

**Premium
Quickfinder[®] Handbook
(2023 Tax Year)**

Post-publication Updates

Instructions: This packet contains “marked up” changes to the pages in the *Premium Quickfinder[®] Handbook* that were affected by developments after the *Handbook* was published. To update your *Handbook*, you can make the same changes in your *Handbook* or print the revised page and paste over the original page.

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

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

¹ See *Return due date* on Page 2-3.

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

³ File if federal Form 4868 not filed or if tax due.

⁴ File if federal Form 4868 not filed.

⁵ Use to pay any tax due.

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

⁷ Automatic extension granted if certain requirements met.

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

⁹ Extension filed electronically.

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

¹¹ 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%
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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

Tax assistance: 501-682-1100



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%
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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

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 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. 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

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 Filing Statuses	\$ 0 – 3,300	× 0.00%	minus \$ 0	= Tax
	3,301 – 16,680	× 3.00%	minus 100	= Tax
	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

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



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	minus 78.99	= Tax
	25,000 – 39,999	× 3.54	minus 176.49	= Tax
	40,000 – 59,999	× 4.72	minus 648.48	= Tax
	60,000 and over	× 5.12	minus 888.47	= Tax
MFS	\$ 0 – 4,999	× 2.36%	minus \$ 0.00	= Tax
	5,000 – 12,499	× 3.15	minus 39.49	= Tax
	12,500 – 19,999	× 3.54	minus 88.24	= Tax
	20,000 – 29,999	× 4.72	minus 324.23	= Tax
	30,000 and over	× 5.12	minus 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	minus 153.29	= Tax
	27,631 – 304,170	× 5.30	minus 332.89	= Tax
	304,171 and over	× 7.65	minus 7,480.88	= Tax
MFJ	\$ 0 – 18,420	× 3.54%	minus \$ 0.00	= Tax
	18,421 – 36,840	× 4.65	minus 204.46	= Tax
	36,841 – 405,550	× 5.30	minus 443.92	= Tax
	405,551 and over	× 7.65	minus 9,974.35	= Tax
MFS	\$ 0 – 9,210	× 3.54%	minus \$ 0.00	= Tax
	9,211 – 18,420	× 4.65	minus 102.23	= Tax
	18,421 – 202,780	× 5.30	minus 221.96	= Tax
	202,781 and over	× 7.65	minus 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 Data Sheet (Continued)

	2024	2023	2022	2021	2020
Business Deductions					
Section 179 deduction:					
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
Depreciation limit—autos, trucks, and vans (1st year)	4, ¹¹	12,200 ⁴	11,200 ⁴	10,200 ⁴	10,100 ⁴
Standard mileage allowances:					
Business	67¢	65.5¢	58.5¢/62.5¢ ¹⁰	56¢	57.5¢
Charity work	14¢	14¢	14¢	14¢	14¢
Medical/moving	21¢	22¢	18¢/22¢ ¹⁰	16¢	17¢
Qualified business income (QBI) deduction taxable income thresholds:					
MFJ	\$ 383,900	\$ 364,200	\$ 340,100	\$ 329,800	\$ 326,600
Single, HOH, QSS, or MFS	191,950	182,100	170,050	164,900 ⁵	163,300
Excess business loss disallowance limits:					
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
Health Care Deductions/Exclusions/Credits					
Health savings accounts (HSAs):					
Self-only coverage:					
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
Family coverage:					
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
Additional contribution limit—age 55 or older	1,000	1,000	1,000	1,000	1,000
Long-term care insurance—deduction limits:					
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
Long-term care—excludible per diem	\$ 410	\$ 420	\$ 390	\$ 400	\$ 380
Medical savings accounts (MSAs):					
Self-only coverage:					
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
Family coverage:					
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
Health flexible spending arrangement—contribution limit	\$ 3,200	\$ 3,050	\$ 2,850	\$ 2,750	\$ 2,750
Advance payment of health insurance premium tax credit—repayment limit:⁶					
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
Qualified small employer HRA reimbursement limits:					
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
Small employer health insurance credit—average wage limit	\$ 32,400	\$ 30,700	\$ 28,700	\$ 27,800	\$ 27,600
Education Tax Incentives					
Education savings accounts (ESAs) phase-out begins at AGI of:					
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
American opportunity credit—maximum credit (per student)	\$ 2,500	\$ 2,500	\$ 2,500	\$ 2,500	\$ 2,500
Lifetime learning credit (LLC)—maximum credit (per return)	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000
Education credit phase-out begins at AGI of:					
MFJ:					
American opportunity	\$ 160,000	\$ 160,000	\$ 160,000	\$ 160,000	\$ 160,000
LLC	116,000	160,000	160,000	160,000	118,000
Single, HOH, or QSS:					
American opportunity	80,000	80,000	80,000	80,000	80,000
LLC	58,000	80,000	80,000	80,000	59,000
MFS	Not Allowed	Not Allowed	Not Allowed	Not Allowed	Not Allowed
Student loan interest deduction limit	\$ 2,500	\$ 2,500	\$ 2,500	\$ 2,500	\$ 2,500
Student loan interest deduction phase-out begins at AGI of:					
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
Savings bonds income exclusion phase-out begins at AGI of:					
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
Tuition deduction phase-out begins at AGI of:					
MFJ	N/A ⁷	N/A ⁷	N/A ⁷	N/A ⁷	\$ 130,000
Single, HOH, or QSS	N/A ⁷	N/A ⁷	N/A ⁷	N/A ⁷	65,000
MFS	N/A ⁷	N/A ⁷	N/A ⁷	N/A ⁷	Not Allowed
Additional Taxes					
AMT exemption:					
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 ⁸	N/A ⁸	N/A ⁸	N/A ⁸	N/A ⁸
Net investment income tax begins at AGI of:					
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
Retirement Plans					
IRA contribution limits:					
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
Traditional IRA deduction phase-out begins at AGI of (taxpayer or spouse covered by employer retirement plan):					
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
Roth IRA contribution phase-out begins at AGI of:					
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
SIMPLE IRA plan elective deferral limits:					
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
401(k), 403(b), 457, and SARSEP elective deferral limits:					
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
Profit-sharing plan/SEP contribution limits	\$ 69,000	\$ 66,000	\$ 61,000	\$ 58,000	\$ 57,000
Compensation limit (for employer contributions to profit sharing plans)	\$ 345,000	\$ 330,000	\$ 305,000	\$ 290,000	\$ 285,000
Defined benefit plans—annual benefit limit	\$ 275,000	\$ 265,000	\$ 245,000	\$ 230,000	\$ 230,000
Retirement saver's credit phased-out when AGI exceeds:					
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
Key employee compensation threshold	\$ 220,000	\$ 215,000	\$ 200,000	\$ 185,000	\$ 185,000
Highly compensated threshold	\$ 155,000	\$ 150,000	\$ 135,000	\$ 130,000	\$ 130,000
Social Security					
Maximum earnings and still receive full social security benefits:					
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
Estate and Gift Taxes					
Estate and gift tax exclusion	\$ 13,610,000 ⁹	\$ 12,920,000 ⁹	\$ 12,060,000 ⁹	\$ 11,700,000 ⁹	\$ 11,580,000 ⁹
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

¹ 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.

² 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.

³ 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.

⁴ Add \$8,000 if special depreciation claimed.

⁵ \$164,925 for MFS (2021), \$160,725 for MFS (2019).

⁶ 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.

⁷ Permanently repealed for tax years beginning after December 31, 2020.

⁸ 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)].

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

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

¹¹ Amount not available at time of publication.

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.

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>
Taxpayer lives in:	Without payment	With payment
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"

Taxpayer lives in:	Send to:
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>
Taxpayer lives in:	Without payment	With payment
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 —

- 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 ¹		
Type of Coverage	Under Age 55	Additional Contribution Age 55 or Older at Year-End
Self-Only	\$3,850	\$1,000
Family	7,750 ²	1,000

¹ 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.

² 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

Tax Credits Summary (2023) (Continued)

Tax Credit	IRC Sec.	For	Credit Amount	IRS Pub	Tax Form	Refundability, Carryover	Allowed Against AMT?	QF Page
Education—American Opportunity	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
Education—Lifetime Learning	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
Elderly or Disabled	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
Energy Efficient Home Improvement	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
Federal Tax Paid on Fuels	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	—
Foreign Tax	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
Minimum Tax	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
Mortgage Interest	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	—
Other Dependents	24	Credit allowed for qualifying dependents other than qualifying children.	\$500 per qualifying dependent.	—	Sch. 8812	Nonrefundable	Yes	12-6
Premium Assistance	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
Previously-owned Clean Vehicle Credit	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
Residential Clean Energy	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
Retirement Saver's	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

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Business Quick Facts Data Sheet	Page 15-1	Business Valuation Worksheet	Page 15-14
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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 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 when available.

Business Quick Facts Data Sheet¹

	2024	2023	2022	2021	2020
FICA/SE Taxes					
Maximum earnings subject to tax:					
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
Maximum tax paid by:					
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
Business Deductions					
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)	³	20,200	19,200	18,200	18,100
Depreciation limit—autos, trucks, and vans (1st year with no special depreciation)	³	12,200	11,200	10,200	10,100
Retirement Plans					
SIMPLE IRA plan elective deferral limits:					
Under age 50 at year end	\$ 16,000 ⁴	\$ 15,500	\$ 14,000	\$ 13,500	\$ 13,500
Age 50 or older at year end	19,500 ⁴	19,000	17,000	16,500	16,500
401(k), 403(b), 457, and SARSEP elective deferral limits:					
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
Profit-sharing plan/SEP contribution limits	69,000	66,000	61,000	58,000	57,000
Compensation limit (for employer contributions to profit-sharing plans)	345,000	330,000	305,000	290,000	285,000
Defined benefit plans—annual benefit limit	275,000	265,000	245,000	230,000	230,000
Key employee compensation threshold	220,000	215,000	200,000	185,000	185,000
Highly compensated threshold	155,000	150,000	135,000	130,000	130,000
Estate and Gift Taxes					
Estate tax exclusion	\$13,610,000 ²	\$12,920,000 ²	\$12,060,000 ²	\$11,700,000 ²	\$11,580,000 ²
Gift tax exclusion	\$13,610,000 ²	12,920,000 ²	12,060,000 ²	11,700,000 ²	11,580,000 ²
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

¹ See Tab 3 an expanded *Quick Facts Data Sheet*.

² 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.

³ Amount not released by IRS at publication time; will be posted to the *Handbook Updates* section of tax.thomsonreuters.com/quickfinder when available.

⁴ 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.

Partnerships



Tab 16 Topics

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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. **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

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

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 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).

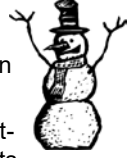
equal the amount reported on the same line of Schedule K.

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



applies and the form must be submitted online using 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.)

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 ^{1,2}					
Tax Year	Form 990-N ³	Form 990-EZ ⁴		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

¹ 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.

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

³ 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.

⁴ 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)].

of siloed net operating losses at 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>
		Total Income..... \$ 189,166
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>
		Total Expenses
		\$ 178,474
		Net Excess (Deficit)
		\$ 10,692
Balance Sheet:		
	Beginning of Year:	End of Year:
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)

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.

	Accounting for Bookkeeping	Accounting for Income Tax
Intangible Drilling Costs	<p>GAAP 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>E&P Must be amortized over 60 months for productive wells. Currently expensed for nonproductive wells [IRC Sec. 312(n)(2)(A)].</p>	<p>TAX 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>AMT 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>GAAP 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>Example: 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>E&P Nondeductible interest expenses for income tax purposes are deductible for E&P purposes.</p>	<p>TAX Allocation rules require interest to be categorized as:</p> <ul style="list-style-type: none"> • Mortgage interest—generally deductible. • Business interest—generally deductible. • Investment interest—deductible limited to net investment income for noncorporate taxpayers. • Passive activity interest—passive activity limitations apply. • Interest on tax-exempt investments—not deductible. • Capitalized interest—subject to capitalization rules (see <i>Capitalization of Interest</i> on Page L-10) of the <i>Small Business Quickfinder® Handbook</i>. • Federal estate tax interest—generally deductible. • Interest on qualified education loans—deductible subject to limitations. • Personal interest—not deductible. <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>GAAP 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>E&P The LIFO method is not allowed for E&P purposes [IRC Sec. 312(n)(4)].</p>	<p>TAX 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>

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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/.

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*.

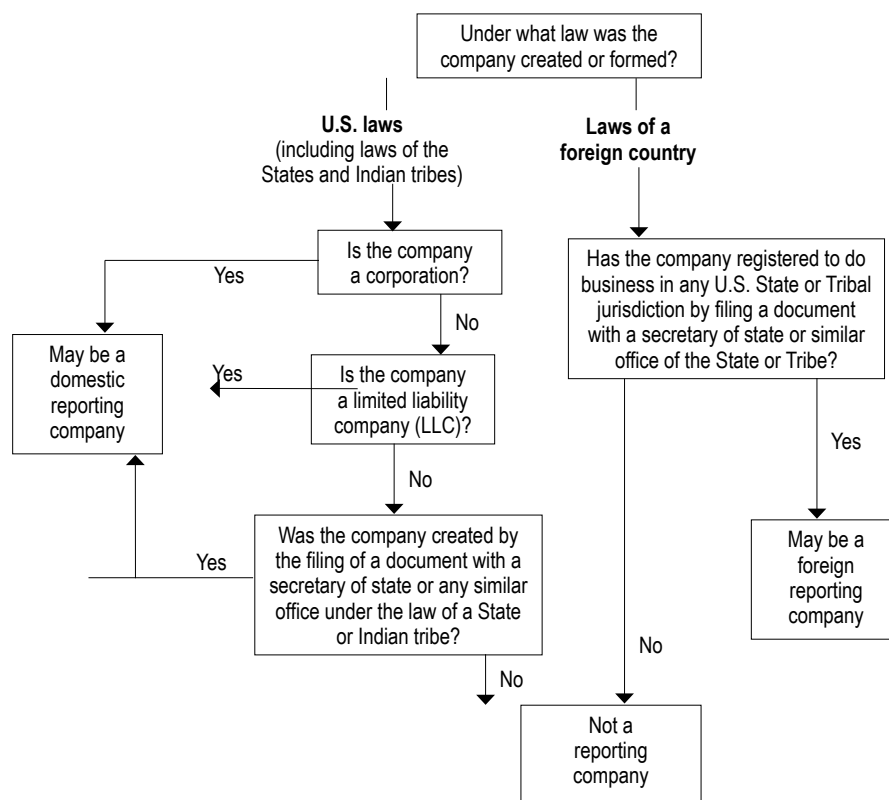
There is one significant exemption that is an outlier from this general rule—a large operating company. A large operating company is any entity with (a) more than 20 full-time U.S. employees, (b) an operating presence at a physical office in the U.S., and (c) more than \$5,000,000 of U.S. sourced gross 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.

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