions of the social security taxes are 6.2% for wages paid in tax year 2023. Medicare taxes for both the employee and employer are 1.45% (2.9% total). For further coverage, see Tab 23.

**Line 10: Guaranteed payments to partners.** Enter payments to partners for services rendered or for the use of capital that are not determined by partnership profits. Also enter this amount on line 4a of Schedule K. In this example, the partnership paid Jerry \$36,500 and Bob \$30,800. Payments for the use of capital are reported on line 4b of Schedule K with the total amount of guaranteed payments to partners entered on line 4c. The payments are deductible by the partnership and taxable to the partners.

In addition to payments for services rendered, guaranteed payments also include group medical insurance premiums paid by the partnership for the benefit of the partners. In this example, the partnership paid \$1,600 of premiums for each partner. This amount

should also be entered on line 13e of Schedule K, and line 13 of Schedule K-1, code M since it may be a deduction for the partners on their individual tax returns.

Do not include payments that should be capitalized. For example, although payments to a partner for services rendered in organizing a partnership may be guaranteed payments, they are not deductible on line 10. These amounts should be separately reported on line 4a of Schedules K and K-1. Do not include distributive shares of partnership profits.

Guaranteed payments are generally subject to SE tax—see *Guaranteed Payments* on Page 16-9.

**Line 11: Repairs** that do not add to the value of the property being repaired or appreciably prolong its life are deductible on this line.

**Line 12: Bad debts.** Debts that became worthless during the tax year are deductible on this line only if they were previously included in taxable income. Generally, a cash method taxpayer does not deduct bad debts.

**Line 13: Rent.** The partnership paid \$1,775 monthly facility rent.

**Line 14: Taxes** reported on line 14 include the employer's share of FICA, state unemployment taxes, and federal unemployment taxes. To keep the example simple, a 6% total tax rate was assumed for SUTA and FUTA and all payroll taxes were deposited before year end. The employees' share of FICA plus state and federal income tax withholding was reported as wages on line 9. Sales taxes collected and paid over to the state are not included because the amount collected was not added to gross income.

*Taxes that should not be reported on line 14 include:*

- Sales taxes on the purchase of assets or supplies, which should be added to the cost basis of the asset or supply.
- Taxes paid in connection with COGS, which should be reported on Form 1125-A.
- Taxes assessed on property improvements, which are added to the cost basis of the asset.
- Federal income, estate, inheritance, legacy, succession, and gift taxes.
- Section 901 foreign taxes, which are reported on Schedule K.
- Taxes allocated to portfolio income and rental activities, which are reported on Schedule K and Form 8825, respectively.
- Taxes capitalized or included in inventories under UNICAP.

**Line 15: Interest.** The partnership paid \$6,175 in interest on the loan to purchase the airplane. Since the partnership's gross receipts are not over \$29 million dollars, the entire amount is deductible and is not subject to the interest expense limitation.

*Interest that is not reported on line 15 includes:*

- Interest capitalized or included in inventory under UNICAP.
- Interest on debt used to purchase rental property or in a rental activity (report on line 2 or 3b of Schedule K).
- Interest on debt used to purchase investment property (report on line 13c of Schedule K and line 13 of Schedule K-1, code H).
- Interest on debt proceeds allocated to distributions made to partners during the tax year. Instead, report the interest on line 13e of Schedule K and line 13, code AC of Schedule K-1.
- Interest paid by a partnership to a partner for the use of capital is entered on page 1, line 10, as a guaranteed payment.

**Line 16: Depreciation.** See the *Depreciation Schedule* on Page 16-17 for computation of the \$22,800 deduction. See also Form 4562 on Page 16-27. The Section 179 deduction is not reported here; it is entered on line 12 of Schedules K and K-1. The Section



Schedule B Other Information (continued)		Yes	No		
<b>b</b> Under the covered surrogate foreign corporation rules? If "Yes" to either (a) or (b), complete Form 7208, Excise Tax on Repurchase of Corporate Stock. See the Instructions for Form 7208.					X
<b>30</b>	At any time during this tax year, did the partnership (a) receive (as a reward, award, or payment for property or services); or (b) sell, exchange, or otherwise dispose of a digital asset (or financial interest in a digital asset)? See instructions		X		
<b>31</b>	Is the partnership electing out of the centralized partnership audit regime under section 6221(b)? See instructions If "Yes," the partnership must complete Schedule B-2 (Form 1065). Enter the total from Schedule B-2, Part III, line 3 If "No," complete Designation of Partnership Representative below.		X		

**Designation of Partnership Representative** (see instructions)  
Enter below the information for the partnership representative (PR) for the tax year covered by this return.

Name of PR **Jerry Taxit**

U.S. address of PR **007 Like-Kind Ave., Phase-Out, AZ 55555** U.S. phone number of PR **(567) 890-1234**

If the PR is an entity, name of the designated individual for the PR \_\_\_\_\_ U.S. phone number of designated individual **(567) 890-1234**

Form 1065 (2023)

**Line 29: Excise tax on repurchase of corporate stock.** Indicate if the partnership is filing Form 7208 relating to the excise tax on repurchase of corporate stock. See Form 7208 instructions for details.

**Line 30: Digital assets.** Indicate if the partnership received, sold, exchanged, or disposed of a digital asset.

**Line 31: Electing out of centralized partnership audit regime.** See *Electing out of the rules* on Page 16-2.

**Schedule K, Page 5 (Form 1065)**

**Partners' shares of income, credits, deductions, etc.** All partnerships are required to complete Schedule K. Schedule K is the combined total from each partner's Schedule K-1. If the partnership has more than one trade or business activity, a statement should be attached to each partner's Schedule K-1 that identifies each activity.

**Line 1: Ordinary business income (loss).** Enter the amount from line 23, page 1, of Form 1065.

**Line 2: Rental real estate activities.** Use Form 8825 to report income and expenses from rental real estate activities. Report the net income (loss) on line 2.

**Line 3: Other rental activities.** Use line 3a to report income and 3b for expenses from rental activities not included on line 2. Attach a separate schedule listing all expenses reported on line 3b. These amounts are netted on line 3c.

**Line 4: Guaranteed payments.** Enter the amount from line 10 of Form 1065 (page 1), plus any guaranteed payments the partnership is required to capitalize. Generally, guaranteed payments are not considered passive income.

In this example, the guaranteed payments include the group medical insurance premiums paid for the partners. These payments for services are included on line 4a with total guaranteed payments shown on line 4c.

**Lines 5-9: Portfolio income (loss).** Enter only taxable portfolio income (loss). Do not reduce portfolio income by portfolio deductions. If any capital gain or loss is from disposition of nondepreciable personal property used in a trade or business, it may not be treated as portfolio income. Report such gain or loss on line 11 of Schedule K.

In this example, the \$316 of interest earned from the partnership savings account is entered on line 5.

**Line 10: Section 1231 gain or loss.** Enter amount from line 7 of Form 4797.

**Line 11: Other income (loss).** Report the following (Schedule K-1 codes are shown):

- Other portfolio income or loss not reported on lines 5-10—Code A. Identify on an attachment.
- Gain or loss from involuntary conversions due to casualty or theft (Form 4684). The gain or loss must be from property used

*Continued on the next page*

Schedule K Partners' Distributive Share Items		Total amount
<b>1</b>	Ordinary business income (loss) (page 1, line 23)	128,224
<b>2</b>	Net rental real estate income (loss) (attach Form 8825)	2
<b>3a</b>	Other gross rental income (loss)	
<b>3b</b>	Expenses from other rental activities (attach statement)	
<b>3c</b>	Other net rental income (loss). Subtract line 3b from line 3a	
<b>4</b>	Guaranteed payments: <b>a</b> Services <b>4a</b> <b>b</b> Capital <b>4b</b>	
<b>4c</b>	Total. Add lines 4a and 4b	70,500
<b>5</b>	Interest income	316
<b>6</b>	Dividends and dividend equivalents: <b>a</b> Ordinary dividends	
<b>6a</b>	Qualified dividends <b>6b</b> <b>c</b> Dividend equivalents <b>6c</b>	
<b>7</b>	Royalties	
<b>8</b>	Net short-term capital gain (loss) (attach Schedule D (Form 1065))	
<b>9a</b>	Net long-term capital gain (loss) (attach Schedule D (Form 1065))	
<b>9b</b>	Collectibles (28%) gain (loss)	
<b>9c</b>	Unrecaptured section 1250 gain (attach statement)	
<b>10</b>	Net section 1231 gain (loss) (attach Form 4797)	
<b>11</b>	Other income (loss) (see instructions) Type:	
<b>12</b>	Section 179 deduction (attach Form 4562)	25,000
<b>13a</b>	Cash contributions	
<b>13b</b>	Noncash contributions	
<b>13c</b>	Investment interest expense	
<b>13d(1)</b>	Section 59(e)(2) expenditures: (1) Type: (2) Amount:	
<b>13e</b>	Other deductions (see instructions) Type: <b>Partners' Health Insurance</b>	3,200
<b>14a</b>	Net earnings (loss) from self-employment	198,724
<b>14b</b>	Gross farming or fishing income	
<b>14c</b>	Gross nonfarm income	352,000
<b>15a</b>	Low-income housing credit (section 42(j)(5))	
<b>15b</b>	Low-income housing credit (other)	
<b>15c</b>	Qualified rehabilitation expenditures (rental real estate) (attach Form 3468, if applicable)	
<b>15d</b>	Other rental real estate credits (see instructions) Type:	
<b>15e</b>	Other rental credits (see instructions) Type:	
<b>15f</b>	Other credits (see instructions) Type:	
<b>16</b>	Attach Schedule K-2 (Form 1065), Partners' Distributive Share Items—International, and check this box to indicate that you are reporting items of international tax relevance <input type="checkbox"/>	
<b>17a</b>	Post-1986 depreciation adjustment	
<b>17b</b>	Adjusted gain or loss	
<b>17c</b>	Depletion (other than oil and gas)	
<b>17d</b>	Oil, gas, and geothermal properties—gross income	
<b>17e</b>	Oil, gas, and geothermal properties—deductions	
<b>17f</b>	Other AMT items (attach statement)	
<b>18a</b>	Tax-exempt interest income	
<b>18b</b>	Other tax-exempt income	
<b>18c</b>	Nondeductible expenses	280
<b>19a</b>	Distributions of cash and marketable securities	20,000
<b>19b</b>	Distributions of other property	
<b>20a</b>	Investment income	316
<b>20b</b>	Investment expenses	
<b>20c</b>	Other items and amounts (attach statement)	
<b>21</b>	Total foreign taxes paid or accrued	

Form 1065 (2023)

**Line 25: Qualified opportunity fund.** Indicate on line 25 if the partnership is certifying as a qualified opportunity fund and attach Form 8996. See Form 8996 instructions for details.

**Line 26: Foreign partners.** Enter the number of foreign partners subject to IRC Sec. 864(c)(8).

**Line 27: Transfers between the partnership and partners.** Indicate on line 27 if there were any transfers between the partnership and its partners subject to the disclosure requirements of Reg. 1.707-8.

**Line 28: Acquisition by foreign corporation.** Provide the indicated information as applicable.

in a trade or business or for income-producing purposes—Code B.

- Gains or losses from Section 1256 contracts—Code C.
- Mining exploration costs recapture information—Code D.
- Cancellation of debt—Code E.
- Section 743(b) positive adjustments—Code F.
- Section 951(a) income inclusions—Code H.
- **Any other item of income or loss not included in lines 1–10. Use Code I.**
- Gains from the disposition of farm recapture property (see Form 4797)—Code P.
- Other Section 1252 gains or losses—Code P.
- Gains or losses from Section 1254 property—Code I.
- Tax benefit item recoveries (IRC Sec. 111)—Code J.
- Gambling gains and losses—Code K.
- Section 751(b) gains or losses—Code L.
- Specially allocated ordinary gain (loss)—Code R.
- Gain from sale of Section 1202 stock that is eligible for exclusion—Code O.
- Gain from Section 1045 rollover—Codes M and N.
- Gains or losses on qualified preferred stock of the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation—Code Q.
- Gain or loss from line 7 or 15 of Schedule D that is not portfolio income—Code S.
- **Any other item of income or loss not assigned a specific code—Code ZZ.**

**Line 12: Section 179 expense deduction.** Enter amount from line 12 of Form 4562. Line 12 of Schedule K-1 should not be completed for any partner that is an estate or trust. The limitations on the Section 179 deduction apply first at the partnership level, and then at the partner level.

**Line 13a and 13b: Charitable contributions.** Enter charitable contributions made by the partnership. Report on line 13 of each Schedule K-1 with the code and amount for each contribution category. For partnership noncash contributions greater than \$5,000, give each partner a copy of Form 8283. Attach Form 8283 (Noncash Charitable Contributions) to Form 1065 if the deduction claimed for noncash contributions exceeds \$500.

**Line 13c: Investment interest expense.** Enter interest paid or accrued to purchase or carry property held for investment.

**Line 13d: Section 59(e)(2) expenditures.** See the IRS instructions for Schedule K.

**Line 13e: Other deductions.** Use line 13e for deductions not included on other lines. Also enter each partner's share on Schedule K-1, line 13, with the applicable code, or provide the information on a statement attached to the K-1, as required by the Schedules K and K-1 instructions.

In this example, the amount of the group medical insurance premiums paid by the partnership for each partner is included on line 4a as taxable guaranteed payments and listed again on line 13e as a deductible expense on the partners' tax returns. Qualifying individual partners can deduct 100% of such amounts on Form 1040 as an adjustment to income.

**Line 14a: Net earnings (loss) from self-employment.** In general, the profits from trade or business activities and certain rental activities are subject to SE tax when passed through to the general partners. A limited partner's share of income is not normally SE income unless it is considered guaranteed payments for services rendered (see the Note under *Self-employment (SE) tax* on Page 16-3 for information about LLC members who have limited liability like limited partners but who were active in the service business). Portfolio income and rental real estate income are generally not subject to SE tax unless the income is received in the course of a trade or business. Guaranteed payments are generally subject to SE tax—see *Guaranteed Payments* on Page 16-9. The ordinary gain from Form 4797 reported on line 6 of Form 1065 (page 1) is

not subject to SE tax. See the IRS Schedule K instructions for the worksheet for figuring net earnings (loss) from self-employment.

In this example, the amount on line 14a equals the ordinary income from line 1, plus the guaranteed payments from line 4a. See the worksheet in the Form 1065 instructions for other amounts to include.

**Line 14c: Gross nonfarm income.** In this example, the amount reported on line 14c equals the gross profit amount from line 3 on page 1 of Form 1065.

**Line 15: Credits.** See *Tax Credits* on Page 24-5 and IRS Schedule K instructions.

**Line 16: Foreign transactions.** Check the box to indicate that the partnership is reporting items of international tax relevance and attach Schedule K-2 (Form 1065).

**Lines 17a–17f: Alternative minimum tax items.** Amounts reported on these lines are for the computation of the AMT. See IRS Schedule K instructions for details.

**Lines 18a and 18b: Tax-exempt income.** See IRS Schedule K instructions.

**Line 18c: Nondeductible expenses.** In this example, the nondeductible portion of meals is entered.

**Lines 19a and 19b: Distributions.** The December cash distributions to Bob and Jerry are combined on line 19a.

**Line 20a: Investment income.** In this example, \$316 interest income is entered.

**Line 20b: Investment expenses.** Enter deductible expenses (other than interest) directly connected with the production of investment income. See IRS Form 4952 instructions for details.

**Line 20c: Other items and amounts.** Attach a statement to provide details of several items listed in the IRS Schedule K instructions. On Schedule K-1, enter the appropriate code in the line 20 code box, followed by an asterisk. In the amount box, enter "STMT."

**Line 21: Foreign taxes.** Enter total creditable foreign taxes paid or accrued.

### Analysis of Net Income (Loss), Form 1065 (Page 6)

Income and deduction items on Schedule K are netted against each other. Line 2 shows the portion of line 1 that is allocated to each type of partner. Individual partners are further split into active or passive categories. Guidance for classifying partners as active or passive is in the Form 1065 instructions. Apply it to each partner separately. If the partnership cannot make a reasonable determination whether a partner's participation in a trade or business activity is material or whether a partner's participation in a rental real estate activity is active, classify the partner as *passive*.

### Schedule L, Page 6 (Form 1065)

**Balance sheet.** The balance sheet should agree with the partnership's books and records. See *Balance Sheet* on Page L-15 of the *Small Business Quickfinder® Handbook* for more information. However, if question 4 on Schedule B is answered "yes," the partnership is not required to complete Schedule L.

**Line 1: Cash.** See the *Cash Flow Statement* on Page 16-18.

**Line 9b: Accumulated depreciation.** See the *Depreciation Schedule* on Page 16-17 for a list of depreciable assets and accumulated depreciation. Many partnerships use tax depreciation for bookkeeping purposes. See Tab 10 for other examples.

**Line 17: Other current liabilities.** In this example, the liabilities on line 17 include sales taxes collected in December of 2023 (\$1,288), but not paid over to the state until January of 2024.

**Line 18: Nonrecourse loans.** Those liabilities of the partnership for which none of the partners have any personal liability.

**Line 19b: Notes payable.** In this example, the remaining principal balance on the airplane loan as of December 31, 2023 is entered on line 19. Here, the balance due was not split between the amount due in less than one year versus the amount due in one year or more. If the tax return preparer can obtain access to this

- Portfolio income or loss.
- Tax-exempt income.
- Excluded cancellation of debt (COD) income.

**Line 1: Gross receipts or sales.** Enter gross receipts from trade or business operations except those reported on lines 4 and 5.

Shout and Jump, Inc., made \$413,692 from sales revenue. Interest income of \$316 from the business savings account is reported on Schedules K and K-1.

**Line 2: Cost of goods sold.** See instructions for Form 1125-A on Page 18-18.

**Line 4: Net gain (loss) from Form 4797.** Report on line 4 only ordinary gains or losses from the sale, exchange or involuntary conversion of assets used in a trade or business activity (from line 17, Part II of Form 4797). Sales or exchanges of assets used in rental activities and net Section 1231 gains and losses (see *Disposition of Assets* on Page N-16 of the *Small Business Quickfinder® Handbook*) must be reported separately on Schedule K. Report dispositions of Section 179 property in box 17 of Schedule K-1 using code K.

**Line 5: Other income.** Use line 5 to report trade or business income (not rental activity) that is not reported on lines 1–4. List the type and amount of income on an attached statement.

*Examples include:*

- Interest or service charges on accounts receivable balances.
- Recoveries of bad debts deducted in earlier years under the specific charge-off method.
- Taxable insurance proceeds.
- Section 280F recapture.
- Section 481 adjustments from accounting method changes.
- Certain proceeds from corporate owned life insurance contracts.
- Partnership income or loss (line 1, Part III Schedule K-1, Form 1065).

**Deductions.** Report only trade or business activity expenses on lines 7–20. Do not report rental activity expenses, deductions allocable to portfolio income, or nondeductible expenses.

*Limitations on deductions.* An S corporation may be limited in deducting trade or business activity expenses under these rules:

- Section 263A UNICAP rules require corporations to capitalize or include in inventory certain costs incurred in connection with the production of real and tangible personal property held in inventory or held for sale in the ordinary course of business.
- An accrual basis S corporation can only deduct a business expense owed to a related party in the corporation's tax year that includes the day on which the related party reports the payment as income (IRC Sec. 267).
- Business start-up and organizational costs must be capitalized unless a deemed election is made to deduct or amortize them.
- If the corporation claims any of several tax credits listed in the Form 1120-S instructions, reduce the otherwise allowable deductions for expenses used to figure the credit by the amount of the current-year credit.

**Line 7: Compensation of officers.** Enter total wages paid to officers plus fringe benefit expenditures made on behalf of officers owning more than 2% of the corporation's stock. The fringe benefits are also reported as wages in box 1 of Form W-2. Fringe benefits for officers owning 2% or less of the corporation's stock are reported on line 18, page 1 of Form 1120-S, and are not taxable to the employee. In this example, \$1,600 for each of the three non-owner employees is reported on line 18.

Do not include on line 7 wages reported elsewhere on the return, such as amounts included in COGS.

**Note:** When a corporation's total receipts (page 1, line 1a, plus lines 4 and 5; income reported on Schedule K, lines 3a, 4, 5a, and 6; income or net gain reported on Schedule K, lines 7, 8a, 9, and 10; and income or net gain reported on Form 8825, lines 2, 19, and 20a) are \$500,000 or more, it needs to complete

Form 1125-E (Compensation of Officers). Enter on Form 1120-S, line 7, the amount from Form 1125-E, line 4. (A sample form for a similar example is on Page 17-24.)

**Health insurance.** In this example, the wages paid to Jerry and Bob plus the health insurance premiums paid on their behalf are entered on line 7 of Form 1120-S and in box 1 of Form W-2. The health insurance is identified in box 14 of Form W-2 so that Jerry and Bob may deduct the amount on their individual tax returns. See example of Jerry's 1040 on Page 18-26. Unlike the partnership example, health insurance is not reported as a separately stated item on Schedule K-1. Also, S corporation payments for shareholders' health insurance are not FICA wages.

**Caution:** Beginning in 2014, medical reimbursement plans (MRPs) are considered group health plans under the Affordable Care Act (ACA). The ACA requires group health plans to meet certain market reform requirements regarding unlimited benefits and no-cost coverage (Notice 2013-54). Failure to meet market reform requirements results in significant penalties. The 2016 Cures Act provides for Qualified Small Employer Health Reimbursement Arrangements (QSEHRAs) (see *Health Insurance Plans* on Page K-12 of the *Small Business Quickfinder® Handbook* for details), that are not subject to penalties. Notice 2015-17 provides transitional relief for small employers (average of less than 50 employees in the prior tax year) that reimburse or pay premiums for employee health care policies. The Notice also provides guidance for S corporations that pay or reimburse more-than-2% shareholders for premiums for individual health insurance policies. The IRS will not assert the penalties with regard to more-than-2% S corporation shareholder-employees until additional guidance is issued.

**Line 8: Salaries and wages.** Enter gross wages paid to employees who are not officers of the corporation. Include fringe benefits made on behalf of employees (other than officers) owning more than 2% of the corporation's stock. Also report these fringe benefits as wages in box 1 of Form W-2.

Do not include on line 8 wages reported elsewhere on the return, such as amounts included in COGS.

Also, reduce wages on lines 7 and 8 by any applicable employment credits.

**Note:** Both the employee and employer portion of social security taxes are 6.2% for wages paid. Medicare taxes for both the employee and employer are 1.45% (2.9% total). For further coverage, see Tab 23.

**Line 9: Repairs and maintenance.** Enter cost of incidental repairs that do not add to the value of the property or appreciably prolong its life. The corporation paid \$1,986 for repairs.

**Line 10: Bad debts.** Enter only trade or business activity bad debts that became worthless during the year. **Note:** A bad debt can only be deducted if the amount was previously included in income.

**Line 11: Rents.** The corporation paid \$1,775 per month to rent its facility for a total of \$14,200.

**Line 12: Taxes.** Enter taxes paid or incurred in the trade or business activities of the corporation.

*Do not include the following on line 12:*

- Taxes reported elsewhere on the return, such as COGS.
- Taxes incurred in the production or collection of income, or for the management, conservation, or maintenance of property held to produce income. Report these taxes separately on Schedules K, line 12d, and K-1, box 12, code ZZ (or Z if the item could be reported as an itemized deduction).
- Taxes allocable to portfolio income or rental activities. Report on appropriate lines of Schedules K and K-1.
- Sales tax paid in connection with the acquisition of property is added to the cost of the property. Taxes paid on the disposition of property reduce the amount realized upon disposition.

*Continued on the next page*

Form <b>1125-A</b>		<b>Cost of Goods Sold</b>		OMB No. 1545-0123	
(Rev. November 2018) Department of the Treasury Internal Revenue Service		▶ Attach to Form 1120, 1120-C, 1120-F, 1120S, or 1065. ▶ Go to <a href="http://www.irs.gov/Form1125A">www.irs.gov/Form1125A</a> for the latest information.			
Name <b>Shout and Jump, Inc.</b>		Employer identification number <b>41-1234567</b>			
<b>1</b>	Inventory at beginning of year	<b>1</b>		<b>0</b>	
<b>2</b>	Purchases	<b>2</b>		<b>67,418</b>	
<b>3</b>	Cost of labor	<b>3</b>			
<b>4</b>	Additional section 263A costs (attach schedule)	<b>4</b>			
<b>5</b>	Other costs (attach schedule)	<b>5</b>			
<b>6</b>	<b>Total.</b> Add lines 1 through 5	<b>6</b>		<b>67,418</b>	
<b>7</b>	Inventory at end of year	<b>7</b>		<b>5,726</b>	
<b>8</b>	<b>Cost of goods sold.</b> Subtract line 7 from line 6. Enter here and on Form 1120, page 1, line 2 or the appropriate line of your tax return. See instructions	<b>8</b>		<b>61,692</b>	
<b>9a</b> Check all methods used for valuing closing inventory:					
(i) <input checked="" type="checkbox"/> Cost					
(ii) <input type="checkbox"/> Lower of cost or market					
(iii) <input type="checkbox"/> Other (Specify method used and attach explanation.) ▶					
<b>b</b> Check if there was a writedown of subnormal goods <input type="checkbox"/>					
<b>c</b> Check if the LIFO inventory method was adopted this tax year for any goods (if checked, attach Form 970) <input type="checkbox"/>					
<b>d</b> If the LIFO inventory method was used for this tax year, enter amount of closing inventory computed under LIFO <input type="text" value="9d"/>					
<b>e</b> If property is produced or acquired for resale, do the rules of section 263A apply to the entity? See instructions <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No					
<b>f</b> Was there any change in determining quantities, cost, or valuations between opening and closing inventory? If "Yes," attach explanation <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No					

- Taxes on special assessments that increase the value of the property are added to the cost of the property.
- Federal income taxes (except for the portion of built-in gains tax allocable to ordinary income).
- Taxes not imposed on the corporation.
- Taxes allocable to Section 263A capitalization.
- Section 901 foreign taxes must be reported separately using Schedules K-2 and K-3.

**Line 13: Interest.** Include interest incurred in the trade or business activities of the corporation that is not claimed elsewhere on the return. Interest related to rental activities or portfolio income must be reported separately on Schedules K and K-1.

Interest allocable to certain property produced by an S corporation for its own use or for sale must be capitalized. Interest allocable to an asset used to produce the above property must also be capitalized. See *Capitalization of Interest* on Page L-10 of the *Small Business Quickfinder® Handbook* for more information.

Generally, prepaid interest can only be deducted over the period to which the prepayment applies. See IRC Sec. 461(g) for details.

In this example, the corporation deducts the interest paid on the airplane loan. Since the S corporation's gross receipts are not over \$29 million dollars, the entire amount is deductible and is not subject to the interest expense limitation. See *Business Interest Expense Limitation* on Page 16-5 for the post-TCJA rules on interest limitations.

**Line 14: Depreciation.** Enter depreciation from Form 4562 not claimed on Form 1125-A (COGS) or elsewhere on the return. The Section 179 deduction is not included on line 14. It must be reported separately on Schedules K and K-1.

**Line 15: Depletion.** Do not enter depletion for oil and gas properties on this line. The

corporation reports the necessary information to each shareholder in box 17 of Schedule K-1 using code R.

**Line 16: Advertising.** The corporation incurred \$13,183 in advertising costs, of which \$2,016 was during the start-up period of the business and is reported as start-up costs on line 20.

**Line 17: Pension, profit-sharing, etc., plans.** Enter contributions not claimed elsewhere on the return made by the corporation for its employees under a qualified pension, profit-sharing, annuity, SEP, SIMPLE, or any other deferred-compensation plan. If the corporation contributes to an IRA for employees, include the contribution in wages on line 8, or on line 3 of Form 1125-A. This amount must be reduced for certain retirement related credits (for example, employer contributions and military spouse participation credits).

**Line 18: Employee benefit programs.** Enter amounts for fringe benefits paid or incurred on behalf of employees owning 2% or less of the corporation's stock.

*These fringe benefits include:*

- Employer contributions to certain accident and health plans,
- Cost of up to \$50,000 of group term-life insurance on an employee's life and
- Meals and lodging furnished for the employer's convenience (on the business premises).

Report amounts paid on behalf of more-than-2% shareholders as taxable wages on the shareholder's Form W-2. These expenses of the S corporation are deducted on line 7 or 8 of Form 1120-S. In this example, the three non-shareholder employees had health insurance premiums paid for them in the amount of \$1,600 per employee for a total of \$4,800.

**Note:** Qualified small employers are eligible for the small employer health insurance credit (IRC Sec. 45R). The amount

of the credit is up to 50% of the lesser of employer-paid premiums or the small business benchmark premium. For further coverage see *Small Employer Health Insurance Credit* on Page K-16 of the *Small Business Quickfinder® Handbook*.

For purposes of this example it is assumed that Shout and Jump does not qualify for the small employer health insurance credit.

**Line 19: Energy efficient commercial buildings deduction.** Attach Form 7205. See *Energy-Efficient Commercial Building Deduction* on Page 24-12.

**Line 20: Other deductions.** Attach a schedule similar to the one shown on Page 18-26 to report other trade or business activity expenses not deducted elsewhere on the return. Do not include items that must be reported separately on Schedules K and K-1.

Use line 20 to deduct amortization. Do not deduct fines or penalties.

**Line 22: Ordinary business income (loss).** This amount is the nonseparately computed income or loss as defined in IRC Sec. 1366(a)(2) attributable to trade or business activities of the corporation. This amount is entered on line 1 of Schedule K. Line 22 is not used in figuring the tax on line 23a or 23b.

**Line 23: Tax.** See *S Corporation Taxes* on Page 18-7 for information on built-in gains tax, ENPI tax and other S corporation taxes.

**Line 24d: Elective payment election.** See *Elective Payment Elections And Transfer Elections* on Page 24-5.

## Cost of Goods Sold

### Form 1125-A

See *Inventories* on Page L-8 of the *Small Business Quickfinder® Handbook* for inventory valuation methods and Section 263A UNICAP rules.

**Note:** The cash accounting method generally cannot be used when inventories are necessary to account for purchases and sales. There is an exception to this rule for taxpayers with average annual receipts of \$29 million or less. See *Accounting Methods* on Page L-1 of the *Small Business Quickfinder® Handbook* for details including other exceptions.

**Line 1.** The beginning inventory should equal the ending inventory of the prior-year return. If it is different, attach a statement explaining the change.

**Line 2.** Purchases for manufacturers includes the cost of raw materials and parts used to make a finished product. Purchases for merchants includes merchandise bought for resale.

**Line 3.** Payroll costs usually are an element of COGS only in a manufacturing or mining business.

**Line 4.** An entry is required on this line only for corporations that have elected a

simplified method of accounting. See Form 1125-A instructions for more details. Also refer to *Uniform Capitalization Rules* on Page L-9 of the *Small Business Quickfinder® Handbook*.

**Line 5.** Enter any other inventory costs not included on lines 2–4. Freight-in is entered here. Freight-out is an operating/selling expense not included in inventory.

**Line 7.** A physical count of inventory must be taken at least once a year, ideally at the end of the tax year. In this example, the cost of inventory at the end of the year was \$5,726.

**Line 9e: Section 263A UNICAP rules** require corporations to capitalize or include in inventory certain costs incurred in connection with the production of real and tangible personal property held in inventory or held for sale in the ordinary course of business. The rules also apply to personal property (tangible and intangible) acquired for resale. Corporations with \$29 million or less of average annual gross receipts for the prior three years are exempt from the UNICAP rules.

## Other Information

### Schedule B, Page 2, Form 1120-S

**Item 1: Accounting method.** Although the accrual method is generally required to account for purchases and sales of inventory, Shout and Jump, Inc., meets the \$29 million gross receipts threshold and is eligible to use the cash method. Under the cash method, income is reported when constructively received, and expenses are deducted when actually paid or the items are consumed, whichever is later. For a business with inventory that is eligible to use the cash method, inventory is (1) accounted for in the same manner as nonincidental materials and supplies, (2) conforms to the method reflected in the taxpayer's Applicable Financial Statement (AFS) for each tax year, or (3) if the taxpayer doesn't have an AFS for the tax year, conforms to the method reflected in the taxpayer's books and records prepared in accordance with the taxpayer's accounting procedures (Reg. 1.471-1).



Some businesses use a hybrid method, accounting for purchases and sales of inventory using the accrual method, and cash method for all other income and expenses. The cash method and the hybrid method are similar in that the cost of purchasing inventory cannot be deducted until the inventory is sold. However, under the hybrid method, inventory purchased on account (accounts payable) is deducted when sold, regardless of when paid for.

Form 1120-S (2023) Page 2

**Schedule B Other Information** (see instructions)

1 Check accounting method: a  Cash b  Accrual  
c  Other (specify) \_\_\_\_\_

2 See the instructions and enter the:  
a Business activity **Recreation** b Product or service **Skydiving**

3 At any time during the tax year, was any shareholder of the corporation a disregarded entity, a trust, an estate, or a nominee or similar person? If "Yes," attach Schedule B-1, Information on Certain Shareholders of an S Corporation  X

4 At the end of the tax year, did the corporation:  
a Own directly 20% or more, or own, directly or indirectly, 50% or more of the total stock issued and outstanding of any foreign or domestic corporation? For rules of constructive ownership, see instructions. If "Yes," complete (i) through (v) below  X

(i) Name of Corporation	(ii) Employer Identification Number (if any)	(iii) Country of Incorporation	(iv) Percentage of Stock Owned	(v) If Percentage in (iv) Is 100%, Enter the Date (if applicable) a Qualified Subchapter S Subsidiary Election Was Made

b Own directly an interest of 20% or more, or own, directly or indirectly, an interest of 50% or more in the profit, loss, or capital in any foreign or domestic partnership (including an entity treated as a partnership) or in the beneficial interest of a trust? For rules of constructive ownership, see instructions. If "Yes," complete (i) through (v) below  X

(i) Name of Entity	(ii) Employer Identification Number (if any)	(iii) Type of Entity	(iv) Country of Organization	(v) Maximum Percentage Owned in Profit, Loss, or Capital

5a At the end of the tax year, did the corporation have any outstanding shares of restricted stock?  X  
If "Yes," complete lines (i) and (ii) below.  
(i) Total shares of restricted stock \_\_\_\_\_  
(ii) Total shares of non-restricted stock \_\_\_\_\_

b At the end of the tax year, did the corporation have any outstanding stock options, warrants, or similar instruments?  X  
If "Yes," complete lines (i) and (ii) below.  
(i) Total shares of stock outstanding at the end of the tax year \_\_\_\_\_  
(ii) Total shares of stock outstanding if all instruments were executed \_\_\_\_\_

6 Has this corporation filed, or is it required to file, Form 8918, Material Advisor Disclosure Statement, to provide information on any reportable transaction?  X

7 Check this box if the corporation issued publicly offered debt instruments with original issue discount   
If checked, the corporation may have to file Form 8281, Information Return for Publicly Offered Original Issue Discount Instruments.

8 If the corporation (a) was a C corporation before it elected to be an S corporation or the corporation acquired an asset with a basis determined by reference to the basis of the asset (or the basis of any other property) in the hands of a C corporation, and (b) has net unrealized built-in gain in excess of the net recognized built-in gain from prior years, enter the net unrealized built-in gain reduced by net recognized built-in gain from prior years. See instructions \$ \_\_\_\_\_

9 Did the corporation have an election under section 163(j) for any real property trade or business or any farming business in effect during the tax year? See instructions  X

10 Does the corporation satisfy one or more of the following? See instructions  X

a The corporation owns a pass-through entity with current, or prior year carryover, excess business interest expense.

b The corporation's aggregate average annual gross receipts (determined under section 448(c)) for the 3 tax years preceding the current tax year are more than \$29 million and the corporation has business interest expense.

c The corporation is a tax shelter and the corporation has business interest expense.  
If "Yes," complete and attach Form 8990, Limitation on Business Interest Expense Under Section 163(j).

11 Does the corporation satisfy both of the following conditions?  X

a The corporation's total receipts (see instructions) for the tax year were less than \$250,000.

b The corporation's total assets at the end of the tax year were less than \$250,000.  
If "Yes," the corporation is not required to complete Schedules L and M-1.

Form 1120-S (2023)

**Item 8.** Complete line 8 if the S corporation has net unrealized built-in gains. See *Built-In Gains (BIG) Tax* on Page 18-8.

**Item 9.** This item applies if the corporation is limited with respect to its interest expense deduction for the year. See *Business Interest Expense Limitation* on Page 16-5 for more information.

**Item 10.** Shout and Jump, Inc. checks the "No" box as it is eligible to deduct business interest expense without filing Form 8990 and it does not own a pass-through entity with excess business interest expense. As it has been in existence for less than three years, the corporation need only meet the \$29 million or less gross receipts test for the period of its existence by annualizing its 2023 gross receipts [IRC Sec. 448(c)(3)].



**Item 14.** Use line 14 to indicate if the S corporation was responsible for filing, and ultimately filed, any 2023 Forms 1099. Filing requirements can be found in the form's instructions.

## Shareholder's Share of Income, Deductions, Credits, etc.

### Schedules K (Pages 3–4, Form 1120-S) and K-1

Schedule K, Form 1120-S, is a summary of total corporate income, deductions, credits, etc., and is part of the corporation's tax return. Schedule K-1 shows each shareholder's separate share of the items. The corporation provides each shareholder a Schedule K-1 and includes copies with the Form 1120-S it files with the IRS.

Schedule K provides a detailed description of items. Although Schedule K-1 follows the general outline of Schedule K, many specific items on Schedule K-1 are identified by codes.

The corporation is liable for taxes on lines 23a, b, and c on page 1 of Form 1120-S. Shareholders are liable for income tax on their shares of the corporation's income reported on Schedule K-1. The total pro rata share items of all Schedules K-1 should

Form 1120-S (2023) Page 3

**Schedule B Other Information** (see instructions) (continued)

	Yes	No
12 During the tax year, did the corporation have any non-shareholder debt that was canceled, was forgiven, or had the terms modified so as to reduce the principal amount of the debt? If "Yes," enter the amount of principal reduction \$		X
13 During the tax year, was a qualified subchapter S subsidiary election terminated or revoked? If "Yes," see instructions	X	
14a Did the corporation make any payments in 2023 that would require it to file Form(s) 1099?	X	
b If "Yes," did or will the corporation file required Form(s) 1099?	X	
15 Is the corporation attaching Form 8996 to certify as a Qualified Opportunity Fund? If "Yes," enter the amount from Form 8996, line 15 \$		X
16 At any time during the tax year, did the corporation: (a) receive (as a reward, award, or payment for property or services), or (b) sell, exchange, or otherwise dispose of a digital asset (or a financial interest in a digital asset)? See instructions		X

**Schedule K Shareholders' Pro Rata Share Items**

	Total amount
1 Ordinary business income (loss) (page 1, line 22)	122,236
2 Net rental real estate income (loss) (attach Form 8825)	
3a Other gross rental income (loss)	
b Expenses from other rental activities (attach statement)	
3c Other net rental income (loss). Subtract line 3b from line 3a	
4 Interest income	316
5 Dividends: a Ordinary dividends	
b Qualified dividends	
6 Royalties	
7 Net short-term capital gain (loss) (attach Schedule D (Form 1120-S))	
8a Net long-term capital gain (loss) (attach Schedule D (Form 1120-S))	
b Collectibles (28%) gain (loss)	
c Unrecaptured section 1250 gain (attach statement)	
9 Net section 1231 gain (loss) (attach Form 4797)	
10 Other income (loss) (see instructions) Type:	
11 Section 179 deduction (attach Form 4562)	25,000
12a Charitable contributions	
b Investment interest expense	
c Section 59(e)(2) expenditures Type:	
d Other deductions (see instructions) Type:	
13a Low-income housing credit (section 42(j)(5))	
b Low-income housing credit (other)	
c Qualified rehabilitation expenditures (rental real estate) (attach Form 3468, if applicable)	
d Other rental real estate credits (see instructions) Type:	
e Other rental credits (see instructions) Type:	
f Biofuel producer credit (attach Form 6478)	
g Other credits (see instructions) Type:	
14 Attach Schedule K-2 (Form 1120-S), Shareholders' Pro Rata Share Items—International, and check this box to indicate you are reporting items of international tax relevance <input type="checkbox"/>	
15a Post-1986 depreciation adjustment	
b Adjusted gain or loss	
c Depletion (other than oil and gas)	
d Oil, gas, and geothermal properties—gross income	
e Oil, gas, and geothermal properties—deductions	
f Other AMT items (attach statement)	
16a Tax-exempt interest income	
b Other tax-exempt income	
c Nondeductible expenses	280
d Distributions (attach statement if required) (see instructions)	20,000
e Repayment of loans from shareholders	
f Foreign taxes paid or accrued	

Form 1120-S (2023)

entered on line 12 b and d of Schedule K and in box 12 of Schedule K-1.

Enter only taxable interest and dividends. Interest earned from trade or business operations, such as service charges on unpaid accounts receivable items, should be reported on line 5, page 1 of Form 1120-S.



See *Dividends* in Tab 5 for qualified dividend rules. Dividends eligible for the 0%, 15%, and 20% tax rates should be entered in box 5b of Schedule K-1.

If any gain or loss from Schedule D is not portfolio income (such as a gain or loss from the disposition of nondepreciable personal property used in a trade or business), enter the amount on line 10 of Schedule K and in box 10 of the K-1, using code S.

In this example, the business earned \$316 from a savings account.

**Line 9: Section 1231 gain (loss).** Enter the Section 1231 gain (loss) from Form 4797.

**Line 10: Other income (loss).** Identify and include other income or losses not reported on lines 1–9 on a separate attachment, such as:

- Wagering gains and losses.
- Recovery of tax benefit items.
- Gain or loss from IRC Sec. 1256 marked to market contracts.
- Loss from involuntary conversions due to casualty or theft.

- Gain from sale or exchange of qualified small business stock eligible for Section 1202 exclusion or Section 1045 rollover. Any net loss from involuntary conversions due to casualties or thefts should be reported on line 10 of Schedule K instead of line 9, and in box 10, code B of the K-1. See the Schedule K line 10 instructions for how to report involuntary conversion net gain.

**Line 11: Section 179 deduction.** Enter the amount from line 12 of Form 4562. The Section 179 deduction limitations apply at both the S corporation level and the individual shareholder level. For more details, see *Section 179 Deduction* on Page 10-12. Do not complete box 11 of Schedule K-1 for shareholders that are estates or trusts, since these entities are not eligible for the Section 179 deduction. An S corporation is not considered a component member of a controlled group of corporations. Thus, an S corporation can claim the maximum Section 179 deduction without having to apportion it among the other controlled group members (INFO 2013-0016).

equal the amount reported on the same line of Schedule K.

Unlike certain partnership income, S corporation income is not SE income and is not subject to SE tax.

See *Shareholder's Pro Rata Share (Schedule K-1)* on Page 18-7 for how to divide each shareholder's share of income and deduction items on Schedule K-1.

**Reduction of income items reported on Schedule K:**

- Each recognized built-in gain item is reduced by its proportionate share of the built-in gains tax.
- Each item of passive investment income is reduced by its proportionate share of the ENPI tax.



See *S Corporation Taxes* on Page 18-7 for more information.

**These instructions refer to line numbers on Schedule K, Form 1120-S.**

**Line 1: Ordinary business income (loss).** Enter the amount from line 22, page 1 of Form 1120-S. Do not reduce the amount

by any limitations due to a shareholder's basis, at-risk amount or passive activity limitations. These limitations are determined at the shareholder level.

If the corporation is involved in more than one trade or business activity, see the Form 1120-S instructions for passive activity reporting requirements.

**Line 2: Net rental real estate income (loss).** Use Form 8825 (Rental Real Estate Income and Expenses of a Partnership or an S Corporation) to determine the amount to enter on line 2.

**Line 3: Income and expenses of other rental activities.** Use line 3 for rental activities not reported on line 2. Enter gross income on line 3a, and attach a statement listing all expenses reported on line 3b (Schedule K only). See Form 1120-S instructions for passive activity reporting requirements.

**Lines 4–8: Portfolio income (loss).** Do not reduce the amounts for expenses allocated to portfolio income. These expenses are



4) Provisions that investments must not jeopardize the carrying out of exempt purposes.

5) Provisions to assure expenditures further exempt purposes.

Violating these provisions results in taxes and penalties against the private foundation and, in some cases, its managers, substantial contributors, and certain related persons.

**Disclosure.** A private foundation must make its annual returns, determination letter, and exemption application available for public inspection. See *Disclosure Requirements* on Page 19-7 for a discussion of the penalties for failure to disclose. Unlike other tax-exempt organizations, a private foundation is required to disclose the names and addresses of its contributors.

**Caution:** Do not report personal information about the grantees or others that is not required and could be used for identity theft (for example, social security number or bank account information).

## Excise Taxes

**Private foundations are subject to excise taxes** on (1) net investment income, (2) self-dealing, (3) failure to distribute income, (4) excess business holdings, (5) investments that jeopardize exempt status, and (6) expenditures that do not further the exempt purpose.

**Note:** Item 1 is reported on Form 990-PF, and items 2–6 are reported on Form 4720 (Return of Certain Excise Taxes Under Chapter 41 and 42 of the IRC).

**Net investment income.** IRC Sec. 4940 imposes a 1.39% excise tax on the net investment income (interest, dividends, rents, royalties, securities loan payments, and income from similar sources) and capital gain net income of private foundations.

**Self-dealing.** IRC Sec. 4941 imposes on the disqualified person (not the foundation) an excise tax equal to 10% of the self-dealing amount, plus an additional 200% tax if the action is not corrected. Managers of the foundation may also be subject to a 5% tax if they knowingly allow the self-dealing to take place. The maximum amount of tax imposed on the foundation manager with respect to any one act of self-dealing shall not exceed \$20,000. For more information, see the IRS's Issue Snapshot on this topic at [www.irs.gov/charities-non-profits/private-foundations-incident-and-tenuous-exception-to-self-dealing-under-treas-reg-534941d-2f2](http://www.irs.gov/charities-non-profits/private-foundations-incident-and-tenuous-exception-to-self-dealing-under-treas-reg-534941d-2f2).

**Failure to distribute income.** Private foundations must annually distribute to charity the greater of their net investment income or 5% of net investment assets. IRC Sec. 4942 imposes a 30% tax on undistributed amounts. If corrective action is not taken in a timely manner, a second tier tax of 100% of the undistributed income may be imposed.

**Note:** This does not apply to private operating foundations.

**Excess business holdings.** Combined holdings of a private foundation and its disqualified persons are not permitted to exceed 20% of a corporation's voting stock, 20% of the profits interest in a partnership, or 20% beneficial interest in other entities. A 10% initial excise tax is imposed on the excess business holdings. A second-tier tax equal to 200% of the excess holdings is imposed if corrective action is not taken in a timely manner (IRC Sec. 4943).

Certain businesses contributing all profits to charity and wholly owned by a private foundation are not subject to the excess business holdings tax [IRC Sec. 4943(g)].

Disqualified persons generally include a substantial contributor (including family members), a manager or a more-than-20% owner of a substantial contributor (including family members) to the private foundation. See IRC Sec. 4946(a) for more details.

The excess business holdings tax applies to donor advised funds.

**Terminations.** A private foundation generally must give notice and pay an excise tax under IRC Sec. 507(c) to terminate its status. To avoid tax, it can distribute all its assets to a qualifying Section 509(a)(1) organization that has been in continuous existence for at least 60 months prior to the distribution (Rev. Rul. 2003-13).

## BECOMING AN EXEMPT ORGANIZATION

### Application Procedure

Organizations seeking exempt status from federal income tax must submit an electronic application with the IRS. An organization applying under IRC Sec. 501(c)(3) submits Form 1023 [Application for Recognition of Exemption Under Section 501(c)(3) of the Internal Revenue Code] or if they qualify, Form 1023-EZ [Streamlined Application for Recognition of Exemption Under Section 501(c)(3) of the Internal Revenue Code]. (See *Form 1023-EZ* on Page 19-5 for a discussion on who qualifies to file the shorter Form 1023-EZ.)

Most other organizations submit Form 1024 [Application for Recognition of Exemption Under Section 501(a)]. Certain organizations filing for tax exempt status under IRC Sec. 501(c)(4), use Form 1024-A [Application for Recognition of Exemption Under Section 501(c)(4) of the Internal Revenue Code] which must be filed electronically. See the Organization Reference Chart in IRS Pub. 557 for the proper form.

The following organizations may be considered tax-exempt under IRC Sec. 501(c)(3) even if they do not file Form 1023:

- Churches and integrated auxiliaries of churches, and conventions or associations of churches.
- Any organization that is not a private foundation and has gross receipts in each tax year of normally not more than \$5,000.

Even if not required to file to be tax-exempt, organizations may choose to file Form 1023 to receive a determination letter that recognizes their 501(c)(3) status and specifies whether contributions to them are tax deductible.

**Relief for late filed applications.** Organizations described in IRC Secs. 501(c)(3), 501(c)(9), 501(c)(17), and 501(c)(29) are generally required to apply for recognition of tax-exempt status within 27 months from the end of the month in which the organization is formed to be recognized as exempt from the date of formation. Organizations applying after the 27-month period (late applications) are generally granted tax-exempt status as of the date the application is filed.

However, an organization filing a late application may request specific relief to be recognized and treated as tax-exempt effective as of a date earlier than the application date (Reg. 301.9100-3). This relief is sometimes referred to as 9100 relief. The IRS's Exempt Organization Determinations group (EO Determinations) can grant 9100 relief if certain requirements are met. An organization must provide evidence that—

- 1) It acted reasonably and in good faith in missing the 27-month deadline, and
- 2) The granting of relief will not prejudice the interests of the government.

An organization applying for recognition under Section 501(c)(3) and requesting relief must submit Form 1023 (rather than Form 1023-EZ).

**Expedited process.** The IRS will expedite applications if there is a compelling reason to process the case ahead of others. Compelling reasons include: (1) a pending grant that is needed to secure the organization's ability to continue operating, (2) a newly created organization providing disaster relief to victims of emergencies such as floods and hurricanes, or (3) IRS errors causing undue delays in issuing a determination letter. The IRS will not expedite the review of applications of automatically revoked organizations requesting reinstatement of tax-exempt status. For more information, see [www.irs.gov](http://www.irs.gov) and search for "expedited application."

**Form 1023-EZ.** Form 1023-EZ, which is much shorter than Form 1023, is available to most domestic organizations with gross receipts of no more than \$50,000 and assets of \$250,000 or less (for the current year and next two years). The instructions (see [www.irs.gov/pub/irs-pdf/i1023ez.pdf](http://www.irs.gov/pub/irs-pdf/i1023ez.pdf)) include an eligibility worksheet that must be completed before filing the form. A \$275 user fee

applies and the form must be submitted online using [www.pay.gov](http://www.pay.gov) (Rev. Proc. 2024-5).

## Required Inclusions for Form 1023

**Employer identification number.** Every exempt organization is required to have an EIN prior to filing the application. See *Employer Identification Numbers (EINs)* on the inside front cover of the *Small Business Quickfinder® Handbook* for how to obtain an EIN.

**Organizing documents.** There must be an organizing document to qualify for exempt status. Each Form 1023 must include a copy of the organization's corporate articles of incorporation, LLC articles of organization, articles of association, trust indenture, constitution, or other enabling document. Any amendments should be attached in chronological order.

**Bylaws.** If the organization has adopted bylaws, include a current copy and any amendments. The bylaws are not required to be signed unless they are the organizing document. To be considered the organizing document, the bylaws must be properly structured and include name, purpose, signatures, and intent to form an organization.

**Description of activities.** A full description of the past, present, and planned activities of the organization must be included in the application. Describe the who, what, where, and when of the activity. Also include how the activity (1) is funded and (2) furthers the exempt purpose. List any alternate names (that is, an "aka" or "dba") under which the organization operates. A copy from the organization's website may be attached to support the description of activities.

**Financial data.** The organization must complete a Statement of Revenues and Expenses schedule as follows (years in existence refer to completed tax years):

- 1) If in existence less than five years, complete the statement for each year in existence and provide projections of likely revenues and expenses based on a reasonable and good faith estimate of future finances for a total of: (a) three years of financial information if the organization has not completed one tax year or (b) four years of financial information if the organization has completed one tax year.
- 2) If in existence five or more years, complete the schedule for the current year and the most recent four tax years.

A balance sheet for the most recently completed tax year must also be provided.

**Fundraising activities description.** Include sufficient detail to show how the activities will be financed.

**Attachments.** Every attachment should be in English and show the name and EIN of the organization, the date, an identifiable heading and that it is an attachment to the application form. Attachments should be consolidated into on single PDF and identify the part and line number to which the information relates.

**Attachments should be in the following order:**

- Organizing document.
- Amendments to the organizing document (in chronological order).
- Bylaws or other rules of operation and any amendments (if adopted).
- Form 2848, Power of Attorney and Declaration of Representatives (if applicable).
- Form 8821, Tax information Authorization (if applicable).
- Supplemental responses (if the response does not fit in the text field in the application) and any additional information to support the request.

**Additional information that may be requested** includes copies of advertising placed, copies of publications, distributed written material used for expressing views on proposed legislation, and copies of leases, contracts, or agreements.

👁 **Observation:** While organizations submitting Form 1023-EZ electronically are not required to provide the documents required by the Form 1023, questions about the organizational structure and provisions in the governing documents are included in the Form 1023-EZ.

## User Fee for Exempt Organization

The following user fees are required for applications filed (Rev. Proc. 2024-5, Appendix A):

- \$275 for applications submitted electronically on Form 1023-EZ.
- \$600 for applications submitted electronically on Form 1023.
- **\$3,500** for group applications.

## Group Exemption Letter

An organization controlled by a central organization (church, Boy Scouts, Girl Scouts, fraternal organization, etc.) may already be covered by a group exemption letter. If not, the central organization may update its group exemption letter and submit it at the next annual ruling date. Each branch may not have to apply separately.

📌 **Note:** Beginning June 17, 2020, the IRS is not accepting any request for group exemption letters until proposed guidance is finalized (Notice 2020-36). Meanwhile, the earlier guidance in Rev. Proc. 80-27 continues to apply, and practitioners should watch for finalized guidance superceding the previous guidance.

**Central organization.** An organization that has one or more subordinates under its general supervision or control.

**Subordinate organization.** A chapter, local, post or unit of a central organization. A subordinate may or may not be incorporated, and it must have an organizing document. A subordinate that is organized and operated in a foreign country cannot be included in a group exemption letter. A subordinate described in IRC Sec. 501(c)(3) may not be included in a group exemption letter if it is a private foundation described in IRC Sec. 509(a).

**Keeping the group exemption letter in force.** The following conditions must be met for a group exemption to be effective:

- 1) The existence of the central organization.
- 2) The continued qualification of the central organization for Section 501(c) exempt status.
- 3) The annual submission by the central organization of the information about its subordinate organizations. The IRS no longer sends the List of Parent and Subsidiary Accounts to the central organizations.
- 4) The annual filing of any required information return (for example, Form 990).

## Effective Date of Exemption

A determination letter recognizing exemption is effective as of the date of formation of an organization if the application was timely filed. If an organization is required to alter its activities or substantially amend its charter to qualify, the ruling or determination letter recognizing exemption will be effective as of the date specified in the letter.

**Application filed after the 27-month period.** An organization that files its application for recognition of exemption after the 27-month period and receives a favorable determination letter generally has an effective date only from the postmark date on the application.

However, an organization applying after the applicable deadline can request an extension of time to apply in order to be recognized as exempt from its inception if it submits evidence that it *acted reasonably and in good faith* and granting the extension will not prejudice the interests of the government.

## Appeal Procedure

If an adverse determination letter is received, a protest may be submitted to the Appeals Office. It must be submitted to the Exempt Organization (EO) area manager of the office issuing the adverse letter within 30 days from the date of the letter and must state whether it requests Independent Office of Appeals consideration.



See IRS Pub. 557 (Tax-Exempt Status for Your Organization) for a complete list of information and instructions to file an appeal.

## Revocation or Modification of Exempt Status

A determination letter recognizing exemption may be revoked or modified by (Rev. Proc. 2024-5):

- 1) Notice to the organization,
- 2) New legislation or ratification of a tax treaty,
- 3) A United States Supreme Court decision,
- 4) Issuance of a temporary or final regulation,
- 5) Issuance of a revenue ruling, revenue procedure, or other statement published in the *Internal Revenue Bulletin*, or
- 6) Failure to file a required annual return or notice for three consecutive years. (See *Automatic Revocation* on Page 19-2.)

**Note:** If an organization no longer qualifies for exempt status under the Code section under which they qualified, the IRS will revoke its status. The revoked organization will need to apply for recognition under a different Code section. **This can now be done by electronically filing Form 8940 (Rev. Proc. 2024-5, Section 7).** (See [www.irs.gov/pub/foia/ig/spder/TEGE-04-0216-0003.pdf](http://www.irs.gov/pub/foia/ig/spder/TEGE-04-0216-0003.pdf).)

## FORM 990, 990-EZ, OR 990-N

Tax-exempt organizations generally must file either (1) an annual information return on Form 990 or Form 990-EZ or (2) an annual electronic notice using Form 990-N, depending on the organization's gross receipts and total assets [IRC Sec. 6033(a)]. Exceptions to the filing requirements apply to organizations with gross receipts below a specific amount and to certain religious and governmental organizations.

**Note:** All exempt organization annual returns must be filed electronically.

Form 990 consists of a core form and 16 schedules (lettered A through R) that the organization may be required to include for the return to be considered complete. While some of the governance and policy questions are not required by tax law, a negative answer (or no answer) may not be perceived well by the IRS or potential donors.

Form 990-EZ includes eight of the Form 990 series schedules. See *Completing Form 990-EZ* on Page 19-8 for more information on completing the form.

Filing Requirements <sup>1,2</sup>					
Tax Year	Form 990-N <sup>3</sup>	Form 990-EZ <sup>4</sup>		Form 990	
	Gross Receipts normally ≤	Gross Receipts between	and Total Assets <	Gross Receipts ≥	or Total Assets ≥
2010 and later	\$50,000	\$50,000 – \$200,000	\$500,000	\$200,000	\$500,000

<sup>1</sup> Sponsoring organizations of donor-advised funds and controlling organizations described in IRC Sec. 512(b)(13) must file Form 990 regardless of the amount of their gross receipts or assets.

<sup>2</sup> See Appendix B of the Form 990 instructions for guidance on calculating gross receipts.

<sup>3</sup> Organizations that qualify to file Form 990-N may choose to file either Form 990 or 990-EZ (in their entirety) instead. See *Electronic Notice (Form 990-N)* on Page 19-1.

<sup>4</sup> Organizations that qualify to file Form 990-EZ may choose to file Form 990 instead.

## Disclosure Requirements

Exempt organizations must provide a copy of their exemption application and the previous three years' annual information returns (Forms 990, 990-EZ, 990-PF, and 990-T) to anyone requesting them in person or in writing. In addition, all Form 990/990-EZ schedules (except certain parts of Schedule B), attachments, and supporting documents must be disclosed. Requests in person must be fulfilled the same day, and written requests must be fulfilled in 30 days [IRC Sec. 6104(d)].

## Exceptions:

- The organization has made the documents widely available (for example, published on the internet).
- The requests are part of a harassment campaign.

It is easier to comply with the public disclosure requirements by posting electronic forms online.

**Observation:** While certain parts of Schedule B are not required to be publicly disclosed, state law may require they be disclosed to the state's attorney general.

**Note:** Form 990-T [for organizations other than Section 501(c)(3) organizations] is not required to be disclosed.

**Penalty.** \$20 for each day inspection of an annual return was not permitted, not to exceed the lesser of \$12,000 (for returns required to be filed in 2024) or 5% of gross receipts per return. Failure to disclose the exemption application draws a \$20 per day penalty that applies for as long as the failure continues [IRC Sec. 6652(c)(1)(C) and (D)].

**Private information.** For certain organizations, only parts of Schedule B (Schedule of Contributors) are open for public inspection. The IRS cannot disclose the names and addresses of contributors. However, all other information, including the amount of contributions, the description of noncash contributions and any other information, is required to be made available for public inspection unless it clearly identifies the contributor. Additionally, the IRS cannot disclose portions of the exemption application related to things such as trade secrets and patent processes.

Final regulations remove the requirement for organizations, other than Section 501(c)(3) and Section 527 organizations, to provide the contributors' names and addresses on Schedule B [Reg. 1.6033-2(a)(2)(ii)(F)]. However, these entities must collect and retain this information in their books and records. Additionally, the information must be made available to the IRS on request.

**Caution:** Section 501(c)(3) and 527 organizations are still required to report the names and addresses.

## Requesting a Copy of Return from IRS

To request a copy of a previously filed return or to inspect an exempt organization return through the IRS, use Form 4506-A (Request for Public Inspection or Copy of Exempt or Political Organization IRS Form).

## Affinity Programs

Through an affinity program, a nonprofit organization may increase its visibility and nondues revenue by lending its name, logo, or mailing list to an outside entity (both nonprofit and commercial). If not structured as a royalty, the income generated may be taxable.

### To limit this possibility, a nonprofit organization:

- 1) Must not actively participate or exert substantial control in the entity's programs;
- 2) Must charge the entity FMV;
- 3) Must specifically state that the revenue is from the licensing of the nonprofit's name, logo, or mailing list; and
- 4) Must not assume the risk of profit or loss from the program.

## Proxy Tax

Section 501(c)(4), (c)(5), and (c)(6) organizations that engage in lobbying and political activities must report the information on Schedule C (Form 990 or 990-EZ) and notify members to the extent their payments are not deductible because of such activities or compute and pay the proxy tax on Form 990-T (whether or not they have gross income from an unrelated trade or business). If the organization pays the proxy tax, the members' dues are deductible as a business expense [IRC Secs. 162(e) and 6033(e)].

## Lobbying Expenditures

In general, a charitable organization may lose its exempt status if a substantial part of its activities consist of carrying on propaganda or attempts to influence legislation. However, the meaning of the term *substantial* is unclear.

**Election.** Public charities (other than church organizations and private foundations) can make the lobbying election, which allows a limited amount to be spent for influencing legislation. Use Form 5768 [Election/Revocation of Election by an Eligible Section 501(c)(3) Organization to Make Expenditures to Influence Legislation] to make the election.

If the election is made, the organization will not lose its tax-exempt status unless it normally makes lobbying expenditures in excess of limits imposed by IRC Sec. 4911 (see IRS Pub. 557 for limits).

**Excise taxes.** If the organization exceeds the lobbying expenditure limits, and/or loses its exempt status due to excess lobbying expenditures, excise taxes may be imposed on the organization and any managers who agreed to making the excess lobbying expenditures.

## COMPLETING FORM 990-EZ

The Form 990-EZ posted on [www.irs.gov](http://www.irs.gov) includes question-mark icons throughout the form that provide help windows. The guidance provides helpful information and links to the IRS's website. It is intended to help small and mid-sized organizations avoid common mistakes when completing the return, but is not intended to replace the detailed instructions.

**Item A.** Accounting period. Use the 2023 Form 990-EZ to report on a calendar or fiscal year accounting period that began in 2023. If a fiscal year, show the month and day the fiscal year began in 2023 and the date the fiscal year ended.

**Item B.** Check "Name Change" to indicate the organization has changed its legal name since filing the previous year's return, file by paper (not electronically), and attach the legal document(s) required in the Form 990-EZ instructions to support the name change. Check "Initial Return" if this is the first time the organization is filing a Form 990-EZ and it has not previously filed a Form 990, 990-PF, 990-T, or 990-N. If "Final return/terminated" is checked, see the instructions for Line 36 and attach Schedule N (Liquidation, Termination, Dissolution, or Significant Disposition of Assets).

**Practice Tip:** Written name change requests may take more than six months to process resulting in a delay in the Business Master File or TEOS records being updated. Some organizations have experienced a loss of funding because the new name does not appear in the IRS databases. Check the organization's records in the IRS Business Master File at least once a year.

**Item F.** Enter four-digit group exemption number, if applicable.

**Caution:** If the organization is included in a group exemption letter as a subordinate organization, the organization should file Form 990-EZ only if the organization is not included in a group return filed by the central/parent organization for the tax year. The central/parent organization of a group ruling cannot file Form 990-EZ but must file Form 990.

**Item H.** The organization must either check this box (if Schedule B is not required) or attach Schedule B. Failure to do either will result in an incomplete return. Generally, organizations that do not receive contributions of \$5,000 or more from any one contributor (reportable on line 1 of Form 990-EZ) do not need to attach Schedule B. The contributor's \$5,000 amount is determined by totaling all of the contributor's direct and indirect gifts, grants, or contributions of \$1,000 or more for the year.

**Item J.** Check the applicable box. If the organization is exempt under IRC Sec. 501(c) other than 501(c)(3), check the second

box and insert in the parentheses the number from the Exempt Organizations Reference Chart in Appendix A of the Form 990-EZ instructions.

**Item K.** Check the box describing the organization's legal entity form or status under state law in its state of legal domicile.

## Part I—Revenue, Expenses, and Changes in Net Assets or Fund Balances

All organizations that file Form 990-EZ must complete Part I. Check the box in the heading of Part I if Schedule O contains any information pertaining to this part.

**Line 1.** Enter the gross amounts of contributions, gifts, grants, and bequests received from individuals, trusts, corporations, estates, affiliates, foundations, public charities, and other exempt organizations, or raised by an outside professional fundraiser.

**Example #1:** An organization hires a professional fundraiser. The gross amount of the gift solicited by the fundraiser is \$2,000 and the fundraiser's expenses are \$500. The \$2,000 gross amount should be reported on line 1; fundraising expenses of \$500 are not subtracted on this line even though the organization receives only the net amount of \$1,500.

Report the value of noncash contributions at the time of the donation. For example, report the gross value of a donated car as of the time the car was received as a donation.

Report amounts received as voluntary contributions; for example, payments, or the part of any payment, for which the payer (donor) does not receive full market value (FMV) from the recipient (donee) organization. Contributions are reported on line 1 regardless of whether they are deductible by the contributor. Contributions can arise from fundraising events when an excess payment is received; see *Excess payments* on Page 19-9.

**Example #2:** Harvey purchases a vacation in a silent auction at an American Cancer Society benefit. The FMV of the vacation is \$1,000, reported on line 6b and on line 6c. Harvey is the highest bidder at \$1,700. \$700 is entered on line 1 and line 6b (within the parentheses).

Contributions can also arise when items of only nominal or insubstantial value are given or offered. Token benefits have a nominal value (for 2023, adjusted annually for inflation) if:

- 1) The FMV is less than or equal to 2% of the payment or \$125 (whichever is less) or
- 2) The payment is \$62.50 or more, the benefit bears the organization's name or symbol, and the cost (not FMV) is \$12.50 or less.

Report amounts received indirectly from the public through solicitation campaigns conducted by federated fundraising agencies such as the United Way.

Grants made to encourage the organization's exempt purpose programs or activities are reported as contributions. Include grants from government agencies in contributions if the primary purpose of the grant is to enable the donee to provide a service to, or maintain a facility for, the direct benefit of the public rather than to service the direct and immediate need of the grantor.

**Note:** Amounts of Paycheck Protection Program (PPP) loans that are forgiven are reported on line 1 as contributions from a governmental unit in the tax year that the amounts are forgiven.

Include membership dues and assessments to the extent they are contributions and not payment for benefits received.

Also include contributions received through an associated organization (for example, parent, subordinate, or brother/sister organization) or a commercial co-venture.

Contributions may generally be (but are not required by the IRS to be) reported in accordance with ASC 958. However, the value

of siloed net operating losses at [www.irs.gov/newsroom/faqs-carryback-of-nols-by-certain-exempt-organizations](http://www.irs.gov/newsroom/faqs-carryback-of-nols-by-certain-exempt-organizations).

## Qualified Business Income (QBI) Deduction for Trusts

For tax years 2018–2025, trusts may be able to deduct up to 20% of their QBI under IRC Sec. 199A. In general, trusts compute a deductible amount for each of their trades or businesses. The deductible amount is generally 20% of the business's QBI. However, if the trust's taxable income exceeds certain threshold amounts, the deduction is limited to an amount based on the business's W-2 wages or a combination of W-2 wages and investment in qualified property (the wage/investment limit).

**Calculating QBI.** UBI is computed separately for each unrelated trade or business [IRC Sec. 512(a)(6)]. Consequently, QBI does not include items of income, gain, deduction, and loss from any unrelated trade or business that operated at a loss. Similarly, when computing the wage/investment limit, trusts should not include any W-2 wages or qualified property from an unrelated trade or business. Taxable income (before the QBI deduction) is the amount reported on Part I, line 7 of the Form 990-T minus the Section 512(b)(12) specific deduction reported on Part I, line 8. Unrelated trades or businesses that are not included in UBTI because they operated at a loss are not included in the QBI calculation.

**Reporting the QBI deduction.** The QBI deduction is reported on Part I, line 9 of the Form 990-T. Forms 8995 and 8995-A are used to compute the QBI deduction.

👁 **Observation:** Tax-exempt organizations created as corporations cannot claim the QBI deduction.

## Dual Use of Assets or Facilities

An asset or facility necessary to the conduct of exempt functions also may be used in a commercial endeavor. In these cases, the use of the asset or facility for exempt functions does not, by itself, make the income from the commercial endeavor gross income from a related trade or business. The test is whether the activities that produce the income in question contribute importantly to the accomplishment of exempt purposes.

**Example:** A museum has a theater auditorium designed for showing educational films in connection with its program of public education in the arts and sciences. The theater is a principal feature of the museum and operates continuously while the museum is open to the public. Any income it generates should be related to the museum's exempt purpose and not taxable unrelated business income. However, if the organization operates the theater on a regular basis as a motion picture theater for the public when the museum is closed (and shows the same selection of first-run movies that a commercial theater would show), the income would be unrelated trade or business income.

## Depreciation

For assets used in an activity that produces unrelated business income with respect to the organization, the entity is allowed to use regular MACRS depreciation rules to claim depreciation on those assets [IRC Sec. 168(h)(1)(D)].

## Allocation of Expenses

All business expenses must be allocated between UBI and exempt activities. Organizations must maintain adequate records of expenses allocated to each activity.

## Elective Payment of Clean Energy Credits

The Inflation Reduction Act of 2022 allows certain tax-exempt entities to treat certain energy-related investment and production tax credit amounts for tax years beginning after December 31, 2022, as direct payments of tax (“the direct pay option”) allowing exempt organizations to monetize these credits. Alternatively, these credits may be transferred to certain unrelated parties.

Applicable entities may take advantage of these credits listed in IRC Sec. 6417(b), which are refundable, to reduce the tax liability arising from unrelated business activities and to claim a refund regardless of whether there is taxable income [IRC Sec. 6417(d)(1)]. The credit is reported on Part IV, line 6g of Form 990-T and flows from Form 3800 (General Business Credit).

**Advance registration.** Electing the elective payment requires registering with the IRS through an IRS electronic portal in advance of filing the return on which the election is made. A valid registration number for the applicable credit property must be included on the Form 3800. [The IRS portal is now open and available at www.irs.gov/credits-deductions/register-for-elective-payment-or-transfer-of-credits](http://www.irs.gov/credits-deductions/register-for-elective-payment-or-transfer-of-credits).

## COMPREHENSIVE EXAMPLE

Anytown Lions Club is operated by volunteers and conducts activities meant to promote the general welfare of all citizens. Anytown also operates a charitable gaming operation (pull-tabs) using paid workers. The following Income Statement and Balance Sheet present Anytown's results for the current year.

The completed Forms 990-EZ (including pages 2 and 3 of Schedule G), 990-T, and Schedule A (Form 990-T) in the following pages illustrate the current year required annual information reporting and unrelated business income tax reporting for Anytown based on the financial results presented.

Income:		
Noncash contributions		
– auction items .....	\$ 4,140	Pull-tabs..... \$ 174,943
Interest.....	1,162	Fundraising events .....
		<u>8,921</u>
		<b>Total Income..... \$ 189,166</b>
Expenses:		
General:		Fundraising events: \$ 5,906
Supplies.....	\$ 2,702	Gambling activities (pull-tabs):
Conferences .....	1,294	Supplies.....
Dues .....	1,408	Rent.....
Federal income tax ...	6,335	Accounting fees.....
Grants.....	<u>1,784</u>	Salaries.....
Subtotal—General \$ 13,523		Repairs.....
		Taxes and license .....
		Pull-tab cash prizes .....
		<u>91,633</u>
		Subtotal .....
		<u>\$ 164,951</u>
		<b>Total Expenses .....</b>
		<b>\$ 178,474</b>
		<b>Net Excess (Deficit) .....</b>
		<b>\$ 10,692</b>
Balance Sheet:		
	<b>Beginning of Year:</b>	<b>End of Year:</b>
Cash .....	\$ 3,513	\$ 3,487
Temporary Investments .....	116,093	129,938
Inventory.....	1,813	1,487
Accounts Payable.....	( 3,559)	( 6,360)
Fund Balance .....	( 117,860)	( 128,552)

Form 990-EZ (2023) **Part II Balance Sheets** (see the instructions for Part II) Check if the organization used Schedule O to respond to any question in this Part II. Page 2

22	Cash, savings, and investments	119,606	(A) Beginning of year	22	133,425	(B) End of year
23	Land and buildings			23		
24	Other assets (describe in Schedule O)	Inventory		24	1,487	
25	Total assets	121,419		25	134,912	
26	Total liabilities (describe in Schedule O)	3,559		26	6,360	
27	Net assets or fund balances (line 27 of column (B) must agree with line 21)	117,860		27	128,552	

**Part III Statement of Program Service Accomplishments** (see the instructions for Part III) Check if the organization used Schedule O to respond to any question in this Part III. Expenses (Required for section 501(c)(3) and 501(c)(4) organizations; optional for others.)

What is the organization's primary exempt purpose? Promoting health and safety of children and elderly adults.

Describe the organization's program service accomplishments for each of its three largest program services, as measured by expenses. In a clear and concise manner, describe the services provided, the number of persons benefited, and other relevant information for each program title.

28 National Child Safety Council

(Grants \$ 955 ) If this amount includes foreign grants, check here	28a	955
(Grants \$ 829 ) If this amount includes foreign grants, check here	29a	829
(Grants \$ ) If this amount includes foreign grants, check here	30a	
(Grants \$ ) If this amount includes foreign grants, check here	31a	
(Grants \$ ) If this amount includes foreign grants, check here	32	1,784

**Part IV List of Officers, Directors, Trustees, and Key Employees** (list each one even if not compensated - see the instructions for Part IV) Check if the organization used Schedule O to respond to any question in this Part IV.

(a) Name and title	(b) Average hours per week devoted to position	(c) Reportable compensation (Forms W-2 (1099-MISC) (1099-NEC) (if not paid, enter -0-))	(d) Health benefits, contributions to employee benefit plans, and deferred compensation	(e) Estimated amount of other compensation
Dick Johnson, President	5	0	0	0
Tom Smith, Secretary	5	0	0	0
George Wilson, Treasurer	5	0	0	0

OMB No. 1545-0047 **2023** **Open to Public Inspection**

**Form 990-EZ Short Form Return of Organization Exempt From Income Tax** Under section 501(c), 527, or 4947(e)(1) of the Internal Revenue Code (except private foundations) Do not enter social security numbers on this form, as it may be made public. Go to [www.irs.gov/Form990EZ](http://www.irs.gov/Form990EZ) for instructions and the latest information.

**A** For the 2023 calendar year, or tax year beginning 2023, and ending 2023

**B** Check if applicable:  Address change  Name change  Initial return  Final return/terminated  Amended return  Application pending

**C** Name of organization: Anytown Lions Club

**D** Employer identification number: 41 1234567

**E** Telephone number: 902 555-6111

**F** Group Exemption Number: Anytown, TX 77777

**G** Accounting Method:  Cash  Accrual  Other (specify):

**H** Check  if the organization is not required to attach Schedule B (Form 990).

**J** Tax-exempt status (check only one):  501(c)(3)  501(c)(4)  4947(a)(1) or  527

**K** Form of organization:  Corporation  Trust  Association  Other:

**L** Add lines 5b, 6c, and 7b to line 9 to determine gross receipts. If gross receipts are \$200,000 or more, or if total assets (Part II, column (B)) are \$500,000 or more, file Form 990 instead of Form 990-EZ. 189,166

**Part I Revenue, Expenses, and Changes in Net Assets or Fund Balances** (see the instructions for Part I) Check if the organization used Schedule O to respond to any question in this Part I.

1	Contributions, gifts, grants, and similar amounts received	1	4,140
2	Program service revenue including government fees and contracts	2	
3	Membership dues and assessments	3	
4	Investment income	4	1,162
5a	Gross amount from sale of assets other than inventory	5a	
5b	Less: cost or other basis and sales expenses	5b	
c	Gain or (loss) from sale of assets other than inventory (subtract line 5b from line 5a)	5c	
6	Gaming and fundraising events:		
a	Gross income from gaming (attach Schedule G if greater than \$15,000)	6a	174,943
b	Gross income from fundraising events (not including \$4,140 of contributions from fundraising events reported on line 1) (attach Schedule G if the sum of such gross income and contributions exceeds \$15,000)	6b	8,921
c	Less: direct expenses from gaming and fundraising events	6c	164,951
d	Net income or (loss) from gaming and fundraising events (add lines 6a and 6b and subtract line 6c)	6d	18,913
7a	Gross sales of inventory, less returns and allowances	7a	
b	Less: cost of goods sold	7b	
c	Gross profit or (loss) from sales of inventory (subtract line 7b from line 7a)	7c	
8	Total revenue (describe in Schedule O)	8	24,215
9	Grants and similar amounts paid (list in Schedule O)	9	1,784
10	Benefits paid to or for members	10	
11	Salaries, other compensation, and employee benefits	11	
12	Professional fees and other payments to independent contractors	12	
13	Occupancy, rent, utilities, and maintenance	13	
14	Printing, publications, postage, and shipping	14	
15	Supplies, Conferences, Income Tax, Dues	15	
16	Other expenses (describe in Schedule O)	16	11,739
17	Total expenses. Add lines 10 through 16	17	13,523
18	Excess or (deficit) for the year (subtract line 17 from line 9)	18	10,692
19	Net assets or fund balances at beginning of year (from line 27, column (A)) (must agree with end-of-year figure reported on prior year's return)	19	117,860
20	Other changes in net assets or fund balances (explain in Schedule O)	20	
21	Net assets or fund balances at end of year. Combine lines 18 through 20	21	128,552

**For Paperwork Reduction Act Notice, see the separate instructions.** Form 990-EZ (2023) Cat. No. 10642I

\* Schedule O is omitted due to space limitations.

reporting company is a corporation, LLC, or any other entity created by filing a document with the Secretary of State (SOS) or similar office. Because sole proprietorships (excluding single-member LLCs), trusts, and general partnerships do not require the filing of a formal document, they generally are not considered a reporting company and will not have a filing requirement.

👁 **Observation:** Although not explicitly included in the domestic reporting company definition, it appears that most limited partnerships, LLPs, and LLLPs will be subject to the new reporting rules because they fall into the category of “any other entity created by filing a document with the SOS.”

A foreign reporting company is a corporation, LLC, or similar entity that registers to do business in the U.S. by filing a document with the SOS or similar office. Just like domestic companies, the key to whether a foreign company must report beneficial ownership is whether a document is filed to register the entity. If registration of the foreign entity is not required under state law, the entity is not a reporting company and is not required to report beneficial ownership information to FinCEN.

Companies that meet one of 23 statutory exemptions are excluded from the definition of a reporting company and are not subject to the new reporting rules. Most of these exemptions are for entities such as financial institutions, insurance companies, securities brokers, and other types of entities that are already required to report ownership information to a governmental authority.

**Initial report.** For existing reporting companies created or registered before 2024, the initial report is due January 1, 2025. For reporting companies created or registered after 2023, the initial report is due 30 days after the entity’s creation or registration. For newly created or registered entities, the initial report should be filed as part of the entity formation engagement.

🔗 **Note:** FinCEN has **issued** an extension to the filing deadline for entities created or registered in 2024 to 90 days from the date of formation or registration. **Practitioners should stay alert to see if this proposed rule becomes final.**

**Updated report.** An updated report must be filed when there is a change to previously reported information about the reporting company or its beneficial owners. The updated report is due within 30 days of the change. If a reporting company files an information report and later qualifies for one of the 23 filing exemptions, an updated report should be filed to report the change in exemption status.

**Corrected report.** Corrected reports are required when any information previously reported is discovered to be inaccurate. The corrected report is due within 30 days after the reporting company becomes aware or has reason to know of the error.

## Information Required

Beneficial Ownership Information (BOI) must be reported for the reporting company’s beneficial owners and certain company applicants. BOI includes an individual’s full legal name, date of birth, street address, and a unique ID number. The unique ID number can be from a nonexpired U.S. passport, state driver’s license, or other photo-identification card issued by a state or local government.

If the individual does not have any of those documents, then a nonexpired foreign passport can be used. An image of the document showing the unique ID number must also be included with the report. Similar information about the reporting company must also be reported, including the company’s legal name, DBA, street address, jurisdiction where it was formed or registered, and tax ID. Individuals and reporting companies can request a FinCEN identifier (FinCEN ID) to use in place of supplying detailed information on the report.

A FinCEN ID is a unique number assigned by FinCEN by submitting the same information as is required of a beneficial owner or reporting company. A FinCEN ID may be useful to individuals that would prefer to send their personal information directly to FinCEN rather than through the reporting company. Or it may be useful to individuals that are required to supply information as a beneficial owner or company applicant of several reporting companies. Individuals and companies with a FinCEN ID must update their

information within 30 days of any changes and must correct inaccurate information within 30 days of identifying inaccuracies.

## Beneficial Owners

Two groups of individuals are considered *beneficial owners* of a reporting company: (1) any individual who directly or indirectly exercises substantial control over the reporting company; or (2) any individual who directly or indirectly owns or controls at least 25% of the reporting company’s ownership interests.

**Substantial control.** Individuals have *substantial control* if they have substantial influence over important decisions made by the reporting company. These individuals do not need to have actual ownership in the company to be a beneficial owner for reporting purposes. Important decisions associated with substantial control include decisions related to the following:

- The business’s nature, scope, and attributes, including the sale, lease, mortgage, or other transfer of principal assets.
- Reorganizing, dissolving, or merging the reporting company.
- Major expenditures or investments, issuing equity, incurring debt, or approving the operating budget.
- Selecting or terminating business lines or ventures, or geographic focus.
- Compensation and incentive programs for senior officers.
- Entering into, terminating, or fulfilling significant contracts.
- Amending substantial governance documents.

The reporting company’s senior officers are automatically deemed to have substantial control, as are individuals with the authority to appoint or remove any senior officer or a majority of the board of directors. Senior officers include the president, chief financial officer, general counsel, chief executive officer, chief operating officer, and any other officer who performs a similar function, regardless of their official title.

**Ownership interest.** The regulations define an ownership interest broadly. It includes any equity, stock, or similar interest; any capital or profits interest; any convertible interest (including convertible debt interest); a future interest, warrant, or right; any put, call, straddle, or other option to buy or sell any of the items previously mentioned; and any other instrument, contract, understanding, or mechanism used to establish ownership.

An individual may have ownership in a reporting entity through ownership in one or more intermediary entities that separately or collectively own an interest in a reporting company. When a trust holds an ownership interest in a reporting company, the following individuals can be treated as owners: a trustee with the authority to dispose of trust assets, a beneficiary who is the sole beneficiary or has the right to demand distributions of substantially all assets from the trust, or a grantor with the right to withdraw assets or revoke the trust. According to the preamble to the final regulations, it’s possible that an ownership interest held by a trust will be considered held simultaneously by multiple parties if more than one individual meets the criteria for substantial control. The preamble also explains that FinCEN considered addressing constructive ownership or attribution in defining an ownership interest but determined that doing so would be overinclusive and could create significant burdens for reporting companies. It appears that only actual indirect ownership, but not attribution from a related party, will be counted.

**Exceptions.** There are five exceptions to the definition of a beneficial owner:

- 1) A minor child when the reporting company includes the information of the child’s parent or guardian.
- 2) A nominee, intermediary, custodian, or agent of another individual.
- 3) A reporting company’s employee who is not a senior officer and is acting solely in their capacity as an employee.
- 4) An individual having only a future interest in the reporting company through a future inheritance.
- 5) A creditor of the reporting company.

## Company Applicants

The company applicant is the individual who directly files the document that creates or registers the reporting company. If more than one individual participates in filing the document, the person primarily responsible for overseeing the filing is also considered a company applicant. So, up to two individuals can be the company applicant. Company applicants must provide the same information that is required of beneficial owners, but only if the reporting company is formed or registered after 2023. FinCEN recognizes that tracking down the personal information for company applicants of reporting companies that have been in existence for a number of years may be very difficult, if not impossible in some cases. Therefore, reporting companies formed or registered before 2024 do not have to supply BOI for their company applicants.

**Caution:** A tax professional that assists clients with entity formation engagements after 2023, may need to provide their BOI to FinCEN as a company applicant.

## Penalties

Reporting companies are responsible for filing BOI reports, but beneficial owners (including senior officers) and company applicants are also subject to civil and criminal penalties for failing to provide information or providing false information to the reporting company. The fine for willfully failing to complete an initial or updated report or for willfully providing false or fraudulent information to a reporting company is \$500 per day, up to \$10,000, and imprisonment for up to two years. The fine for knowingly disclosing or using BOI without authorization is \$500 per day, up to \$250,000, and imprisonment for up to five years. A safe harbor to avoid penalties is available if a corrected report is filed no later than 90 days after the report with inaccurate information is submitted.

**Caution:** It is unclear to what extent tax professionals should be involved in advising clients and providing BOI reporting services. Until specific guidance has been issued, there is some risk that advising clients on BOI reporting is the unauthorized practice of law, which is expressly prohibited in some states. Tax professionals should consult with their state regulators, insurance carriers, and/or legal counsel before the filing period opens on January 1, 2024.

## LLCs—OTHER CONSIDERATIONS

### Loss Limitations

Members in an LLC may be limited in deducting LLC losses under the following rules:

- 1) Basis rules.
- 2) At-risk rules.
- 3) Passive loss rules.

Neither an LLC taxed as a C corporation nor its members are subject to the loss limitation rules (except certain closely held entities).

The members of an LLC taxed as an S corporation are subject to the loss limitation rules in the same manner as any other S corporation shareholder. An LLC taxed as a disregarded entity is subject to the loss limitation rules to the same extent the owner is subject to those rules, since the income or loss of the LLC is deemed to be that of the owner. The following discussion addresses how the loss limitation rules affect a member's ability to deduct losses passed through from an LLC taxed as a partnership. See *Special rules for qualified conservation contributions* on Page N-18 of the *Small Business Quickfinder® Handbook* for rules related to the deduction for qualified conservation easement contributions.



## Excess Business Loss Limitation

For tax years beginning after 2020 and before 2029, excess business losses of a taxpayer other than a C corporation are not allowed for the tax year. Such losses are carried forward and treated as part of the taxpayer's net operating loss (NOL) for determining any NOL carryforward in subsequent tax years. An *excess business loss* is the amount of the taxpayer's net business loss over a threshold (\$578,000 for MFJ and \$289,000 for all other filers for 2023). In the case of an LLC classified as a partnership, the provision applies at the member level. Each member's share of the LLC's items of business income, gain, deduction, or loss is taken into account in applying the member's limit on excess business losses for the year.

**Note:** The excess business loss rule limits an individual's ability to offset nonbusiness income (such as investment income) with an overall loss from business, even if the taxpayer is materially participating in the business.

## Basis Rules

A member's allocable share of loss from an LLC taxed as a partnership is deductible only to the extent of the member's outside basis in his LLC interest at the end of the LLC year. In determining a member's outside basis at year end, adjustments for increases and decreases are made in a specific order according to Reg. 1.704-1(d)(2).



**Outside basis.** When an interest in an LLC taxed as a partnership is acquired in exchange for a direct contribution to the LLC and no liabilities are contributed or assumed, the member's initial outside basis (under IRC Secs. 705 and 722) equals:

- 1) The amount of money contributed, plus
- 2) The adjusted basis of property contributed, plus
- 3) The amount of taxable income recognized from a contribution of services, plus
- 4) The amount of gain recognized because of the investment company rule of IRC Sec. 721(b).

See *Basis* on Page 16-10 and *Partner's Adjusted Basis Worksheet* on Page 15-7.

**Basis from liabilities.** In a partnership, the partner's basis is increased by partnership liabilities. A member's basis in a multi-member LLC is determined in the same manner as in a general partnership.

## At-Risk Rules

The at-risk rules are designed to limit a member from deducting losses when there has been no actual out-of-pocket loss. Members of an LLC taxed as a partnership are denied at-risk basis for their share of LLC nonrecourse debts. Since much LLC debt is generally nonrecourse (unless the debt is qualified nonrecourse financing incurred in connection with real estate transactions), many LLC members are only able to deduct out-of-pocket LLC losses under the at-risk provisions.

Amounts at risk are generally determined on an activity-by-activity basis. However, some activities can be aggregated to give the taxpayer a larger "pool" of at-risk basis against which losses can be deducted.

**Member guarantees of LLC debt.** The IRS issued a Legal Advice (A.M. 2014-003) providing guidance on how member guarantees of LLC debt affect the at-risk basis of its members. This guidance applies to LLCs classified as partnerships and to SMLLCs treated as disregarded entities for federal tax purposes. The following table summarizes the guidance provided in A.M. 2014-003.

	Accounting for Bookkeeping	Accounting for Income Tax
Intangible Drilling Costs	<p><b>GAAP</b> In general, costs of drilling exploratory wells that do not find proved reserves are expensed as incurred. Costs to explore and develop a producing well are capitalized and deducted through depreciation, depletion and amortization.</p> <p><b>E&amp;P</b> Must be amortized over 60 months for productive wells. Currently expensed for nonproductive wells [IRC Sec. 312(n)(2)(A)].</p>	<p><b>TAX</b> Intangible drilling costs (IDC) include wages, fuel, repairs, hauling, and supplies paid for in connection with the drilling or preparing of a well for the production of oil, gas, geothermal steam, or geothermal hot water. The costs are intangible because they are not directly for the purchase of tangible depreciable assets. Costs may be deducted currently as an operating expense, or capitalized and recovered through depletion or amortization (Regs. 1.612-4 and 1.612-5).</p> <p><b>AMT</b> The amount of costs deducted for regular tax that exceeds 65% of the net income from all properties is added back into income for AMT [IRC Sec. 57(a)(2)]. The add-back is not required if the IDC is amortized over 60 months for regular tax purposes [IRC Sec. 59(e)]. Independent producers are normally exempt from the AMT preference for excess IDC.</p>
Interest Expenses	<p><b>GAAP</b> Interest costs are generally expensed as incurred. Interest is capitalized (added to basis) only during the period of time that is required to get the asset ready for its intended use. Intended use means <i>sale or use within the business</i>. Interest is not capitalized for inventories that are routinely produced in large quantities on a repetitive basis.</p> <p>The amount of interest to be capitalized during any given accounting period equals the <i>capitalization rate</i> times the <i>average accumulated expenditures</i> made on the asset.</p> <p><b>Example:</b> On January 1, a corporation borrows \$400,000 at a rate of 8% to renovate an office building to be used in the corporation's business. On February 1, the corporation pays a building contractor \$50,000 to start the renovation project, which the contractor begins on February 1. On March 1, the corporation pays the contractor another \$50,000.</p> <p>On April 1, the renovation project is completed, and the corporation pays the contractor the balance due of \$300,000. Total interest accrued on the \$400,000 loan between January 1 and April 1 equals \$8,000 (8% annual interest on \$400,000 over a three-month period). Amount of interest to be capitalized is computed as follows: \$50,000 payment made on February 1 multiplied by two-twelfths of the capitalization period equals \$8,333. \$50,000 payment made on March 1 multiplied by one-twelfth of the capitalization period equals \$4,167. \$8,333 plus \$4,167 equals \$12,500 average expenditures during capitalization period. \$12,500 multiplied by 8% capitalization rate equals \$1,000 of interest that is added to the basis of the building.</p> <p>The other \$7,000 of interest accrued from January 1 through April 1 is deducted as a current operating expense.</p> <p><b>E&amp;P</b> Nondeductible interest expenses for income tax purposes are deductible for E&amp;P purposes.</p>	<p><b>TAX</b> Allocation rules require interest to be categorized as:</p> <ul style="list-style-type: none"> <li>• Mortgage interest—generally deductible.</li> <li>• Business interest—generally deductible.</li> <li>• Investment interest—deductible limited to net investment income for noncorporate taxpayers.</li> <li>• Passive activity interest—passive activity limitations apply.</li> <li>• Interest on tax-exempt investments—not deductible.</li> <li>• Capitalized interest—subject to capitalization rules (see <i>Capitalization of Interest</i> on Page L-10) of the <i>Small Business Quickfinder® Handbook</i>.</li> <li>• Federal estate tax interest—generally deductible.</li> <li>• Interest on qualified education loans—deductible subject to limitations.</li> <li>• Personal interest—not deductible.</li> </ul> <p>Every business is subject to a net interest expense disallowance. [IRC Sec. 163(j)]. See <i>Interest</i> on Page 24-2 and <i>Business Interest Expense Limitation</i> on Page 16-5.</p> <p>Interest paid on debt properly allocable to a trade or business is deductible based on overall interest limitation rules. Temp. Reg. 1.163-9T(b)(2)(i)(A) states that interest paid on underpayments of individual federal, state or local income taxes is nondeductible personal interest regardless of the source of the income generating the tax liability. See <i>Pugh</i> (TC Summary Opinion 2019-2) for a Tax Court decision where an individual satisfied that the properties were “allocable” to the taxpayer’s business and was therefore allowed a business interest deduction.</p> <p>Special rules apply to partnerships and S corporations on debt-financed distributions. If the partnership or S corporation borrows funds, the allocation rules apply. If those funds are allocated to distributions made to partners or shareholders, the distributed loan proceeds and related interest expense must be reported to the partners and shareholders separately. This is because the loan proceeds and the interest expense must be allocated depending on how the partner or shareholder uses the proceeds.</p> <p>Under an optional method, the partnership or S corporation may choose to allocate the distributed loan proceeds to other expenditures it makes during the tax year of the distribution. This allocation is limited to the amount of the other expenditures less any loan proceeds already allocated to them. For any distributed loan proceeds that are more than the amount allocated to the other expenditures, the rules in the previous paragraph apply.</p> <p>If the partnership or S corporation does not use the optional method, it reports the interest expense on the loan proceeds on the “Other deduction,” lines 13 (Code AC) and 12 (Code AC) of the Form 1065 Schedule K-1 and Form 1120-S Schedule K-1, respectively. The expense is identified on an attached schedule as “Interest expense allocated to debt-financed distributions.”</p> <p>If the partnership or S corporation uses the optional method, it reports the interest expense on the loan proceeds allocated to other expenditures on the appropriate line or lines of Schedule K-1.</p> <p>See IRS Notice 89-35 for more information on the pass-through entity interest expense reporting rules.</p>
Inventory Valuation Methods	<p><b>GAAP</b> Inventory may be valued by (1) specific identification, (2) first-in first-out (FIFO), (3) last-in first-out (LIFO), or (4) average cost methods. If the net realizable value of the inventory is less than cost, the inventory should be reduced to the net realizable value. See <i>Cost of Goods Sold (COGS)</i> on Page 24-18, for more information.</p> <p><b>E&amp;P</b> The LIFO method is not allowed for E&amp;P purposes [IRC Sec. 312(n)(4)].</p>	<p><b>TAX</b> The specific identification, FIFO or LIFO methods can be used [Reg. 1.471-2(d)]. Valuation at either cost or the lower of cost or market may be appropriate [Reg. 1.471-2(c)].</p> <p>Form 970 (Application To Use LIFO Inventory Method) must be filed in order to use the LIFO method for regular tax purposes (Reg. 1.472-3).</p>

Table continued on the next page

	<b>Accounting for Bookkeeping</b>	<b>Accounting for Income Tax</b>
<b>Lease and Rental Expenses</b>	<p><b>GAAP</b> A lease should be classified as a <i>finance lease</i> by the lessee if the lease meets <i>any</i> of the following criteria at the commencement date:</p> <ul style="list-style-type: none"> <li>• The lease transfers ownership of the leased asset to the lessee on or before the end of the lease term.</li> <li>• The lease gives the lessee an option to purchase the asset and the lessee is reasonably certain to exercise that option.</li> <li>• The lease term represents the major part of the remaining economic life of the leased asset. (However, if the leased asset is at or near the end of its economic life as of the beginning of the lease, this criterion is not applicable.)</li> <li>• The present value of the sum of the lease payments and any residual value guaranteed by the lessee equals or exceeds the fair value of the leased asset.</li> <li>• The leased asset is so specialized for a particular purpose that it is not expected to have an alternative use to the lessor when the lease is over.</li> </ul> <p>If none of these criteria are met, a lease should be classified as an operating lease. For operating leases, a lessee is required to recognize a <i>right-of-use asset</i> and a <i>lease liability</i>, unless the lease has a term of 12 months or less as of the commencement date and does not have a purchase option that the lessee is reasonably certain to exercise. The right-of-use asset represents the lessee's right to use the leased asset over the term of the lease. The lease liability refers to the lessee's obligation to make lease payments as defined in the lease. The recognition of the right-of-use asset and lease liability is applicable to both operating and finance leases.</p>	<p><b>TAX</b> Lease and rental expenses are deductible if paid for the use of property not owned by the business. Payments resulting in acquisition of equity are capital expenses and are not deductible as rent.</p> <p>Payment of advance rent is deductible only to the extent the rent applies to the current year.</p> <p>If the lessee pays property tax or other expenses for the lessor's property, the amounts are considered rent paid. Also see <i>Leasehold Improvements</i> on Page 24-22.</p> <p><b>Lease with option to buy.</b> Whether a lease payment is deductible as rent or capitalized as an acquisition expense depends on facts and circumstances. The answer depends on whether the burdens and benefits of ownership have passed to the purported purchaser (<i>Gaudiano</i>, TC Memo 1998-408). For example, if a lessee agrees to make lease payments that are higher than fair rental value in exchange for a lower option price, the transaction is treated as the purchase of an asset, not as a lease arrangement.</p> <p><i>Factors considered by the courts:</i></p> <ul style="list-style-type: none"> <li>• Intent of the parties.</li> <li>• Whether legal title is transferred or equity created.</li> <li>• Whether rights of possession are vested in the purchaser.</li> <li>• Which party bears the risk of loss or damage to the property.</li> <li>• Which party receives profits from the operation and sale of the property.</li> <li>• Option price in relation to the value of the property.</li> <li>• Which party pays property tax.</li> </ul> <p><b>Cost of acquiring a lease.</b> Commissions, bonuses or fees paid to acquire a lease are amortized over the life of the lease. If an existing lease is acquired from another lessee, any additional costs incurred in securing the lease are also amortized over the life of the lease.</p> <p><b>Option to renew.</b> The term of a lease for amortization purposes includes all renewal options if less than 75% of the cost of getting the lease is for the term remaining on the purchase date [IRC Sec. 178(a)]. Allocation of the cost between the original term and the option term is made based on facts and circumstances, using a present value computation [Reg. 1.178-1(b)(5)].</p> <p><b>Termination payments.</b> Treatment of lease termination payments depends on whether the termination is connected to acquisition of new property. If a termination payment takes the form of damages to release a lessee from an unprofitable contract, the amount is a deductible business expense. If the lease is terminated in order for the taxpayer to acquire new property, such as when a company moves its headquarters, the termination payment is considered an acquisition cost for the new property and must be capitalized (Ltr. Rul. 9607016).</p> <p>Also see <i>Uniform Capitalization Rules</i> on Page L-9 of the <i>Small Business Quickfinder® Handbook</i> or rent payments that must be capitalized.</p>
<b>Leasehold Improvements</b>	<p><b>GAAP</b> A leasehold improvement should be amortized or depreciated over the shorter of the life of the improvement or the length of the lease.</p> <p>The depreciation method and life should be the same as similar assets that are owned by the business.</p>	<p><b>TAX</b> The tenant must use MACRS depreciation for the class of property being leased [IRC Sec. 168(i)(8)]. Unrecovered basis is allowed as a loss when the lease is terminated.</p> <p><b>Note:</b> If the tenant reimburses the landlord for improvements, the cost is considered advance rent, which is deductible over the remaining lease term. If the remaining lease term is shorter than the MACRS recovery period, it may be advantageous for the tenant to reimburse the landlord for the cost of the improvements, rather than making the improvements directly [Reg. 1.61-8(c)].</p> <p>If the tenant makes improvements in lieu of rent, the cost is considered rent if the intent is plainly disclosed in the rental agreement [<i>McGrath</i>, TC Memo 2002-231, <i>aff'd</i> 92 AFTR 2d 2003-6159 (5th Cir. 2003)].</p> <p>Qualified improvement property qualifies for a 15-year recovery period and may be eligible for 100% bonus depreciation (see Tab 7 in the <i>Depreciation Quickfinder® Handbook</i>). It qualifies for Section 179 expensing as qualified real property [IRC Sec. 179(e)].</p>



# What's New



## Tab 25 Topics

Inflation-Adjusted Amounts .....	Page 25-1
Tax Legislation .....	Page 25-1
Student Loan Relief .....	Page 25-1
Beneficial Ownership Reporting.....	Page 25-2
Inflation Reduction Act of 2022 (P. L. 117-169)	
Selected Tax Provisions .....	Page 25-6
SECURE 2.0 Act of 2022	
Summary of Major Provisions.....	Page 25-12

## INFLATION-ADJUSTED AMOUNTS

For a complete summary of the inflation-adjusted amounts for 2023 (plus 2024 and 2022 and prior years), see the *Quick Facts Data Sheet* on Page 3-1.

## TAX LEGISLATION

### Inflation Reduction Act of 2022

On August 16, 2022, President Biden signed into law the Inflation Reduction Act of 2022 (H.R. 5376, P.L. 117-169). The Act includes a 15% corporate alternative minimum tax, a 1% excise tax on stock buybacks, and numerous environmental and green energy tax credits. The Act adds IRC Sec. 5000D, which imposes a new excise tax on sales by drug manufacturers, producers, and importers of “designated drugs” during the time that the manufacturer, etc., fails to enter into drug pricing agreements under the Social Security Act. The Act extends the current Premium Tax Credit (PTC) rules through 2025. The Act also increases the qualified small business payroll tax credit for research activities after 2022 [IRC Sec. 41(h)(4)(B) and (h)(5)(B) and IRC Sec. 3111(f)].

See the table *Inflation Reduction Act of 2022 (P. L. 117-169) Selected Tax Provisions* on Page 25-6 for a summary of selected tax provisions included in the Act.

### Consolidated Appropriations Act, 2023

Congress passed the Consolidated Appropriations Act of 2023 (H.R. 2617) and it was signed by President Biden on December 29, 2022. The bill contains the Setting Every Community Up for Retirement 2.0 Act of 2022 (SECURE 2.0), which includes dozens of retirement-related provisions intended to build on reforms passed in late 2019. Among the key retirement provisions in the Act are: (1) expanding automatic enrollment in retirement plans; (2) increasing the age for the required beginning date for mandatory distributions; (3) a higher catch-up limit to apply at age 60, 61, 62, and 63; and (4) elimination of the additional tax on corrective distributions of excess contributions. The Act also includes a number of smaller non-retirement tax provisions including changes to Achieving a Better Life Experience (ABLE) accounts under IRC Sec. 529A and modifications to the rules governing charitable conservation easements under IRC Sec. 170. The bill doesn't include the traditional set of tax extenders.

Discussions about provisions relating to the changes in SECURE 2.0 in 2023 will be found throughout this publication. See the table *SECURE 2.0 Act of 2022, SECURE 2.0 Act of 2022 Summary of Major Provisions* on Page 25-12 for a summary of selected tax provisions included in the Act.

## STUDENT LOAN RELIEF

In August 2022, President Biden announced a plan to forgive certain federal student loan debt, fulfilling a campaign promise. The relief was to be provided in response to the financial burdens imposed on low and middle-income borrowers related to the COVID-19 pandemic. By September 2022, several lawsuits were filed challenging the debt forgiveness plan. In October 2022, the student loan forgiveness application portal opened, despite rising legal challenges and the Eighth Circuit Court of Appeals' emergency order to temporarily block the plan. In November 2022, the plan was blocked by multiple judges and the Department of Education stopped accepting applications. President Biden asked the U.S. Supreme Court to remove the block and the Court agreed to hear arguments for cases brought against the plan. On June 30, 2023, the Supreme Court struck down President Biden's student loan forgiveness plan, ruling that relief under Biden's current plan is illegal and cannot move forward. However, there may be other paths for the implementation of Biden's plan.

### Education Act

As a result of Sputnik, in 1958 Congress authorized the first federal student loans under the National Defense Education Act of 1958 (Education Act). With the Soviet Union successfully launching the first earth-orbiting satellite, Americans worried that their educational system wasn't producing enough scientists and engineers. Funding began in 1958 and was increased over the next several years. The funding spurred college attendance in the U.S. In 1960, there were 3.6 million college students in the U.S. By 1970, that amount had more than doubled. The original federal student loan of \$1,000 per student, per year has billowed into \$1.6 trillion of outstanding federal student loans extended to 43 million borrowers.

The terms of federal loans are set by law and contain several favorable features including (1) deferral of any repayment until after graduation; (2) loan qualification regardless of credit history; (3) relatively low fixed interest rates; (4) income-sensitive repayment plans; and (5) for certain borrowers, government payment of interest while the borrower is in school. The Education Act allows the Secretary of Education to cancel or reduce loans, but only in limited circumstances and to a particular extent.

### HEROES Act

The September 11th terrorist attacks spurred Congress to enact the Higher Education Relief Opportunities for Students Act of 2001 due to concern that borrowers affected by the crisis, particularly those who served in the military, would need additional assistance. The law gave the Secretary of Education specific waiver authority to respond to conditions in the national emergency caused by the attacks on 9/11, for a limited time period. Not wanting this provision to expire, Congress issued the Higher Education Relief Opportunities for Students Act of 2003 (HEROES Act) in September of 2003. This Act extended the terms of the 2001 statute to include any war or national emergency, not just the attacks on 9/11. The HEROES Act provides that the Secretary of Education can waive or modify any statutory or regulatory provision applicable to the student financial assistance programs under the Education Act in connection with a war, other military operation, or national emergency. Under the HEROES Act, a national emergency is a national emergency declared by the President of the United States.

## COVID-19

On March 13, 2020, former President Trump declared the COVID-19 pandemic a national emergency. One week later, the Secretary of Education suspended loan repayments and interest accrual for all federally-held student loans. In August 2022, President Biden announced that the COVID-19 pandemic was over, but not before he announced his plan to reduce or eliminate federal student debts directly. The terms of President Biden's plan would have cancelled up to \$20,000 in student debt for federal borrowers who were Pell Grant recipients and up to \$10,000 in student debt for other federal borrowers making under \$125,000 per year. In its June 30, 2023 rulings, the Supreme Court ruled that the HEROES Act is not the appropriate law to carry out this relief.

### ***Biden vs. Nebraska***

In this case, six states sued, arguing that the HEROES Act doesn't authorize President Biden's loan cancellation plan. The Court said that the HEROES Act allows the Secretary of Education to "waive or modify" existing statutory or regulatory provisions applicable to financial assistance programs under the Education Act but doesn't allow him to rewrite that statute to the extent of canceling \$430 billion of student loan principal. It continued by saying that the Secretary of Education's power doesn't permit "basic and fundamental changes in the scheme" designed by Congress. While Congress specified in the Education Act a few situations that qualify a borrower for loan forgiveness, the Secretary extended the forgiveness to nearly every borrower in the country. The Court determined that this was highly unlikely to be authorized by Congress through such a subtle modification.

### **President's Response**

On the day of Supreme Court ruling, the White House issued a fact sheet announcing new actions to provide debt relief and support for student loan borrowers. The Secretary of Education initiated a rule making process aimed at opening an alternative path to debt relief using authority under the Higher Education Act. The Department of Education has also finalized an affordable repayment plan. The Department is instituting a 12-month "on-ramp" to repayment beginning October 1, 2023 through September 30, 2024. During this time, financially vulnerable borrowers who miss monthly payments are not considered delinquent, reported to credit bureaus, placed in default, or referred to debt collection agencies. The Fact Sheet with more information can be found at [www.whitehouse.gov/briefing-room/statements-releases/2023/06/30/fact-sheet-president-biden-announces-new-actions-to-provide-debt-relief-and-support-for-student-loan-borrowers/](https://www.whitehouse.gov/briefing-room/statements-releases/2023/06/30/fact-sheet-president-biden-announces-new-actions-to-provide-debt-relief-and-support-for-student-loan-borrowers/).

## BENEFICIAL OWNERSHIP REPORTING

The Corporate Transparency Act of 2020 (CTA), enacted January 1, 2021, created new reporting requirements relating to the beneficial owners of certain companies doing business in the U.S. The Financial Crimes Enforcement Network (FinCEN) issued final regulations on September 29, 2022 that will become effective on January 1, 2024. The new rules are intended to protect the U.S. financial systems from criminal use by providing information to national security, intelligence, and law enforcement agencies to help prevent the use of so-called shell companies to launder money or hide assets.

According to the preamble to the regulations, shell companies are typically non-publicly traded corporations, LLCs, or other types of entities with no physical presence and little to no economic value. They can be used to carry out financial transactions while concealing their owners' involvement. Some shell companies are used to engage in criminal activity, such as money laundering, human

and drug trafficking, tax or financial fraud, terrorism financing, or other illegal activity.

Currently, the data available to law enforcement about who owns and operates businesses is generally limited to what is collected when the entity is created. Most states do not require detailed information about ownership or control when a company is formed. The new reporting requirements aim to increase transparency and create a centralized database with beneficial ownership information, hindering the ability for criminals to use shell companies for illegal activity.

### **Filing Requirements**

Both domestic and foreign reporting companies are subject to the new beneficial ownership reporting requirements. A domestic reporting company is a corporation, LLC, or any other entity created by filing a document with the secretary of state (SOS) or similar office. Because sole proprietorships, trusts, and general partnerships do not require the filing of a formal document, they generally are not considered a reporting company and will not have a filing requirement.

👁 **Observation:** Although not explicitly included in the domestic reporting company definition, it appears that most limited partnerships, LLPs, and LLLPs will be subject to the new reporting rules because they fall into the category of "any other entity created by filing a document with the SOS."

A foreign reporting company is a corporation, LLC, or similar entity that registers to do business in the U.S. by filing a document with the SOS or similar office. Just like domestic companies, the key to whether a foreign company must report beneficial ownership is whether a document is filed to register the entity. If registration of the foreign entity is not required under state law, the entity is not a reporting company and is not required to report beneficial ownership information to FinCEN.

Companies that meet one of 23 statutory exemptions are excluded from the definition of a reporting company and are not subject to the new reporting rules. Most of these exemptions are for entities such as financial institutions, insurance companies, securities brokers, and other types of entities that are already required to report ownership information to a governmental authority. A list of exemptions can be found at *Appendix: Reporting Company Exemptions on Page 25-4*.

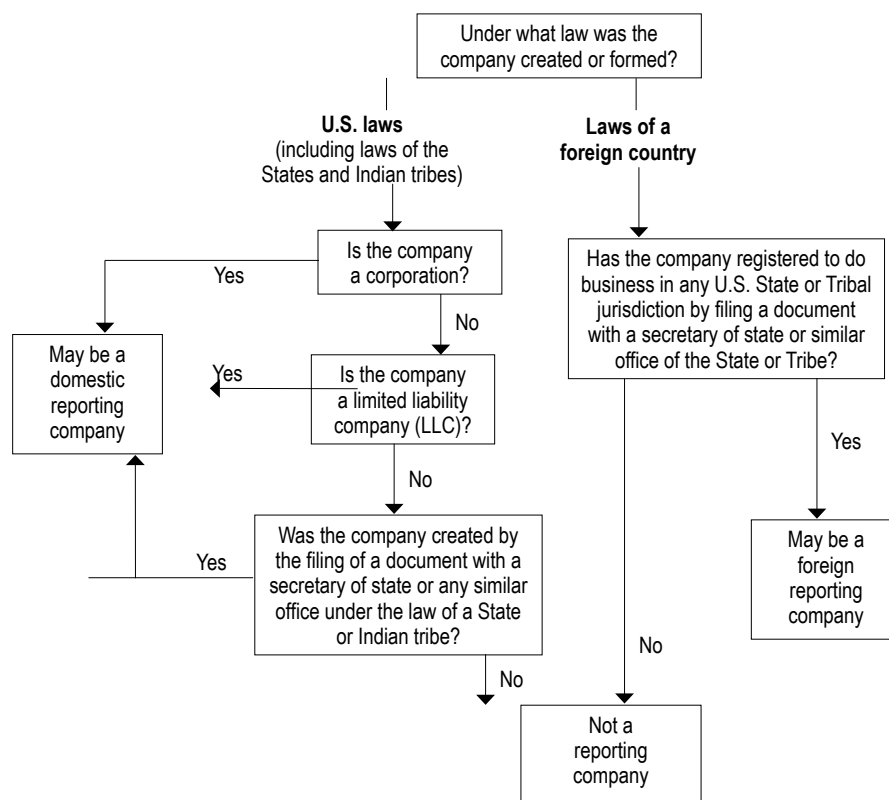
There is one significant exemption that is an outlier from this general rule—a large operating company. A large operating company is any entity with (a) more than 20 full-time U.S. employees, (b) an operating presence at a physical office in the U.S., and (c) more than \$5,000,000 of U.S. sourced gross receipts (net of returns and allowances) reported on its prior year federal income tax or information return. Presumably, meeting these criteria makes a company less likely to be a shell company, so large operating companies are exempt from the reporting requirements.

### **Important Filing Dates**

**Initial Report.** For existing reporting companies created or registered before 2024, the initial report is due January 1, 2025. So, tax professionals still have plenty of time to identify which clients must file and collect the information needed. For reporting companies created or registered after 2023, the initial report is due 30 days after the entity's creation or registration. This short turnaround means that for newly created or registered entities, the initial report should probably be filed as part of the entity formation engagement. So, professionals should request the necessary information at the time of entity formation or registration.

👁 **Note:** FinCEN has **extended for 2024 only** the initial filing deadline for beneficial ownership reports from 30 to 90 days for

## Beneficial Ownership Reporting Requirements



entities created or registered in 2024. This gives those entities additional time to understand the new reporting obligation and collect the necessary information to complete the filing.

**Updated Report.** An updated report must be filed when there is a change to previously reported information about the reporting company or its beneficial owners. The updated report is due within 30 days of the change. It is imperative that clients are aware of this requirement, so they timely inform their advisors of any changes that need to be reported. If a reporting company files an information report and later qualifies for one of the 23 filing exemptions, an updated report should be filed to report the change in exemption status.

**Corrected Report.** Corrected reports are required when any information previously reported is discovered to be inaccurate. The corrected report is due within 30 days after the reporting company becomes aware or has reason to know of the error.



FinCEN is in the process of creating a secure electronic filing system that will be accessed via their website and will begin accepting reports on January 1, 2024.

### Reported Information

Beneficial ownership information (BOI) must be reported for the reporting company's beneficial owners and certain company applicants. BOI includes an individual's full legal name, date of birth, street address, and a unique ID number. The unique ID number can be from a non-expired U.S. passport, state driver's license, or other photo-identification card issued by a state or local government. If the individual does not have any of those documents, then a non-expired foreign passport can be used. An image of the document showing the unique ID number must also be included with the report.

Similar information about the reporting company must also be reported, including the company's legal name, DBA, street address, jurisdiction where it was formed or registered, and tax ID.

Individuals and reporting companies can request a FinCEN identifier (FinCEN ID) to use in place of supplying detailed information on the report. A FinCEN ID is a unique number assigned by FinCEN by submitting the same information as is required of a beneficial owner or reporting company. A FinCEN ID may be useful to individuals who would prefer to send their personal information directly to FinCEN rather than through the reporting company. Or it may be useful to individuals who are required to supply information as a beneficial owner or company applicant of several reporting companies. Individuals and companies with a FinCEN ID must update their information within 30 days of any changes and must correct inaccurate information within 30 days of identifying inaccuracies.

### Beneficial Owners

Two groups of individuals are considered beneficial owners of a reporting company: (1) any individual who directly or indirectly exercises substantial control over the reporting company; or (2) any individual who directly or indirectly owns or controls at least 25% of the reporting company's ownership interests.

**Substantial Control.** Individuals have substantial control if they have substantial influence over important decisions made by the reporting company. These individuals do not need to have actual ownership in the company to be a beneficial owner for reporting purposes. Important decisions associated with substantial control include decisions related to—

- The business's nature, scope, and attributes, including the sale, lease, mortgage, or other transfer of principal assets.
- Reorganizing, dissolving, or merging the reporting company.

*Continued on the next page*

- Major expenditures or investments, issuing equity, incurring debt, or approving the operating budget.
- Selecting or terminating business lines or ventures, or geographic focus.
- Compensation and incentive programs for senior officers.
- Entering into, terminating, or fulfilling significant contracts.
- Amending substantial governance documents.

The reporting company's senior officers are automatically deemed to have substantial control, as are individuals with the authority to appoint or remove any senior officer or a majority of the board of directors. Senior officers include the president, chief financial officer, general counsel, chief executive officer, chief operating officer, and any other officer who performs a similar function, regardless of their official title.

**Ownership Interest.** The regulations define an ownership interest broadly. It includes any equity, stock, or similar interest; any capital or profits interest; any convertible interest (including convertible debt interest); a future interest, warrant, or right; any put, call, straddle, or other option to buy or sell any of the items previously mentioned; and any other instrument, contract, understanding, or mechanism used to establish ownership.

An individual may have ownership in a reporting entity through ownership in one or more intermediary entities that separately or collectively own an interest in a reporting company.

When a trust holds an ownership interest in a reporting company, the following individuals can be treated as owners: a trustee with the authority to dispose of trust assets, a beneficiary who is the sole beneficiary or has the right to demand distributions of substantially all assets from the trust, or a grantor with the right to withdraw assets or revoke the trust. According to the preamble to the final regulations, it's possible that an ownership interest held by a trust will be considered held simultaneously by multiple parties if more than one individual meets the criteria for substantial control.

The preamble also explains that FinCEN considered addressing constructive ownership or attribution in defining an ownership interest but determined that doing so would be over inclusive and could create significant burdens for reporting companies. So, it appears that only actual indirect ownership, but not attribution from a related party, will be counted.

**Exceptions.** There are five exceptions to the definition of a beneficial owner:

- 1) A minor child when the reporting company includes the information of the child's parent or guardian.
- 2) A nominee, intermediary, custodial, or agent of another individual.
- 3) A reporting company's employee who is not a senior officer and is acting solely in their capacity as an employee.
- 4) An individual having only a future interest in the reporting company through a future inheritance.
- 5) A creditor of the reporting company.

## Company Applicants

The company applicant is the individual who directly files the document that creates or registers the reporting company. If more than one individual participates in filing the document, the person primarily responsible for overseeing the filing is also considered a company applicant. So, up to two individuals can be the company applicant.

Company applicants must provide the same information that is required of beneficial owners, but only if the reporting company is formed or registered after 2023. FinCEN recognizes that tracking

down the personal information for company applicants of reporting companies that have been in existence for a number of years may be very difficult, if not impossible in some cases. So, reporting companies formed or registered before 2024 do not have to supply BOI for their company applicants.

## Penalties for Reporting Violations

Penalties for noncompliance are steep. Reporting companies are responsible for filing BOI reports, but beneficial owners (including senior officers) and company applicants are also subject to civil and criminal penalties for failing to provide information or providing false information to the reporting company.

The fine for willfully failing to complete an initial or updated report or for willfully providing false or fraudulent information to a reporting company is \$500 per day, up to \$10,000 and imprisonment for up to two years. The fine for knowingly disclosing or using BOI without authorization is \$500 per day, up to \$250,000 and imprisonment for up to five years.

A safe harbor to avoid penalties is available if a corrected report is filed no later than 90 days after the report with inaccurate information is submitted.

## Confidentiality of the Information Collected

The law limits the disclosure of BOI to federal agencies engaged in national security, intelligence, or law enforcement. The information can also be disclosed to state law enforcement agencies if authorized by a court as part of a civil or criminal investigation and to certain foreign authorities if requested by a federal agency under an international treaty. Financial institutions subject to customer due diligence requirements may also request BOI from FinCEN with consent from the reporting company. FinCEN plans to issue additional regulations to clarify who may access BOI and for what purpose, as well as what safeguards will be used to ensure the information is safe and protected.

## Appendix: Reporting Company Exemptions

The following types of companies are not included in the definition of reporting company with respect to the beneficial ownership information reporting requirements:

- 1) *Securities reporting issuer.* An issuer of securities that is either registered under Section 12 or required to file supplementary and periodic information under Section 15(d) of the Securities Exchange Act of 1934.
- 2) *Governmental authority.* A federal, tribal, or state entity that exercises governmental authority on behalf of the U.S. or any Indian tribe, state, or political subdivision.
- 3) *Bank.* Any bank as defined in Section 3 of the Federal Deposit Insurance Act, Section 2(a) of the Investment Company Act of 1940, or Section 202(a) of the Investment Advisers Act of 1940.
- 4) *Credit union.* Any federal or state credit union as defined in Section 1010 of the Federal Credit Union Act.
- 5) *Depository institution holding company.* Any bank holding company as defined in Section 2 of the Bank Holding Company Act of 1956 or any savings and loan holding company as defined in Section 10(a) of the Home Owner's Loan Act.
- 6) *Money services business.* Any money business service registered with the Financial Crimes Enforcement Network (FinCEN) under 31 USC 5330 or 31 CFR 1002.380.
- 7) *Broker or dealer in securities.* Any broker or dealer as defined in Section 3 of the Securities and Exchange Act of 1934 that is registered under Section 15 of that Act.
- 8) *Securities exchange or clearing agency.* Any exchange or clearing agency as defined in Section 3 of the Securities and Exchange Act of 1934 that is registered under Sections 6 or 17A of that Act.